The Adoption of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) in the Kingdom of Saudi Arabia

Sara Abdullah Bakr

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Declaration of authorship

I Sara Bakr hereby declare that this thesis and the work presented in it is entirely my own. Where I have consulted the work of others, this is always clearly stated.

Signed: _____

Date: _____

بسم الله الرحمن الرحيم

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Abstract

The thesis investigates attitudes towards and perceptions of the adoption of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) in the Kingdom of Saudi Arabia (KSA), before and during the period of adoption. The adoption of IFRS for SMEs in KSA has not previously been the topic of research. KSA has some unique features: KSA is a member of the G20 group of major economies, but its capital market and overall economy are less well developed.

The study employs an interpretive approach, using a new institutional theory framework, drawing on concepts of institutional isomorphism and institutional logics. Research was undertaken using extensive interviews of business owners, managers, accountants, auditors, regulators and others. Interviewees were identified using the snowball sampling technique, and the thesis discusses the appropriateness of this method for research in management in Middle East and North Africa (MENA) countries.

The findings of this study suggest that the adoption of IFRS for SMEs in KSA can best be understood as a case of normative isomorphism, as these standards were regarded as best international practice. There were also signs of mimetic isomorphism, as many respondents considered that the country adopted these standards in order to emulate other countries in the Gulf Cooperation Council and the G20 group of countries. However, at the level of individual businesses, the adoption of IFRS for SMEs was experienced more as something imposed on businesses rather than accepted voluntarily. Hence, explanations grounded in coercive isomorphism appear more appropriate at this level. Because of the unusual relationship between the Saudi government and the professional accounting body, it was found that the institutional logics of state and profession interacted in unusual ways. The adoption of IFRS for SMEs was part of a reform programme that included introduction of Value Added Tax and enhanced publicity about businesses, and the institutional logics of state, market and family are important in understanding how business owners and managers saw adoption as something that they could not resist.

The research has relevance for future studies relating to the adoption of IFRS for SMEs in a range of different settings.

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List of abbreviations

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
AASB	Australian Accounting Standards Board
ACCA	Association of Chartered Certified Accountants
AOSSG	Asian-Oceanian Standard-Setters Group
CFO	Chief Financial Officer
CMA	Capital Market Authority
CPA	Certified Public Accountant
EOSB	End of Service Benefits
ESRC	Economic and Social Research Council
EU	European Union
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
FIFO	First In, First Out
G20	Group of Twenty
GAAP	Generally Accepted Accounting Principles
GASME	General Authority for Small and Medium Enterprises
GAZT	General Authority of Zakat and Tax
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICT	Information, Communication and Technology
IFAC	International Federation of Accountants
IFASS	International Forum of Accounting Standard Setters
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IFRS/SOCPA	International Financial Reporting Standards, as modified by SOCPA (Saudi version of IFRS)
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions Organizations
IT	Information Technology
KSA	Kingdom of Saudi Arabia
LIFO	Last In, First Out
MCI	Ministry of Commerce and Investment
MENA	Middle East and North Africa
NCB	National Commercial Bank
OECD	Organization for Economic Co-operation and Development
PhD	Doctor of Philosophy
PPE	Property, Plant and Equipment
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Authority
SAR	Saudi Arabian Riyals

SAS	Saudi Accounting Standards (also referred to as old SOCPA rules for listed companies and SMEs in KSA)
SEC	Securities and Exchange Commission
SIC	Standing Interpretations Committee
SME	Small and Medium-sized Entity
SME/SOCPA	International Financial Reporting Standards for Small and Medium-sized Entities as modified by SOCPA (Saudi version of IFRS for SMEs)
SOCPA	Saudi Organization for Certified Public Accountants
UAE	United Arab Emirates
UK	United Kingdom
US/USA	United States/ United States of America
VAT	Value Added Tax
WTO	World Trade Organisation

Glossary

Big Four: the four biggest accounting firms in the world (PricewaterhouseCoopers, EY, KPMG, and Deloitte)

Halal: permissible under Islamic law

Haram: not permissible under Islamic law

Kafalah: a programme to provide governmental funding for SMEs

Murabaha: an Islamic financing structure in which the seller provides the cost and profit margin of an asset (also referred to as cost-plus financing)

Nisaab: is the minimum amount of net worth to make a Muslim obligated to give Zakat

Nomu: parallel market in KSA acting as a platform for companies to go public

NVivo: an analysis program used in qualitative research

Qur'an: The Holy Book of God

Riba: interest

Sharia: the Islamic law

Sukuk: an Islamic financial certificate, similar to a bond in Western finance

Sunnah: the teachings and practices of the Prophet Muhammad, peace be upon him

Tadawul: Saudi Stock Exchange

Tawarruq: a financial instrument in which a buyer purchases a commodity from a seller on a deferred payment basis, and the buyer sells the same commodity to a third party on a spot payment basis (meaning that payment is made on the spot)

Chapter 1 Introduction

1.1 Context of the study

Corporate financial reports are an important source of information for different users, such as "shareholders, investors, legislators, government regulatory bodies, employees, accounting professionals, academic researchers, financial analysts, and managers" (Aljifri and Khasharmeh, 2006, p.506). This implies that the framework within which corporate financial reports are prepared is crucial for providing information that will be useful for the different users. This framework includes the laws and standards that determine how financial statements are prepared.

Different countries around the world have established local accounting rules, for companies to use in preparing their financial reports. But with the growth in transactions between entities in different countries, differences in how financial reports were prepared in different countries came to the attention of users and regulators. This led to pressures for harmonisation of financial reporting regulations and standards, so that differences were minimised. One way of achieving harmonisation was through the publication and adoption of International Accounting Standards (IAS). Such standards are currently issued by the International Accounting Standards Board (IASB) and take the form of International Financial Reporting Standards (IFRS). However, adopting IFRS is a challenging process because firms in many countries were already using established local accounting standards for reporting (Nobes and Parker, 2016, p.4).

The IASB describes IFRS as "a single set of high-quality, understandable, enforceable and globally accepted accounting standards" (IFRS, 2018a). These standards aim to "bring transparency, accountability and efficiency to financial markets around the world" (IFRS, 2018a). The work of the IASB "serves the public interest by fostering trust, growth and long-term financial stability in the global economy" (IFRS, 2018a). An increasing number of countries worldwide are adopting IFRS (IFRS, 2018b) especially developing countries. These countries expect to achieve benefits from adoption such as easier access to capital and attracting foreign investments, which leads to enhancing the economy.

Because full IFRS includes complex requirements and many disclosures, there was a need for a simpler version to reduce the burden on smaller entities. In 2009, the IASB issued a simplified version of the full IFRS, called the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). This document is aimed at millions of non-publicly accountable entities around the world that would face difficulties and continuing costs if applying full IFRS. The reduction in reporting requirements compared to IFRS – mainly through trimming the disclosure requirements – is expected to prove beneficial.

Although firms of any size face challenges when adopting IFRS, SMEs might find implementing IFRS for SMEs more challenging because of their special characteristics. SMEs are sometimes characterised by lack of experience, managerial skills, qualified employees and expertise in business and accounting, which results in poor bookkeeping and documentation (Okpara and Kabongo, 2009; Soundararajan, 2014; Altarawneh, 2015). Therefore, the introduction of IFRS or IFRS for SMEs may create problems in companies that are required to adopt these standards.

In the Kingdom of Saudi Arabia (KSA), banks and insurance companies were required to prepare their financial statements following full IFRS from 2008, but other listed companies were required to use full IFRS only from 2017. SMEs have been required to follow IFRS for SMEs since 1 January 2018. Various unusual features apply to KSA, which differentiates the adoption process in KSA from that in other emerging economies. Unlike many developing countries, KSA was not under pressure from international financial institutions such as the World Bank to adopt IFRS, and IFRS for SMEs, in order to obtain loan finance. In KSA, the Saudi Organization for Certified Public Accountants (SOCPA) was assigned to issue, review and develop local accounting and auditing standards, which were applicable until the activation dates for IFRS and IFRS for SMEs. After the implementation of IFRS and IFRS for SMEs, SOCPA will still be responsible for regulating and developing the accounting and the auditing profession in KSA. The adoption of IFRS for SMEs in KSA has not hitherto been studied, so this provides a significant gap in our knowledge that the present research aims to fill.

This chapter is structured in five sections. Apart from this section (1.1), which elaborates on the context of the study; (1.2) highlights the motivations for and contributions of the study;

(1.3) introduces the research objectives and questions; (1.4) presents the theoretical framework and methods; and (1.5) sets the outline of the thesis.

1.2 Motivations for and contributions of the study

Saudi Arabia is currently going through significant economic and cultural changes, which are being experienced across different aspects of society. The publication of *Vision 2030*, setting out the government's pathway to substantial change, has stimulated many different areas of society to consider how to work towards a more modern KSA. The business sector is central to achieving the objectives of *Vision 2030*, and this includes not only large entities but the much more numerous small and medium-sized entities (SMEs).

This study was undertaken for a number of reasons. First, the increasing focus on SMEs in KSA means that it is important to study how their operations can be enhanced so that they make a greater contribution to the Saudi economy. Second, *Vision 2030* is outward-looking in the sense that it aims to adopt best practice from around the world. In the case of SMEs and their financial reporting, best practice is widely considered to be offered by IFRS for SMEs. Third, the decision to implement IFRS for SMEs from 1 January 2018 provided a rare opportunity to examine the implementation process in "real time" – as implementation took place. The researcher has had a long-standing interest in financial reporting in KSA, and is aware of the often underemphasised importance of SMEs in KSA, so research into the adoption of IFRS for SMEs in KSA was of personal interest. Her experience as a teacher of financial reporting had highlighted significant omissions in teaching programmes around the area of reporting by SMEs, and an in-depth study of IFRS for SMEs as it was put into practice in KSA would enhance her teaching and fill gaps in the curriculum in the institution where she works.

The adoption of IFRS and IFRS for SMEs in KSA is an important topic in the eyes of Saudi regulators. This is indicated from an influential statement by SOCPA (2012): "Convergence to IFRS is not just a financial or an accounting issue, but an entity-wide issue in addition to a country-wide issue". Hence, information about the process of implementing IFRS for SMEs in KSA has the potential of providing insights for regulators not just in KSA itself but in other countries where IFRS for SMEs, or similar transnational regulations, may be under consideration.

This research contributes to the existing literature in many ways.

Firstly, most prior literature deals with adopting full IFRS by large firms. Appendix 2-1 shows a range of studies on the adoption of IFRS in different countries. However, there have been only a few studies on the adoption of IFRS for SMEs, none of which addresses KSA. Appendix 3-1 shows a range of studies on the adoption of IFRS for SMEs in different countries. The present study adds to the literature on the adoption of IFRS for SMEs. A particularly important empirical contribution is the identification of groups of interviewees (supporters, neutrals, sceptics, and opponents) who had different attitudes to IFRS for SMEs. The classification of respondents into several groups is a significant extension of most previous studies, which tend to identify only supporters (proponents) and opponents. This crude classification is present even in recent studies such as Hýblová (2019).

Secondly, investigating issues related to SMEs is of great importance, as they constitute a wide sector in all economies. The present study concentrates on SMEs in KSA, and therefore contributes to the literature on SMEs in that country and more generally. The study shows how the use of IFRS for SMEs is considered by regulators to offer the potential of enhancing the sustainability of the SME sector in KSA and the part it plays in supporting economic growth. This is a central part of *Vision 2030*.

Thirdly, little attention has been given to studies about developing countries such as KSA. Thus, the timing of adoption allowed the current study to be carried out while the adoption process was under way. Most studies of adoption in the existing literature were undertaken either before IFRS, or IFRS for SMEs, were adopted, so that they did not reflect the actual experience of adoption, or were undertaken at a time after adoption, so that they were affected by hindsight. Empirical studies, such as those in Turkey undertaken by Uyar and Güngörmüş (2013) and by Kılıç et al. (2014, 2016) have found that accountants and auditors had varying levels of awareness of IFRS for SMEs before implementation, but did not address the owners and managers of SMEs. This study expands prior research by investigating a wider range of stakeholders. Many owners and managers of SMEs were initially unaware of IFRS for SMEs, and their awareness grew during the year of implementation (2018). This was largely driven by the need to prepare the first set of financial statements that complied with IFRS for SMEs. The research brought out the importance of a supportive environment for

implementing new accounting requirements, as several interviewees commented negatively about the support available to them during the implementation period.

Fourthly, this research explores the views and attitudes towards the suitability of IFRS for SMEs from the perspective of a wide group of stakeholders, including bankers and governmental authorities. The research found that representatives of different groups of respondents were by no means consistent in their attitudes.

Finally, this study contributes to understanding of the current accounting profession in KSA, and its relationship with the state. The adoption and implementation of IFRS for SMEs was largely the responsibility of the accounting profession (SOCPA). The research found that SOCPA was criticised, perhaps unfairly, by some respondents for not being particularly helpful or proactive in the implementation period.

The thesis contributes to our theoretical understanding by using an existing theoretical framework: institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). This theoretical approach (particularly the concept of institutional isomorphism) has been widely used in previous adoption studies (see Table 6-3), including the recent study of adoption of IFRS in Jordan (Al-Htaybat, 2018). The present study applies the framework in a new context: the adoption of IFRS for SMEs in KSA. However, the form of institutional theory developed in the 1970s and 1980s has come under criticism for being too inflexible, not dealing adequately with the nuances that are found in practice. Several researchers (including Friedland and Alford, 1991; Thornton and Ocasio, 1999; Scott, 2001, 2008) have contributed to the institutional logics framework (Thornton et al., 2012). This framework suggests that there are different "institutional orders" (family, community, religion, state, market, profession, corporation), each of which provides a different "institutional logic" for understanding how institutions operate. These logics interact in different ways in different locations and time periods, and may not all be equally important. The institutional logics perspective has so far been used in only one study of IFRS for SMEs (Ghio and Verona, 2018), which related to a developed economy. The present research shows that institutional isomorphism does not provide the nuanced understanding of implementation of IFRS for SMEs in the specific situation in KSA that the institutional logics framework offers. The thesis therefore shows that

use of institutional logics is likely to be beneficial for future studies of adoption and implementation.

In terms of research methodology, the thesis not only uses the snowball sampling technique for identifying and contacting potential interviewees but also provides a detailed analysis and rigorous review of the technique. One implication of the study is that snowball sampling is a particularly useful research method in countries such as KSA (and other countries in the Middle East and North Africa – MENA – region), where personal introductions are significantly more effective than "cold calling" in gaining access to potential research participants.

1.3 Research objectives and questions

It is appropriate to break this research down into two areas, each of which is represented by a research objective. The first requires an investigation of the adoption of IFRS for SMEs at the national level, while the second objective focuses on how individual companies have reacted to the requirement to prepare their financial statements according to IFRS for SMEs.

Research objective 1. To understand the reasons for and the process of adopting IFRS for SMEs as part of the set of national accounting standards within KSA.

To meet this objective, four research questions arise:

1-1. Why did KSA adopt IFRS?

1-2. Why did KSA adopt IFRS for SMEs?

1-3. What are considered to be the purposes of financial reporting by SMEs in KSA, and to what extent is adopting IFRS for SMEs considered to meet those purposes?

1-4. What arguments were proposed by owners, managers, employees and advisors of SMEs in KSA in favour of and against the adoption of IFRS for SMEs?

Research objective 2. To understand the process of implementing IFRS for SMEs by companies in KSA, and the roles of the Saudi government and Saudi accounting profession in implementing IFRS for SMEs.

To meet this objective, three research questions arise:

2-1. What was the level of understanding of the content of IFRS for SMEs in KSA before implementation, and how did SMEs in KSA prepare to implement IFRS for SMEs?

2-2. What issues and challenges did Saudi SMEs encounter when implementing IFRS for SMEs, and how did they address these issues and challenges?

2-3. How did the Saudi government work with the Saudi accounting profession to facilitate the implementation of IFRS for SMEs?

In this thesis, the findings relating to research objective 1 are set out in Chapter 8, and the findings relating to research objective 2 are set out in Chapter 9.

1.4 Theoretical framework and methods

This thesis draws on the (new) institutional theory, developed by DiMaggio and Powell (1983), which suggests homogeneity in practices of countries and companies. This theory has been widely used in studies that have a similar nature to the present research. Several studies have suggested the suitability to draw on the institutional theory, when explaining the factors and reasons that influence a country's decision to adopt IFRS and IFRS for SMEs. For example, Dillard, Rigsby and Goodman (2004, p.509) referred to the institutional theory framework to explain the motivation for adopting institutional practices. The core idea is that organisational structures are common across a range of organisations – this is referred to as "institutional isomorphism". Mainly, institutional practices are driven by internal and external pressures, so that similarities in organisational structures can be understood as demonstrating "coercive isomorphism", "normative isomorphism" or "mimetic isomorphism".

The theory of institutional isomorphism has been augmented by another level of theorisation, which is the institutional logics perspective. This perspective originated with the work of Friedland and Alford (1991) and was developed by Thornton (2004): the institutional logics perspective is discussed in depth by Thornton et al. (2012). This perspective provides a framework for analysis to understand how institutions (including countries or companies) can differ by involving different logics such as family, community, religion, state, market, profession and corporation. It allows the researcher to obtain a more precise and deeper

understanding of why respondents act differently rather than assuming that organisations will all act in the same way, as suggested by the institutional isomorphism concept.

The researcher employed a qualitative approach that uses interviews as the primary method of gathering data. Interviews were conducted to examine the views of a broad collection of people who are involved in the implementation of IFRS for SMEs, such as accountants, internal auditors, external auditors, managers and CFOs, owners, bankers, regulators, and officials from governmental agencies. In addition to interviews, the researcher analysed relevant documents and public statements of regulators and the Saudi accounting profession relating to the adoption of IFRS in general and IFRS for SMEs in particular. Also, opportunities were taken to observe the process of adoption, by attending available courses and seminars on IFRS and IFRS for SMEs.

The researcher used the *snowball sampling* approach (also known as *chain referral sampling*), in order to contact appropriate people and ease obtaining the required data. This involved the use of connections and relations with people who hold important positions in selected companies, who were then asked for introductions to further potential interviewees. The collected data was analysed by coding, categorising, analysing the content and constantly comparing the categories to draw out patterns and themes.

1.5 Outline of the thesis

This thesis consists of eleven chapters (including the current one). **Chapter 2** introduces the adoption of IFRS around the world, with a focus on developing countries; **Chapter 3** examines the adoption of IFRS for SMEs; **Chapter 4** reviews the context and history of accounting in KSA; **Chapter 5** illustrates the way SMEs in KSA do financial reporting; **Chapter 6** introduces the theoretical framework and research questions; **Chapter 7** explains the research methodology; **Chapter 8** presents findings related to the adoption of IFRS and IFRS for SMEs in KSA; and **Chapter 9** presents findings related to the implementation of IFRS for SMEs in KSA. The empirical research findings are discussed in **Chapter 10**, with reference to both prior literature and the theoretical framework. Finally, **Chapter 11** highlights the contributions, limitations, and implications of this study, and provides recommendations for future research.

The thesis is organised in the following way with a brief summary of the chapters:

Chapter 1: Introduction

This chapter has set out the foundation for the thesis by clarifying the context of and motivations for the study, summarising the main contributions, setting out the research objectives and questions, and outlining the theoretical framework and research methods.

Chapters 2, 3, 4 and 5: Literature review

These chapters attempt to build on the previous foundation by offering a detailed review of the literature about the adoption of IFRS and IFRS for SMEs around the world, with a focus on developing countries. It also highlights the context and history of accounting and financial reporting by SMEs in KSA.

Chapter 6: Theoretical framework and research questions

This chapter establishes the theoretical framework for explaining the rationales for adopting IFRS for SMEs in KSA and justifying the research methods used in the study. It explains the aims and the research questions of this study, introduces the two main research paradigms, and reviews the dominant theories that are commonly used in research about adopting IFRS and IFRS for SMEs, with a focus on the institutional theory, as it was chosen for this study.

Chapter 7: Research methodology

This chapter gives an overview of the quantitative and qualitative approaches for research methodologies. It also illustrates the research design, addresses ethical issues, outlines the pilot study, clarifies the ways of gaining access, describes the data collection process, discusses the methods used for collecting data and justifies the reasons selecting them, gives details of the interviewees, and demonstrates the data analysis process.

Chapters 8 and 9: Presentation of findings related to the adoption and implementation of IFRS for SMEs in KSA.

These chapters explain the collected data and present empirical findings and results related to the adoption and the implementation of IFRS and IFRS for SMEs in KSA.

Chapter 10: Discussion

This chapter provides an overall analysis, as it relates the empirical findings of this research to prior literature and theory.

Chapter 11: Conclusion

This chapter sets out the research contributions, limitations, and implications. It also illustrates recommendations for future research.

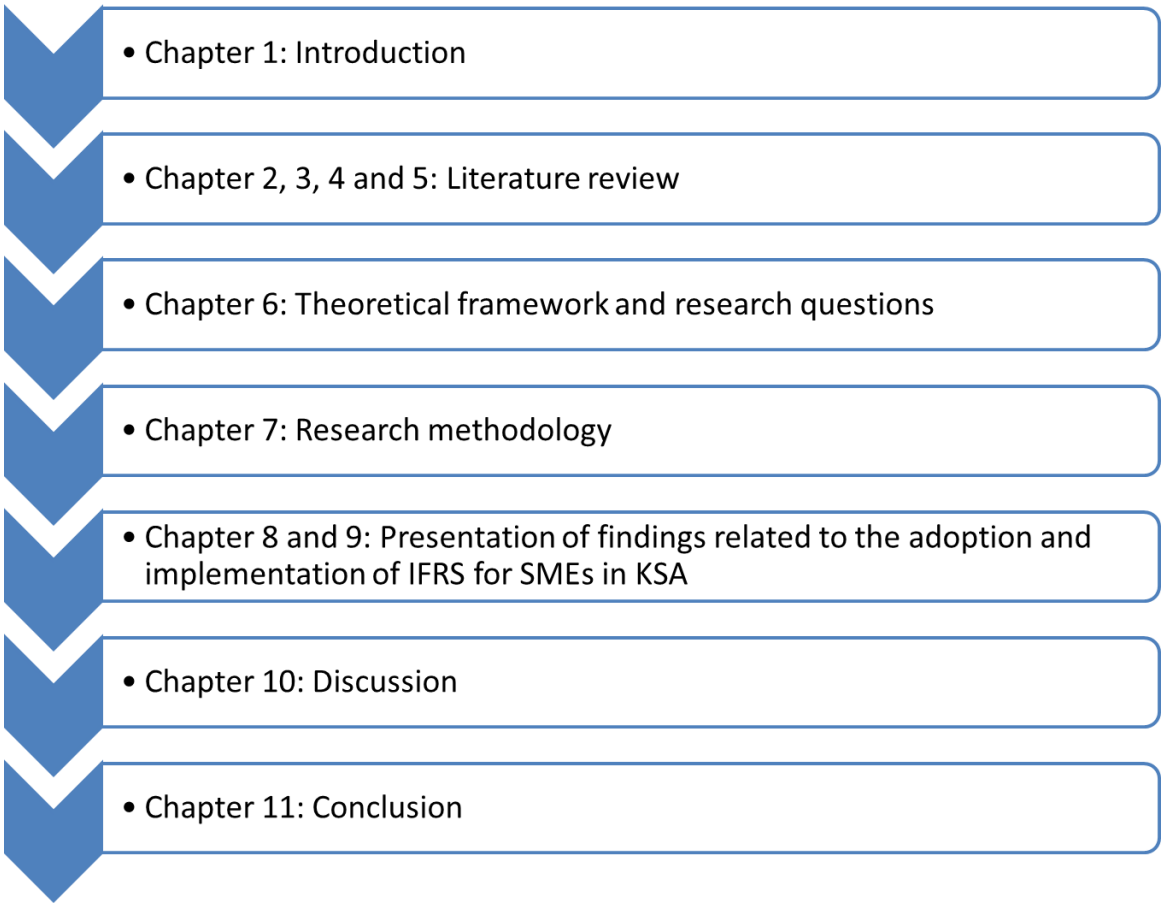

Figure 1-1: Outline of the thesis.
Source: Prepared by the author.

Chapter 2 Adopting IFRS around the world

2.1 Introduction

This chapter reviews the literature about IFRS, and is presented in eight sections: (2.2) provides a general introduction to harmonisation; (2.3) examines the need for harmonising accounting practices around the world, and various routes towards it; (2.4) points to the different approaches to adopting IFRS; (2.5) explains the factors that influence the accounting system and the adoption of IFRS; (2.6) illustrates the benefits of adopting IFRS and its relevance particularly in developing countries; and (2.7) demonstrate the problems of adopting IFRS particularly in developing countries. Finally, Section 2.8 is a summary of this chapter. A table of literature about the adoption of IFRS by single developing countries is presented in Appendix 2-1 at the end of this chapter. Some of the literature here relates to the period before 2000, so technically it relates to "adoption of IAS" rather than "adoption of IFRS". However, from here on, the researcher uses "IFRS" only.

2.2 The concept of harmonisation

Accounting regulation can be defined as the "imposition of constraints upon the preparation, content and form of external financial reports by bodies other than the preparers of the reports, or the organisations and individuals for which the reports are prepared" (Taylor and Turley, 1986, p.1). In a British context, Taylor and Turley (1986, p.52) indicated that standards provide "a definitive approach to . . . a true and fair view".

Many different governmental and non-governmental organisations have collaborated in order to harmonise accounting practices and reporting standards. Outstanding among these organisations was the International Accounting Standards Committee (IASC) (Chamisa, 2000). The IASC was founded in 1973 by professional accountancy bodies from nine countries – Australia, Canada, France, West Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States (Cairns, 1995). The IASC's mission was to harmonise the regulations and procedures relating to the presentation of financial statements and improve the quality of the global accounting standards. To achieve this goal, the IASC issued 41 international accounting standards (IAS) (Nobes and Parker, 2016, p.96). The need for

additional clarification on some issues that did not have sufficient details led to the foundation of the Standing Interpretations Committee (SIC) (Nobes and Parker, 2016, p.98; Walton, Haller and Raffournier, 2003, p.37).

Global and regionally important organisations supported and encouraged the IASC, such as the International Organization of Securities Commissions (IOSCO) (Cairns, 1995). One major problem for the IASC was that, even with IOSCO's support, it had no power to require any company to follow its standards. Voluntary use in the 1990s and before was confined largely to developing countries of the British Commonwealth and to some large Swiss and German companies.

In 2001, the IASC closed itself down and assisted with the creation of an independent well-funded body to take over its work: this was called the International Accounting Standards Board (IASB). The IASB was established as an independent and non-governmental organisation that relies on voluntary contributions and sales of publications for its funding (Walton et al., 2003; Napier, 2010; Nobes and Parker, 2016). The IASB is dedicated to setting a single, uniform, high-quality, globally applied and enforced set of accounting standards called the International Financial Reporting Standards (IFRS) (IFRS, 2018a). In addition, the SIC was replaced by the International Financial Reporting Interpretations Committee (IFRIC), today called the IFRS Interpretations Committee.

The objectives of the IASB are:

> (a) To develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting Standards based on clearly articulated principles. These Standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the various capital markets of the world and other users of financial information make economic decisions.
>
> (b) To promote the use and rigorous application of those Standards.
>
> (c) In fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
>
> (d) To promote and facilitate the adoption of its Standards (IFRS for SMEs, 2015, P3; IASB Constitution, 2016).

Objective (c) was added in 2010 and is central to the matters of this thesis.

In 2002, the recognition of IFRS increased dramatically with the publication of the European Union's (EU's) Regulation requiring IFRS for the consolidated statements of listed companies from 2005. Other countries, such as Australia, soon joined in. Additionally, the Financial Accounting Standards Board (FASB) in the USA announced plans for convergence with IFRS. In 2007, the Securities and Exchange Commission (SEC) announced the acceptance of IFRS for foreign registrants.

In January 2019, the total number of effective accounting standards by IASB was 45 standards (28 IAS remaining from IASC in addition to 17 IFRS issued by IASB) (IFRS, 2018a). The IASB is keen to publish its due process and the minutes of its meetings to the public, which usually happens through webcasts. The IASB is also interested in involving different parties in its international due process, such as preparers, users of financial statements, auditors from the accountancy profession and officials from national standard-setting bodies (IFRS, 2018a).

2.3 The need for harmonisation, and various routes towards it

In the 1970s, globalisation progressed, which can be defined as the "worldwide pressure for change" (Granell, 2000, p.89); or a "closer integration of the countries and peoples of the world" (Stiglitz, 2001, p.9). It is evident that globalisation has made countries closer to each other. It became easier to move labour and capital flows across countries, as the power of globalisation connects economies, political systems, societies and cultures (Irvine, 2008). Global financial markets have become interdependent and tied (UNCTAD, 2005, p.5).

After globalisation, it became obvious to notice the variations in financial reports produced in different countries. This has led to problems when multinational groups prepare or undergo audit of consolidated financial statements. It is also difficult for those shareholders, lenders and investors to interpret and compare financial statements published in other countries. Therefore, it became important to bridge the gap across countries by reducing the differences in financial statements (Gyasi, 2010). In this matter, developing countries have acknowledged their need to participate in the opportunities offered by globalisation and considered the adoption of an internationally recognised set of accounting standards as a facilitator to lead the way (Alsaqqa and Sawan, 2013, p.3).

Globalisation has led local markets to become vulnerable to “external shocks” (Lehman, 2005, p.979). Some incidents have led to more awareness about the importance of protecting the global financial market. For example, the enormous impact of the financial crises that affected various countries around the world, in addition to scandals and organisational collapses. These incidents have led to more calls for reviewing and harmonising accounting practices.

A wide range of users will benefit if comparable and comprehensible financial information from different countries is provided. For example, Nobes and Parker (2016) list some of the users and beneficiaries. They indicated that this will help financial analysts and investors in making correct decisions by facilitating the comparison of the performance of companies in different countries. In addition, preparers in multinational companies will find it much easier to prepare a consolidated financial statement when accounting standards in the parent company and its subsidiaries are harmonised. Meanwhile, it will be easier for managers and owners to evaluate the performance of subsidiaries on the same basis and to move accountants from one subsidiary to another in a different country. Furthermore, international accountancy firms will also benefit from harmonising accounting standards, especially when dealing with their large clients (Nobes and Parker, 2016, pp.91-92). Accountancy firms could also expand their services to non-local clients (Irvine, 2008). Finally, tax authorities would benefit when dealing with foreign incomes that are calculated in similar ways (Nobes and Parker, 2016, p.92). A detailed discussion about users of SMEs’ financial statements is found in Section 3.5.

Several international organisations, such as the Group of Twenty (G20), World Bank, International Monetary Fund (IMF), International Organization of Securities Commissions (IOSCO) and International Federation of Accountants (IFAC), have encouraged the harmonisation of accounting practices (IFRS, 2018a). In addition, many parties are interested in harmonisation (though for different reasons), including preparers, investors, stock exchanges and their regulators. These parties have also participated to encourage companies towards the compatibility of accounting practices. However, a constraint to the full spread of IFRS is the reluctance of the three largest economies in the world: the United States (US), China and Japan to fully embrace IFRS. Irvine (2008) indicated that the reason for the hedged position that the US, in particular, is taking towards the convergence to IFRS is because its

strong global position, which means that it does not need to rely on the legitimising power of IFRS to strengthen the international position of its domestic capital market.

Although most countries share a desire to harmonise their accounting standards, they differ in the approach they follow towards it. Several terms are related to this process, including harmonisation, standardisation, adoption and convergence. According to Nobes and Parker (2016, pp.90, 121):

Harmonisation is a "process of increasing the compatibility of accounting practices by setting bounds to their degree of variation". Harmonisation allows some differences to occur.

Standardisation implies "working towards a more rigid and narrow set of rules". Standardisation happens when everyone prepares the same accounts for a specific set of transactions and events.

Adoption of IFRS "means that national rules are set aside and replaced by a requirement to use IFRS directly". This can be restricted to certain types of accounting (e.g. consolidated statements) or required for all financial reporting.

Convergence with IFRS happens when countries "decide gradually to change their national accounting rules towards IFRS".

Zeff and Nobes (2010) distinguished between adoption and adaptation or convergence. The former concept refers to the application of the standard without amendments, as promulgated by IASB, while the later allows modifying the standards. Some countries tend to adapt or converge their accounting rules, in order to modify the standards in a way that can be used by the local companies.

2.4 The different approaches to adopting IFRS

The IASB develops international accounting standards that can be applied to all financial statements of all businesses around the world. Table 2-1 shows the number of countries using IFRS, for at least some purposes, in the 166 profiled jurisdictions by region, as in April 2018.

Table 2-1: Analyses of the use of IFRS in the 166 profiled jurisdictions by region

Region	**Number of Jurisdictions**				
	Jurisdictions in the region	Jurisdictions that **require** IFRS standards for all or most domestic publicly accountable entities	Jurisdictions that **require** IFRS standards as % of total jurisdictions in the region	Jurisdictions that **permit** or **require** IFRS standards for at least some (but not all or most) domestic publicly accountable entities	Jurisdictions that neither require nor permit IFRS standards for any domestic publicly accountable entities
Europe	44	43	98%	1	0
Africa	38	36	95%	1	1
Middle East	13	13	100%	0	0
Asia-Oceania	34	25	74%	3	6
Americas	37	27	73%	8	2
Totals	166	144	87%	13	9
As % of 166	100%	87%	-	8%	5%

Source: IFRS (2018b)

Based on Table 2-1, 144 countries around the world, which represent 87% of the countries, have required the use of IFRS "for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets" (IFRS, 2018b). In yet other countries (e.g. Japan and Switzerland), IFRS is permitted and is adopted voluntarily by many large companies. For those many countries which have adopted IFRS, Zeff and Nobes (2010) and Nobes and Zeff (2016) clarified that jurisdictions implement IFRS at various levels, which range from legal imposition (adopting the process of IFRS as issued by the IASB) to allowing voluntary adoption of translated (and sometimes out-of-date) versions of IFRS. The objectives of the accounting system in a certain country influence the way accounting standards are implemented, which means that accounting standards are adjusted to be in harmony with the environment (Alkhtani, 2010). Table 2-2 illustrates the various approaches for implementing IFRS in the consolidated statements of listed companies in different countries.

Table 2-2: The degree of adoption of IFRS in different countries

Approach	Country examples	More detail on the approach
Pure adoption	South Africa	Regulators require the use of IFRS as issued by the IASB for listed companies. This implies that any future changes that happen to the standard by the IASB are automatically adopted.
Standard-by-standard endorsement by public authorities	European Union	Each standard is assessed before endorsement; this sometimes leads to delay and can lead to differences (e.g. IAS 39). Companies use the "endorsed" versions of international standards that are appended to the Regulation. Endorsing many different language versions of the IASB's output. The law says that companies should prepare their financial statements according to IFRS as adopted by the EU, which complies with the legal requirements and IFRS.
Optional implementation, with majority take-up	Switzerland	Extensive voluntary adoption. They have the choice either to obey IFRS book with no changes, to obey US Generally Accepted Accounting Principles (GAAP) or to obey Swiss standards.
Optional implementation, with minority take-up	Japan	Increasing voluntary adoption.
Partially converged	China	Their standards are approximately based on the 2006 edition of IFRS, with few changes until 2014. In some cases, the Chinese standards are very close to the equivalent IFRS, but in other cases they are not (where there is a lot of deviation).
Loosely based on IFRS	Pakistan	Major adjustments to the content of IFRS.

Approach	Country examples	More detail on the approach
Fully converged	Australia	Minor additions to the content of IFRS. This involves changing the designation of the standards by adding references, inserting departures, adding a few disclosure requirements or deletion of a number of options from IFRS.
Rubber stamping in the private sector	Canada	Restricted scope of mandatory application of IFRS. Will make no changes (apart from translation) to "IFRS as issued by the IASB".

Source: Prepared by the author, using Zeff and Nobes (2010)

An important issue was raised by Tsakumis, Campbell and Doupnik (2009) regarding having a consistent interpretation and application of IFRS across countries. They indicated that the existence of different national cultures and difficulties in translating the standard into other languages with similar meanings are reasons that cause differences in financial statements and impede their comparability. This issue is discussed later in Section 3.7, 3.10 and 4.3.

2.5 Factors influencing the accounting system and the adoption of IFRS by countries

Much research has shown that there is a great connection between accounting and the surrounding environment, which explains the existence of different accounting systems (Askary, Pounder and Yazdifar, 2008; Tsakumis et al., 2009; Nobes and Parker, 2016). Countries have established their own local accounting systems that consider their needs and relate to the country's economic, social, historical, sociocultural, and institutional factors (Alsaqqa and Sawan, 2013).

Different researchers have given different lists of influential factors that might affect the development of a country's accounting system. Mueller, Gernon and Meek (1987, pp.10-15) list several influential factors, which are expanded by Choi and Mueller (1992, pp.39-43) as: 1) Legal system, 2) Political system, 3) Nature of ownership, 4) Differences in the size and complexity of business entities, 5) Social climate, 6) Level of sophistication of administration and the financial community, 7) Level of legislative interference in the operations of entities,

8) Existence of specific accounting legislation, 9) Speed of business innovations, 10) Level of economic development, 11) Growth pattern of an economy, 12) Status of professional education and profession associations. Černe (2009) summarises the main influential factors that stand out in the literature as: 1) Capital market, 2) Financial reporting system, 3) Legal system, 4) Political system, political and economic relations among countries, 5) Quality of accounting education and the status of the accounting profession, 6) Size and complexity of business enterprises, forms of business ownership, 7) Level of inflation, 8) Applying and enforcing legislative regulations in accounting, 9) Achieved level of economic development, and finally 10) Culture. Figure 2-1 summarises the above.

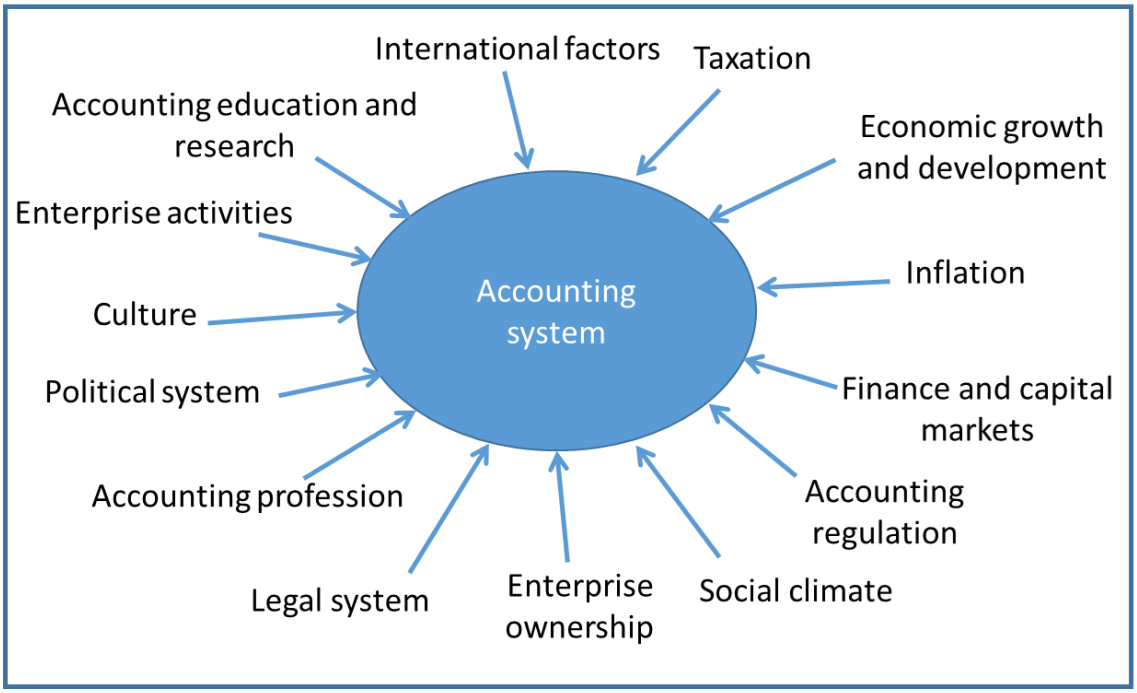

Figure 2-1: Environmental influences on accounting development.
Source: Based closely on Radebaugh, Gray and Black (2006, p.16).

Countries may have different interpretations of the standards, due to the differences in the legal and political systems, accounting cultures, histories and previous practices (Soderstrom and Sun, 2007). Callao, Jarne and Laínez (2007) indicated that one of the main barriers for achieving a genuine and successful convergence in the accounting practices is the lack of political desire in a country, which is embedded in adhering to the local culture and the desire of preserving a strong national outlook. Further, the impact of local traditions weakens the implementation of new notions (Sucher and Jindrichovska, 2004).

Nobes and Parker (2016) indicated that there are some obstacles that relate to the harmonisation of accounting standards, especially when the differences between the new accounting practices and the accustomed local standards of different countries are big. The lack of an international regulatory agency, the reluctance of some countries towards nationalism and the uncertainty of the economic consequences are problems that hinder the harmonisation process of accounting practices.

There are several factors that influence the decision to adopt IFRS. Table 2-3 summarises some of these factors that are mentioned in the literature.

Table 2-3: Literature about the factors that influence national accounting systems and the decision to adopt IFRS

Factors that influence national accounting systems and the decision to adopt IFRS	**References**
Differences in legal systems	Vellam (2004); Zehri and Chouaibi (2013)
Language, literacy, educational level and local culture	Vellam (2004); Zeghal and Mhedhbi (2006); Zehri and Chouaibi (2013)
National economic systems	Vellam (2004)
Importance of the local capital market	Zeghal and Mhedhbi (2006)
Accessing international capital markets	Irvine (2008, p.137)
Attracting foreign direct investment	Irvine (2008, p.137)
Practices in neighbouring countries and international competitors	Ramanna and Sletten (2009); Samaha and Khlif (2016); Zeghal and Mhedhbi (2006)
International regulatory pressures	Camfferman and Zeff (2006); Irvine (2008, p.137)

Source: Prepared by the author

Depending on the various factors above, adoption of IFRS may be perceived as beneficial, neutral, or undesirable. For example, in a country where a local capital market does not exist, national accounting systems will probably focus on creditor protection, and adopting IFRS will not be seen as beneficial. However, if the country wants to develop a more sophisticated local capital market, attractive to foreign direct investors, then moving the basis of financial reporting from creditor protection to providing information for equity investors will be appropriate, and this is likely to lead to pressures to adopt IFRS. As Madawaki (2012, p.152) observes in the context of Nigeria:

Nigeria has embraced IFRS in order to participate in the benefits it offers, including attracting foreign direct investment, reduction of the cost of doing business, and cross border listing.

2.6 Benefits of adopting IFRS, particularly in developing countries

Although IFRS stems largely from the Anglo-Saxon accounting tradition involving large capital markets (Albu and Albu, 2012), it is apparent that some developing countries have overcome their local difficulties in order to adopt IFRS and thereby to develop their economic status (Chamisa, 2000). Prior research suggests that emerging markets are considered more willing to adopt IFRS than developed markets (United Nations, 2011).

Some studies have suggested that adoption of IFRS by particular developing countries has been a successful experience. For example, Chamisa (2000), in the case of Zimbabwe, indicated that the adoption of international accounting standards is relevant to developing countries especially those with capitalist economies. Boolaky (2010) explained that the process of converging and compliance with IFRS was smooth in Mauritius. Aljifri and Khasharmeh (2006) found that there is a general consensus among the user groups on the suitability and relevance of adopting IAS in the United Arab Emirates (UAE) companies. They found that adopting IAS will produce more benefits, such as enhancing the comparability, reliability, and relevancy of financial information, higher quality of financial reporting, improving the perception of accounting profession in UAE in the eyes of other countries around the world and providing better information for governments for economic planning. In this section, literature about the benefits of IFRS to developing countries is reviewed.

Nobes and Parker (2016, p.91) list the benefits of harmonising accounting standards (in practice, this means adopting IFRS) in developing countries. They suggest that: "Standardization can reduce administrative costs, improve the quality of accounting and increase comparability." Implementing IFRS in developing countries may promote confidence in the local stock market and increase its efficiency, which should benefit the economy as a whole (Brown, 2011). Jermakowicz and Gornik-Tomaszewski (2006, p.191) added that it could enhance the reputation of the country as a modern and "well-regulated place to do business". Moreover, adopting international standards is a sign of modernisation and provides an

opportunity for developing and emerging markets to open up and deal with other countries (Mantzari and Georgiou, 2017).

The perceived benefits of adoption are that companies will produce higher quality financial reports than they would publish following only local accounting rules and standards, but this is not an end in itself but rather a means to achieving some other benefits, particularly relating to the enhancement of economic development through encouraging foreign direct investment.

Irvine (2008, p.137) indicated that many emerging economies rushed to adopt IFRS, "in order to gain legitimacy in global markets and thereby access to capital markets, achieve economic development, and increase their wealth". Chamisa (2000) adds that the main intention of developing countries to adopt IFRS is to assist them in finding the appropriate reporting standards that meet their needs, while harmonising their accounting standards with the rest of the world comes as a secondary purpose. Many developing countries depend heavily on capital inflows from foreign governments, donors and institutions, such as the World Bank, International Monetary Fund (IMF), United Nations, and foreign private investors. These bodies require the adoption of IFRS for countries seeking funds (Camfferman and Zeff, 2006; Gyasi, 2010, p.44).

The possibility for developing countries to modify IFRS to their national needs or regulations is a positive feature that encourages developing countries to adopt IFRS (Chamisa, 2000). Most developing countries do not have the ability to construct their own national accounting standards independently. In these countries, the accounting profession and institutions are weak and there is a lack of sufficient technical expertise (Gyasi, 2010). Gyasi (2010) suggests that although adopting IFRS will help emerging economies save expense related to constructing their own local accounting standards, the expense is still needed for training professionals on the new system, but this is more beneficial than money spent on standard-setting. Several studies (such as Tyrrall, Woodward and Rakhimbekova, 2007; Brown, 2011; Alkhtani, 2012) suggested that adopting IFRS saves time and costs related to issuing local accounting standards, as well as reducing costs incurred by individual companies in preparing their financial statements (Alkhtani, 2012; Okpala, 2012; Alsaqqa and Sawan, 2013).

The main benefits that have been suggested for adopting IFRS are summarised in Table 2-4.

Table 2-4: Benefits of adopting IFRS

Benefits of adopting IFRS	References
Contributing to economic development by attracting foreign investment and facilitating international trade operations	Albu and Albu (2012); Alkhtani (2012); Alsaqqa and Sawan (2013, p.1)
Reducing costs of standard setting	Tyrrall et al. (2007); Gyasi (2010); Brown (2011); Alkhtani (2012); Nobes and Parker (2016)
Reducing costs of preparing financial statements	Alkhtani (2012); Okpala (2012); Alsaqqa and Sawan (2013).
Enhancing quality (reliability, transparency and comparability) of financial reports	Brown (2011); Alkhtani, 2012); Zeghal and Mhedhbi (2006); Alsaqqa and Sawan (2013, p.1)
Decreasing cost of capital	Brown (2011)
Securing compliance with accounting standards	Brown (2011)
Providing signals of modernisation	Mantzari and Georgiou (2017)

Source: Prepared by the author

2.7 Problems of adopting IFRS, particularly in developing countries

Some studies were more critical of the adoption of IAS and highlight their irrelevance to developing countries. For example, Perera (1989) indicated that the adoption of IAS is harmful to developing countries, as these standards were designed to suit the environment and needs of developed or industrialised countries. He argues that accounting information produced according to developed countries' accounting systems is inappropriate for decision making in less-developed countries and unsuitable for their national needs at both country and company levels. He also indicated that companies in developing countries may strive to comply with these complex standards, as they surpass companies' needs and are not compatible with the capabilities of their local accounting staff. In addition, Lodhia and Burritt (2004, p.349) comment on the case of adopting international accounting standards in the public sector in Fiji and indicate that "undesirable consequences" will happen, in the event that westernised accounting systems are imposed on developing countries without respecting "local contextual elements".

Studying Bangladesh, Mir and Rahaman (2005) doubt the usefulness of applying accounting standards that are influenced greatly by developed, advanced and industrialised countries, in

developing countries. Tyrrall et al. (2007) reported less support for the current relevance of IFRS in Kazakhstan, but they speculated that this could change in the future. Chand (2005), in the case of Fiji and Papua New Guinea, argues that the reason behind an observed lack of commitment to IAS and low level of disclosure is the non-existence of a strong regulatory system and the absence of sanctions.

Among other issues relating to the adoption of IFRS in developing countries is the linguistic issue. The primary language of IFRS is English, which means that IFRS must be translated into local languages in order to be effectively used within national legal frameworks. However, Nobes and Stadler (2018) have highlighted that errors and differences in translation might mislead non-expert readers of accounting reports.

2.8 Summary

This chapter explained the adoption of IFRS by countries around the world, focusing particularly on developing countries. It explained the concept of harmonisation and examined the need for harmonising accounting practices and various routes towards it. In addition, the different approaches to adopting IFRS were illustrated. Factors that influence the accounting system and the adoption of IFRS were highlighted. Finally, the benefits and problems of adopting IFRS in developing countries were discussed.

Appendix 2-1 shows previous studies that examined the adoption of IFRS across different developing countries. These studies applied a wide range of theoretical frameworks to analyse the issue of adopting IFRS, including institutional theory, agency theory, signalling theory, capital needs theory, Gramscian theory of hegemony, and decision usefulness theory. Several studies have no explicit theoretical framework. Prior studies have used different research methods, including questionnaire surveys, interviews, observations, case studies, analysing documents, reports, press releases and existing published studies.

Findings of the various studies are rather diverse: some studies suggested that the adoption process was straightforward, while others found that adoption was problematic. Pro-adoption studies reported successful experiences and showed positive results, especially in the long term. Other studies were more sceptical and critical regarding the usefulness and

the desired benefits of adopting IFRS and found that the difficulties and costs associated with the adoption exceeded its benefits.

The following chapter (Chapter 3) will discuss issues related to SMEs and the adoption of IFRS for SMEs. It will also include an analysis of previous studies that will elaborate and analyse the perceptions and experiences related to the adoption of IFRS for SMEs in different countries.

Appendix 2-1: Literature on adoption of IFRS by single developing countries, arranged by region

Region	Country	Title	Author(s), Year	Theory	Method	Findings
Europe	Romania	A Story About IAS/IFRS Implementation in Romania An Institutional and Structuration Theory Perspective	Albu et al., 2011	Institutional and structuration theory	Semi-structured interviews and analysing documents	Coercive pressures from the World Bank and the desire to reform accounting practices were the main reasons for implementing IAS/IFRS in Romania.
	Romania	International Financial Reporting Standards in an Emerging Economy: Lessons from Romania	Albu and Albu, 2012	Institutional theory	Existing published studies, observations of Romanian academics, interviews and analysing financial statements	The historical and economic settings in a country affect the process and outcomes of IFRS implementation. Mainly, emerging economies adopt IFRS to attract foreign investments, which contribute to the country's economic development.
	Romania	When Global Accounting Standards Meet the Local Context— Insights from an Emerging Economy	Albu, Albu and Alexander, 2014	Institutional theory	Semi-structured interviews and the analysis of publicly available financial statements, reports and press releases	The study found that acquiescence strategies may occur when there is a great degree of fundamental diversity.
	Greece	The Post-Adoption Effects of the Implementation of International Financial Reporting Standards in Greece	Iatridis and Rouvolis, 2010	No specific theory mentioned	Data were collected from DataStream and the Financial Times Annual Report Service	There were adverse effects on the financial results (in relation to profitability and liquidity) of listed companies in the official period of IFRS adoption in Greece. However, the results improved in the subsequent year, as companies become more familiar with and adjusted to IFRS. Also, the value of accounting measurements improved in the subsequent year of adoption, as users became more familiar with the implementation process and the requirements of IFRS.

Region	Country	Title	Author(s), Year	Theory	Method	Findings
Europe	Greece	Acceptance of IFRS: The Role of the Europeanisation Common Sense in a Local Context	Mantzari and Georgiou, 2017	Gramscian theory of hegemony	Semi-structured interviews	There is a mismatch between local stakeholders' perceptions and professional experience about the benefits of IFRS. The problem is that there is a difference between common beliefs and people's practical experience. Interviewees who strongly supported the adoption of IFRS by Greek companies, on further questioning were, also critical and sceptical of the actual benefits of applying the standards.
Africa	Libya	Investigating the Corporate Accounting Regulation and Factors Influencing the Adoption of International Accounting Standards (IAS) in Libya	El-Firjani, 2010	Agency theory	Mixed method approach (questionnaire survey and semi-structured interviews)	The majority of listed companies and banks apply the US GAAP, although they are required to comply with IAS, due to its weak enforcement. The absence of a standardised set of accounting standards for unlisted companies results in the existence of different forms of financial statements. Also, the study revealed that there are international and internal motivational factors that led to the adoption of IAS in Libya.
	Egypt	Accounting and Stock Market Effects of International Accounting Standards Adoption in an Emerging Economy	Elbannan, 2011	No specific theory mentioned	Interpret statistical differences from cross-sectional data	Egyptian accounting standards that are based on IAS have a negative effect on the firm's market valuation, due to the lack of compliance by preparers of the financial statements. However, they have a positive effect on earnings quality, due to the reduction in earnings management. Also, this study shows that the main obstacles for complying with the Egyptian accounting standards include the unsuitable enforcement mechanisms, poor accounting infrastructure, and insufficient professional training.

Region	Country	Title	Author(s), Year	Theory	Method	Findings
Africa	Zimbabwe	The Relevance and Observance of the IASC Standards in Developing Countries and the Particular Case of Zimbabwe	Chamisa, 2000	No specific theory mentioned	Content analysis of published annual financial reports	IAS are appropriate for developing countries and have a significant impact especially on those with capitalist economies and a strong private sector.
	Mauritius	IFRS in Small Island Economies: Problems and challenges to the private and public-sector enterprises: Using data from Mauritius	Boolaky, 2010	No specific theory mentioned	A questionnaire approach, using Pearson Correlation coefficient	IFRS implementation was smooth, due to the phased approach that was taken for the project. The researcher noticed that conversion costs are higher in the private sector than in the public sector. He also reported problems in the application and interpretation of some IFRS.
Middle East	The United Arab Emirates	An Investigation into the Suitability of the International Accounting Standards to the United Arab Emirates Environment	Aljifri and Khasharmeh, 2006	No specific theory mentioned	A questionnaire survey	Company size is a significant factor affecting IAS adoption. Also, the quality of financial reporting improved after the adoption of IAS. Moreover, the adoption of IAS produced more advantages, which should encourage other companies to adopt them.
	The United Arab Emirates	The Global Institutionalization of Financial Reporting: The Case of the United Arab Emirates	Irvine, 2008	Institutional theory	A case study, on a country level, using publicly available data	The challenge that emerging economies face is whether the reality of IFRS implementation can match the image of IFRS adoption.
	Kuwait	Compliance with IFRS and the Value Relevance of Accounting Information in Emerging Stock Markets: Evidence from Kuwait	Alfaraih, 2009	Signalling theory, agency theory and capital needs theory	Documents and archives.	There is a direct relationship between the value relevance of accounting information using IFRS and the level of compliance.

Region	Country	Title	Author(s), Year	Theory	Method	Findings
Middle East	Jordan	An Empirical Investigation of the Perceived Suitability of International Accounting Standards for Jordan	Halbouni, 2005	No specific theory mentioned	A questionnaire survey	The answers regarding the suitability of IAS to Jordan is affected by the respondents' backgrounds. This study emphasised the ability of the IASB to produce accounting standards that can be used in developing countries. Moreover, the Jordanian regulators' motivation for adopting IAS was to increase the reliability of Jordanian financial information and attract foreign investments.
	Jordan	The Extent of Listed Manufacturing Companies' Compliance with Mandatory Requirements: Evidence of IAS-Lite from Jordan	Hutaibat, Alberti, and Al-Htaybat, 2011	A specific theory was avoided because of variations in the companies' characteristics	Some data were collected from annual reports that were available in the library. Others were obtained by contacting companies directly	The study indicated that the main forces that pushed towards the adoption of IAS/IFRS in Jordan come from internal governmental bodies and the desire to attract foreign investors. The study found that the level of compliance with mandatory disclosure requirement has increased after the switch to IAS/IFRS. However, there were still a number of disclosures missing in some companies. Overall, the company's size is considered the dominant factor for variation in the level of disclosures.
	Jordan	IFRS Adoption in Emerging Markets: The Case of Jordan	Al-Htaybat, 2018	Institutional theory	Semi-structured interviews	The study indicated that countries that are open to external influences, aid agencies and foreign investment are considered more willing to adopt IFRS. However, the same factors can be considered as hindrance for adopting IFRS at the country level, as some political and economic pressures may influence the decision-making process. Institutional isomorphic pressures are perceived as the most influential factor.

Region	Country	Title	Author(s), Year	Theory	Method	Findings
Asia and Oceania	Vietnam	Perceptions of Accounting Professionals towards International Financial Reporting Standards (IFRS) in Developing Country: Evidence from Vietnam	Phan, Mascitelli and Barut, 2013	No specific theory mentioned	A questionnaire survey	The Vietnamese accounting professionals are optimistic about potential benefits from IFRS adoption. These findings also indicate expected costs and challenges in implementing IFRS and suggest strong support and a gradual switch from Vietnamese accounting standards to IFRS, though the level of support varies amongst the three different sub-groups of accountants.
	Vietnam	Examining Key Determinants of International Financial Reporting Standards (IFRS) Adoption in Vietnam: An Institutional Perspective	Phan, 2014	Institutional theory	A triangulation survey approach with some open-ended questions	There is a positive correlation between institutional isomorphisms and legitimacy, mandatory, voluntary. Vietnamese and international professional bodies should be more actively involved in the process of setting accounting standards.
	Bangladesh	The Adoption of International Accounting Standards in Bangladesh. An Exploration of Rationale and Process	Mir and Rahaman, 2005	Institutional theory	Archival documents and interviews	This study shows that the decision to adopt IASs is influenced by pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies. Cultural revolution is required to obtain a successful radical change in IAS implementation. The problem with adopting IASs is mainly related to the “process” of adoption not the content of these standards.

Region	Country	Title	Author(s), Year	Theory	Method	Findings
Asia and Oceania	Bangladesh	The Impact of Cultural Factors on the Implementation of Global Accounting Standards (IFRS) in a Developing Country	Nurunnabi, 2015	Institutional Theory	Semi-structured interviews	The implementation of IFRS in Bangladesh is influenced negatively by the lack of adequate training in the accounting profession and corruption.
	Kazakhstan	The Relevance of International Financial Reporting Standards to a Developing Country: Evidence from Kazakhstan	Tyrrall et al., 2007	No specific theory mentioned	A case study method employing a variety of primary (one-to-one semi-structured interviews and a postal survey) and secondary sources (official and published annual reports) in addition to other studies that provide comparative data	IFRS is required for the benefit of international investors. However, it is necessary to implement IFRS gradually and in certain appropriate matters, rather than adopting them entirely at the outset. Nonetheless, this situation may change, as the private sector and private capital markets develop, which could mean that IFRS will become increasingly relevant.
	Fiji	Interpretation and Application of "New" and "Complex" International Financial Reporting Standards in Fiji: Implications for Convergence of Accounting Standards	Chand, Patel and Patel, 2010	No specific theory mentioned	A questionnaire survey	Judgments abilities of professional accountants in Fiji is affected greatly by the complexity of and familiarity with the accounting standards. Also, greater differences in judgments between Big Four and non-Big Four.
	India	IFRS Convergence in India - Glimpses of the Two-Way Interactive Dynamics of the Decision-Making Process	Krishnan et al., 2017	No specific theory mentioned	Interviews, archival data and analysing preliminary documentary data	Indian companies oppose the sudden transition to IFRS. Several reasons were suggested, such as the absence of a clear transition plan, worries about the continuous amendments in IFRS, the possibility to produce two forms of financial statements, which will cause perplexity, additional costs and waste of time.

Source: Prepared by the author

Chapter 3 SMEs and IFRS for SMEs

3.1 Introduction

This chapter concentrates on SMEs and the implementation of the IFRS for SMEs, and is presented in twelve substantive sections: (3.2) sheds light on the definitions of SMEs; (3.3) discusses the main features of SMEs and their importance; (3.4) asks why SMEs might need different standards from those suitable for larger entities and summarises the historical development of the IFRS for SMEs; (3.5) discusses users of SMEs financial statements and their information needs; (3.6) focuses on the content of IFRS for SMEs; (3.7) points to the different approaches to adopting IFRS for SMEs; (3.8) explains the factors that influence the adoption of IFRS for SMEs; (3.9) illustrates the benefits of adopting IFRS for SMEs and its relevance particularly in developing countries; (3.10) highlights the problems of adopting IFRS for SMEs particularly in developing countries; and (3.11) presents suggestions to overcome challenges of implementing IFRS for SMEs. This chapter ends with a summary in Section 3.12. A table of literature about the adoption of IFRS for SMEs by single developing countries is presented as Appendix 3-1 at the end of this chapter.

3.2 Definitions of SMEs

Several researchers have discussed the absence of a universal definition for SMEs. Harvie and Lee (2002, p.2) emphasised the lack of a uniform definition for SMEs around the world. Definitions frequently used in different nations to distinguish this category of entities are based on quantified criteria, such as the number of employees, revenue, the total amount of assets, investment capital, sales volume, production and other factors (IFRS for SMEs, 2015, P10). There is an element of arbitrariness about where the lines are drawn in such definitions. Therefore, it is difficult to compare SMEs across countries. In this section, some definitions will be reviewed, particularly the definition provided by the IASB.

In the wider concept, SMEs are defined according to their size. Appendix A at the end of this thesis explains the different criteria used in different countries to define SMEs. Some rules and regulations change according to the classification of an entity. For example, in EU laws

micro and small entities are exempt from many requirements, such as publishing their financial statements or having them audited (Nobes and Parker, 2016, p.343).

Despite the widespread use of size criteria for SMEs around the world, the IASB eventually decided not to follow that route. The IASB found it difficult to identify entities that should use different reporting standards depending on a size criterion. Also, it will be difficult to apply a universal definition for the size criterion. Instead, the IASB decided to depend on the criterion of "not owing a public accountability". Therefore, SMEs are defined, according to the IASB, as "entities that do not have public accountability, and publish general purpose financial statements for external users" (IFRS, 2018a; IFRS for SMEs, 2015, para. 1.2). In this matter, it is clear that the criteria for applying IFRS or IFRS for SMEs do not depend on the size of the company, but on its nature (public accountability or not) (Evans et al., 2005, p.35; PricewaterhouseCoopers, 2009, p.5).

An entity is considered to owe public accountability if:

> (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
>
> (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion) (IFRS for SMEs, 2015, para. 1.3).

The term "Small and Medium-sized Entities" was the first proposed name for the standard that appeared in the Exposure Draft, in 2007. This term did not refer to any quantified size or legal form for the companies. Later, during the due process in 2008, the IASB received recommendations to change the term from SMEs to "Private entities". The justification for this switch was that the term SMEs, in many jurisdictional laws, usually implies a size criterion, which is inconsistent with the intended definition in the Exposure Draft. After that, in 2009, the term "non-publicly accountable entity" was under consideration. However, at the end, the IASB decided to use the SMEs term for the standard, because the term "private" is confusing and the majority of people did not like the "non-publicly accountable entity" term (Albu et al., 2010; Nobes and Parker, 2016, p.345; Warren et al., 2019).

3.3 Characteristics and importance of SMEs

There is a long history of treating small companies differently from larger ones. To start with, SMEs were defined in many countries on the basis of numerical indicators, such as employees, revenue, capital, turnover and so forth. Curran and Blackburn (2001, p.16) indicate that what really differentiates SMEs from larger and listed companies is their degree of "smallness". Also, SMEs are recognised by their small degree of decentralisation and their flat organisational hierarchy (Brytting, 1991). Additionally, SMEs can be identified by other traits, such as producing a relatively limited number of products, possessing relatively limited resources and capabilities and usually, having managers and/or their relatives and friends as the owners of the business (Soundararajan, 2014). Funds for financing the activities of SMEs are often provided through borrowing from banks, family and friends.

Recent work on SMEs globally has confirmed their importance in job creation, productivity and economic growth (International Labour Conference, 2015). Radas and Božić (2009) and Soundararajan (2014) suggested that SMEs in many countries provide a large amount of employment and promote regeneration and create innovations. Curran and Blackburn (2001, p.3) explained that the importance of SMEs comes from their large number in each country, which increases their impact and contribution to promote economic growth. These features highlight the uniqueness of SMEs in addition to their economical importance. For example, in MENA region, SMEs are a significant employer and contributor to the Gross Domestic Product (GDP), as they constitute about 90% of all enterprises and contribute with 20% to 40% to employment (World Bank, 2012, p.5).

In support of the afore-mentioned idea, the Department of Trade and Industry in the United Kingdom (UK) highlighted the importance of SMEs:

> There is clear evidence that the small business sector has become more dynamic over the last few years and is making a greater contribution to wealth creation. The creation and growth of new businesses stimulate new ideas, knowledge and skills, leads to job creation, and provides incentives for larger businesses to innovate through raising competition (Small Business Service, 2017).

3.4 The need for an SME accounting standard

The need for special set of accounting standards for SMEs, which reduces their burden from adopting full IFRS, was noticed since the era of the IASC, which urged its successor to consider this (Camfferman and Zeff, 2006) in the declaration of the preliminary views on accounting standards for small and medium-sized entities (Ram, 2012). The IFRS for SMEs project received support from most of the national accounting standard-setters around the world. However, this raised concerns regarding the implementation of the IFRS for SMEs, because of the heterogeneity of this class of entities (Albu, Albu, and Fekete, 2010).

Relating to the need for the IFRS for SMEs, we can refer to the explanation in the *Basis for Conclusions* of the Exposure Draft (IASB, 2007, para. BC21):

> The circumstances of SMEs can be different from those of larger, publicly accountable entities in several ways, including: (a) the users of the entity's financial statements and their information needs; (b) how the financial statements are used; (c) the depth and breadth of accounting expertise available to the entity; and (d) SMEs' ability to bear the costs of following the same standards as the larger, publicly accountable entities.

Reasons (c) and (d) above seem to have driven the project. The simplifications and the reduction in disclosure requirements are the most obvious differences between IFRS for SMEs and IFRS. Section 3.6 will provide an elaborated explanation regarding the differences between IFRS for SMEs and IFRS.

In some countries, all companies irrespective of their size or nature were required by legislative authorities to apply similar accounting standards. However, SMEs perceived complexity in such reporting requirements. There were too many standards, details, disclosures and complex measurements. Producing GAAP-compliant financial statements was not a cost-effective process (Ram, 2012). This has led to the emergence of special standards for SMEs.

The historical development of IFRS for SMEs passed through several stages. A summary of the key events that contributed to the development of the IFRS for SMEs standard is provided in Table 3-1.

Table 3-1: Historical developments of IFRS for SMEs

Time period	Events in the development of the SME standard
March 2001	The establishment of IASB. The project to consider standards for small enterprises was carried over from old IASC.
June 2002	The project of accounting for SMEs and developing countries was added onto the IASB's research agenda.
July 2003	The project of accounting for SMEs was added onto the IASB's active agenda.
June 2004	Discussion Paper: *Preliminary Views on Accounting Standards for Small and Medium-sized Entities published* was issued. It demonstrated the preference of standard setters for a separate set of accounting standards for SMEs.
April 2005	Staff Questionnaire on recognition and measurement was issued.
January 2006	Public roundtable discussions to identify areas for possible simplifications of recognition and measurement principles for SMEs.
August 2006	Publication of the Staff Draft of *IFRS for SMEs*.
February 2007	Publication of the first Exposure Draft of *IFRS for Small and Medium-sized Entities*. Subsequently, various translations were also published.
July 2009	Publication of the final standard of *IFRS for Small and Medium-sized Entities*.
June 2012	Publication of *Request for Information Comprehensive Review of the IFRS for SMEs*.
October 2013	Publication of the second Exposure Draft of *IFRS for Small and Medium-sized Entities* and proposed amendments to the published IFRS for SMEs standard.
May 2015	The IASB completed a comprehensive review of the *IFRS for SMEs* and the standard was slightly revised. An amended *IFRS for SMEs* was issued.
June 2017	A draft guidance on the *IFRS for SMEs* standard was published for public comment. Also, an update of *IFRS for SMEs* was published.

Source: Prepared by the author, using IAS Plus (2017) and Ram (2012)

Table 3-1 shows that the project of issuing IFRS for SMEs involved a developmental process from 2004 to 2009. The first final version of IFRS for SMEs was published in July 2009.

According to Chand, Patel and White (2015, p.139), "the IASB's objective in issuing IFRS for SMEs was to offer a platform for these entities to produce high-quality and globally consistent financial reports". The IASB does not have the power to force countries to adopt IFRS for SMEs

(Perera and Chand, 2015), but there are some other parties that motivate the adoption, especially in developing countries, such as the World Bank and the IMF (Ram and Gray, 2017).

3.5 Users of SMEs financial statements and their information needs

Central to the issue of whether SMEs should account differently from larger entities is the question of the purpose of SMEs' financial statements and whether the users of SMEs' statements are different from other users. These reasons are stated in part (a) and (b) in the explanation in the *Basis for Conclusions* of the Exposure Draft (IASB, 2007, para. BC21).

In relation to reason (a), Ram (2012) reported that existing literature does not adequately address the users of SMEs' financial statements and their information needs, which is a problem for regulators. We should not assume that the users of SMEs' financial statements are the same as the users of listed companies' financial statements. As Di Pietra et al. (2008, p.42) observe: "SMEs do not have a dominant user group, as is assumed for listed companies". However, we can classify the users of SMEs' financial statements into internal and external users. The main internal users of SMEs' financial statements are managers, while, the main external users are bankers, trade creditors, credit agencies and major suppliers (Ram, 2012).

IFRS for SMEs concerns publishing general purpose financial statements for external users, who are not in the position to demand reports designed to meet their particular information needs. These users include "owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies" (IFRS for SMEs, 2015, para. 1.2). Therefore, financial statements produced solely for the use of owner-managers, tax authorities or other governmental authorities are not considered general purpose financial statements, as those users are in the position to demand whatever information they need (IFRS for SMEs, 2015, P8, P11). In more detail, the main external users are clarified in the IFRS for SMEs *Basis for Conclusions* (IASB, 2009, para. BC80):

> The main groups of external users include: (a) banks that make loans to SMEs. (b) vendors that sell to SMEs and use SMEs' financial statements to make credit and pricing decisions. (c) credit rating agencies and others that use SMEs' financial statements to rate SMEs. (d) customers of SMEs that use SMEs' financial statements to decide whether to do business. (e) SMEs' shareholders that are not also managers of their SMEs.

Collis and Jarvis (2000) reviewed and referred to several studies that discuss the main users of SMEs financial statements. They mentioned banks (lenders or creditors), owners or managers and tax authorities (Inland Revenue) as the main users of SMEs' financial statements. Similar user groups were identified by Gassen (2017), who conducted a study across 24 jurisdictions and found that the prominent users of private firm financial reporting are banks, taxation authorities, and shareholders. Albu et al. (2013) studying four emerging economies (the Czech Republic, Hungary, Romania, and Turkey), found that tax was the main use for SMEs' financial information. They also highlighted that bankers are important users, as generally, SMEs receive their non-owner funding through banks. Chand et al. (2015) indicated that SMEs usually report only to their financier, so they prefer to comply with the obligations specified by their financial party rather than the obligations specified by IFRS for SMEs. Hence the IASB has realised this fact, it seeks to make the requirements of IFRS for SMEs compatible with requests and desires of investors and financiers (IFRS, 2018a). Table 3-2 presents a range of literature about the main users of SMEs financial statements.

Table 3-2: Country example studies of the main users of SMEs' financial statements

Reference	Country	The main users of SMEs financial statements
Barker and Noonan (1996)	Ireland	Banks
Duc Son, Marriott, and Marriott (2006)	Vietnam	Tax authorities and governmental agencies followed by banks, which were considered as less important users
Van Wyk and Rossouw (2009)	South Africa	Owners, governmental agencies and bankers
Altarawneh (2015)	Jordan	Managers, banks and creditors, public authorities, analysts, followed by employees and shareholders, which were considered as less important users
Kılıç and Uyar (2017)	Turkey	Tax authorities
Wijekoon (2018)	Sri Lanka	Owner-managers, banks, and governmental agencies

Source: Prepared by the author

In relation to reason (b) in the explanation in the *Basis for Conclusions* of the Exposure Draft (IASB, 2007, para. BC21), it is implied that SMEs' financial statements are used differently from those of larger entities. However, the IASB suggests that SMEs' financial statements are used in a very similar way to the financial statements of larger entities:

> To provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad

> range of users of the financial statements who are not in a position to demand reports tailored to meet their particular information needs (IFRS for SMEs, 2015, para. 2.2).

The IASB did not prepare a separate conceptual framework for SMEs and did not identify any reasons why SME users might need different accounting from full IFRS. As Ram (2012, p.22) notes:

> Users' needs of financial statements is said to be used as the overarching criteria in deciding whether to add an issue to the IASB's agenda. It seems that the IASB works on the assumption that all the other groups of users have similar needs to those of investors.

Ram and Newberry (2013) examined the process which the IASB went through when writing the IFRS for SMEs. Their study suggested that the IASB did not seriously consider the needs of users of SME financial statements, and that the IASB's actions were based on protecting its own authority as the sole international issuer of financial reporting standards. This is discussed further in the next section.

Collis and Jarvis (2002) recognised that management uses the financial information of small companies to monitor the profitability and the net assets of the business. Collis and Jarvis (2002) also found that comparative performance measures were not of great importance. Duc Son et al. (2006) indicated the main use of SMEs' financial statements in Vietnam is to find indicators about forecasts and information about cash flow.

The evidence referred to above suggests that the financial statements of SMEs of different sizes may be used in different ways and may be more useful for different groups of users. SMEs include very large privately-owned companies, which may use their financial statements for raising capital from foreign direct investors or through large financing from local banks, and these users are likely to prefer financial statements prepared on a basis that is familiar to them. Statements prepared in accordance with IFRS for SMEs may meet the needs of such users, but very large SMEs may prefer to use full IFRS. At the other extreme, the financial statements of small and micro entities are likely to be used mainly by the owners, to provide information about financial performance, and by government agencies, for example in calculating Zakat obligations. Smaller SMEs are unlikely to seek foreign direct investment, although they may wish to obtain bank financing. Because of the varied sizes of entities falling

within the scope of IFRS for SMEs, it is necessary to ensure that research is not restricted to specific types of SME, such as only smaller and micro entities.

3.6 The content of IFRS for SMEs

This section analyses the content of IFRS for SMEs, particularly how it differs from full IFRS. The development of IFRS for SMEs started from the full IFRS and then was developed by:

> (a) extracting the fundamental concepts from the IASB Framework for the Preparation and Presentation of Financial Statements (IASB Framework) and the principles and related mandatory guidance from full IFRS; and (b) considering the modifications that are appropriate on the basis of users' needs and cost-benefit considerations (IFRS for SMEs, 2015, p.241).

As PricewaterhouseCoopers (2009, p.5) observe:

> The IASB developed this standard in recognition of the difficulty and cost to private companies of preparing fully compliant IFRS information. It also recognised that users of private entity financial statements have a different focus from those interested in publically listed companies. IFRS for SMEs attempts to meet the users' needs while balancing the costs and benefits to preparers. It is a standalone standard; it does not require preparers of private entity financial statements to cross-refer to full IFRS. The more modest disclosure requirements will also appeal to users and preparers.

Tables 3-3 below summarises the high-level differences between full IFRS and IFRS for SMEs. This table shows that the differences are substantial, with IFRS for SMEs being only about one-sixth of the full IFRS in terms of pages covered.

Table 3-3: A high-level comparison between full IFRS and IFRS for SMEs

Comparison	**Full IFRS (compulsory content) version of 2017**	**IFRS for SMEs (compulsory content) as amended in 2015**
Length	1,400 pages (without the guidance and basis for conclusions)	244 pages (218 pages without the appendix)
Disclosures	More than 3,000 disclosures	About 300 disclosures
Wording style	Complex and technical	Much easier to read
Scope	Particularly intended for listed companies	Intended for unlisted companies except those with public accountability

Comparison	Full IFRS (compulsory content) version of 2017	IFRS for SMEs (compulsory content) as amended in 2015
Structure	45 separate accounting standards for different accounting topics (each standard deals with a specific topic)	A single accounting standard (a stand-alone-document) presented in 35 sections. In many cases, a section corresponds to a whole standard in full IFRS
Amendments	The IASB amends its standards periodically	The IASB decided not to amend it frequently and proposed to publish Exposure Drafts once every three years approximately, and has actually left longer gaps
User groups of the financial statements	The primary users are present and potential investors, lenders and other creditors	Banks which have the position of lenders of capital, suppliers, customers, rating agencies, shareholders of the SME who are not in a management function

Source: Prepared by the author, using IFRS (2017); IFRS for SMEs (2015); IASB (2009, BC80)

EY (2010, p.5) explained the differences between full IFRS and IFRS for SMEs as follows:

> The concepts and principles of IFRS for SMEs are based on the Framework for the Preparation and Presentation of Financial Statements (the Framework) and therefore are very similar to full IFRS. Likewise, the statements needed to comprise a complete set of financial statements under IFRS for SMEs are also very similar to that required by IFRS. **The most significant difference in the presentation of financial statements for SMEs is that there are less disclosure requirements in some instances.** IFRS for SMEs also permits some of the statements required to be omitted or merged with other statements under certain circumstances, which will reduce the disclosure requirements for SMEs (emphasis added).

Table 3-4 explains in detail how IFRS for SMEs differs in structure from full IFRS. The main differences between the two sets of requirements are shown [in square brackets]. The various sections of IFRS for SMEs are linked to corresponding sections in full IFRS.

Table 3-4: A detailed comparison between IFRS for SMEs (2015) and the relevant standard under full IFRS (2017)

Sections in IFRS for SMEs [Simplification]	Sources in full IFRS
Preface	Preface to International Financial Reporting Standards
1 Small and Medium-sized Entities	-
2 Concepts and Pervasive Principles	Framework for the Preparation and Presentation of Financial Statements, IAS 1
3 Financial Statement Presentation [No held-for-sale category of formerly non-current assets]	IAS 1
4 Statement of Financial Position	IAS 1
5 Statement of Comprehensive Income and Income statement 6 Statement of Changes in Equity and Statement of Comprehensive Income and Retained Earnings. [Statement of Comprehensive Income can be combined with Statement of Changes in Equity under certain circumstances, as Statement of Income and Retained Earnings]	IAS 1
7 Statement of Cash Flows	IAS 7
8 Notes to the Financial Statements	IAS 1
9 Consolidated and Separate Financial Statements. [Parents exempted from preparing investor statements; subsidiaries acquired with the intention of sale within one year should be excluded from consolidation]	IFRS 10 and IAS 27
10 Accounting Policies, Estimates and Errors	IAS 8
11 Basic Financial Instruments and 12 Other Financial Instruments Issues No available-for-sale category of financial assets (so, only amortised cost or marking-to-market).	IAS 32, IAS 39, IFRS 7
13 Inventories	IAS 2
14 Investments in Associates. [Associates and joint ventures can be carried at cost or fair value in consolidated statements (instead of using the equity method)].	IAS 28
15 Investments in Joint Ventures	IFRS 11 and IAS 28
16 Investment Properties [instead of the choice between cost and fair value, fair value should be used when and only when it can be measured without undue cost or effort]	IAS 40
17 Property, Plant and Equipment [No continuous review of residual values of assets for depreciation calculations]	IAS 16
18 Intangible Assets other than Goodwill [Development cost is an expense. Intangibles cannot be measured at fair value]	IAS 38

Sections in IFRS for SMEs [Simplification]	Sources in full IFRS
19 Business Combinations and Goodwill. [Goodwill and other intangibles with indefinite life to be amortised over a period of up to 10 years]	IFRS 3
20 Leases	IAS 17
21 Provisions and Contingencies	IAS 37
22 Liabilities and Equity	IAS 1, IAS 32
23 Revenue	IAS 11, IAS 18
24 Government Grants [treated as income when receivable]	IAS 20
25 Borrowing Costs on construction [expensed not capitalised]	IAS 23
26 Share-based Payment	IFRS 2
27 Impairment of Assets	IAS 2, IAS 36
28 Employee Benefits [simplified calculation of pension obligation, e.g. not taking account of expected salary increases]	IAS 19
29 Income Taxes	IAS 12
30 Foreign Currency Translation [no re-classification of foreign currency gains/losses as income when foreign subsidiaries are sold]	IAS 21
31 Hyperinflation	IAS 29
32 Events after the End of the Reporting Period	IAS 10
33 Related Party Disclosures	IAS 24
34 Specialised Activities	IAS 41, IFRS 6
35 Transition to the IFRS for SMEs	IFRS 1

Source: EY (2010, p.5) and Nobes and Parker (2016, pp.345-346) as updated by the author

The financial statements required by IFRS for SMEs are virtually the same as those required by full IFRS. The statements of comprehensive income, changes in equity and cash flows are identical with the statements prepared under full IFRS, except for a simplification allowed (See Table 3-4). The balance sheet (statement of financial position) is nearly completely identical, the only substantive difference being that there is no requirement for separate disclosure of assets and liabilities classified as held for sale included in a disposal group. The differences are mainly reduced disclosure requirements, resulting from cost-benefit analysis, taking account of limited accounting expertise in SMEs. As Table 3-4 shows that in IFRS for SMEs few standards are left out. Also, some options are omitted while others are added.

3.7 The different approaches to adopting IFRS for SMEs

An overview about the position of 166 jurisdictions towards *IFRS for SMEs*, as in March 2019, is illustrated in Table 3-5. By comparing with previous years, it is evident that there is an increase in the number of countries that require or permit the use of *IFRS for SMEs*.

Table 3-5: Analysis of the use of *IFRS for SMEs* in the 166 profiled jurisdictions

Type of commitment towards *IFRS for SMEs*	**Number of jurisdictions**
IFRS for SMEs is required or permitted	86
IFRS for SMEs is currently under consideration	9
IFRS for SMEs is not used or under consideration	71
Total	166

Source: IFRS (2018b)

Based on Table 3-5, 86 jurisdictions either required or permitted the use of IFRS for SMEs. These jurisdictions include Argentina, Bahrain, Bangladesh, Brazil, Fiji, Ghana, Hong Kong, Iraq, Ireland, Jordan, Kazakhstan, Malaysia, Nigeria, Pakistan, Palestine, Philippines, Qatar, Saudi Arabia, Singapore, South Africa, Sri Lanka, Switzerland, United Arab Emirates, United Kingdom, Uruguay and Zimbabwe (IFRS, 2018b).

Countries have reacted differently towards the project of adopting IFRS for SMEs. Some countries supported the project to the degree of adopting the exposure draft that was issued in 2007, such as South Africa. Other countries have made slight amendments to the standard, such as Singapore and the United Kingdom. Whereas, other countries opposed the adoption of the IFRS for SMEs, such as the US, Australia, France, Germany, and Japan.

The reason for the reluctance of adopting IFRS for SMEs in the US, for example, is that SMEs are not obliged to do reporting under the local law, which makes IFRS for SMEs an irrelevant option (Nobes and Parker, 2016, p.347), though Feltham (2013) calls for the acceptance of IFRS for SMEs for private entities in the US. Noting that in 2007, an accountancy body specialised in matters that relate to private companies in the US was created (the Private Company Financial Reporting Committee). This committee was the starting point for the creation of special rules for small or unlisted companies. In 2011, a recommendation was raised in the US by the Financial Accounting Foundation, which oversees the Financial

Accounting Standards Board (FASB), to create a simplified version of US GAAP for private companies (Nobes and Parker, 2016, pp.343-347).

Additionally, the adoption did not happen in Australia, due to its preference to retain IFRS but reduce disclosures for SME reports instead of having two different GAAPs. Finally, in France, Germany and Japan the reason is that the taxable and distributable income would change if IFRS for SMEs is adopted unless dual accounting were imposed (Nobes and Parker, 2016, p.347). Nobes (2010) clarified that it is notable that countries that reject the adoption of IFRS for SMEs have a close relationship between accounting profit and taxable income. Table 3-6 explains the variations in the degree of commitment towards IFRS for SMEs in different countries.

Table 3-6: The degree of adoption of IFRS for SMEs in different countries

Country	**The degree of commitment towards IFRS for SMEs**
European Union	There is no agreement to adopt IFRS for SMEs.
UK and Ireland	SMEs may use the national standard that is based on IFRS for SMEs, but with significant modifications. Alternatively, they may use IFRS as adopted by the EU.
South Africa	IFRS for SMEs is required or permitted.
Switzerland	IFRS for SMEs is permitted.
Japan	IFRS for SMEs is not required or permitted.
China	IFRS for SMEs is not required or permitted.
Pakistan	IFRS for SMEs is permitted, however, added an option to capitalise borrowing costs relating to the construction or acquisition of an asset similar to the requirement of IAS 23 Borrowing Costs.
Australia	IFRS for SMEs is not permitted if the SME meets the definition of a reporting entity. For other SMEs, no specific accounting framework is required.
Canada	IFRS for SMEs is not required or permitted.
Bangladesh	IFRS for SMEs was adopted in its entirety as the Bangladesh Financial Reporting Standard for SMEs.
Kazakhstan	Large SMEs must use full IFRS Standards. Medium-sized SMEs may choose either full IFRS Standards or the IFRS for SMEs Standard. Small SMEs have an added choice of national standards.
Malaysia	SMEs are permitted to use the Malaysian Private Entities Reporting Standard (MPERS), which is substantively equivalent to the IFRS for SMEs Standard except for the requirements for property development activities plus some terminology changes.
Philippines	IFRS for SMEs is permitted. Philippines has adopted the IFRS for SMEs Standard as the Philippines Financial Reporting Standard for SMEs (PFRS for SMEs).

Source: Prepared by the author, using IFRS (2018b)

3.8 Factors influencing the adoption of IFRS for SMEs by countries

Various factors have been suggested as affecting the decision by a particular country to adopt IFRS for SMEs. Kamp (2010), examining comment letters in relation to the adoption of IFRS for SMEs in the EU, found that culture is an influential factor in the attitude towards IFRS for SMEs. Kamp (2010) used the cultural dimensions proposed by Gray (1988), which are discussed in more detail in Section 4.3.1.

Kaya and Koch (2015), examining factors that influence the decision to adopt IFRS for SMEs in 128 countries, found that countries that are more likely to adopt IFRS for SMEs are characterised by incapability of developing their own local generally accepted accounting principles, already applied full IFRS to private firms, or have a relatively low quality of governance institutions. Bonito and Pais (2018) analyse the reasons for adopting IFRS for SMEs at the country level. Their sample consisted of 84 countries including developed and developing countries, adopters and non-adopters of IFRS for SMEs. They identified several factors that influence the decision to adopt IFRS for SMEs at the country level. They found that countries that do not have national accounting standards for SMEs, that permit or require the use of full IFRS for listed companies, and that have a common law legal system tend more to adopt IFRS for SMEs.

Also, Albu, Albu, and Fekete (2010, p.66) focused on accounting standards for SMEs and indicated that countries that cannot construct their own local accounting standards for SMEs with high quality are expected to adopt IFRS for SMEs. They stated that: “the implementation of the IFRS for SMEs is inevitable as long as local standard setters cannot come with higher quality accounting standards”.

However, Ram and Gray (2017) give a counter example to studies such as Kaya and Koch (2015) and Bonito and Pais (2018). In their case study, they focused on Australia, which did not adopt IFRS for SMEs, despite its adoption of full IFRS. The Australian Accounting Standards Board (AASB) preferred to retain full IFRS with reduced disclosures for SMEs and did not support the adoption of IFRS for SMEs because of the reduction in recognition and measurement requirements that contradicts with the Australian Regulatory Guide. To avoid costly disclosures, the AASB opposed requiring SMEs and subsidiaries of large companies to

prepare financial statements according to the full IFRS. Instead, although they are obliged to apply all the IFRS recognition and measurement criteria, they are exempted from some disclosures. Unlike what is happening around the world, in Australia, the Big Four auditing firms opposed IFRS for SMEs, believing that clients do not want it (Ram and Gray, 2017). The assumption is that users will be at least equally well served by IFRS with reduced disclosures and that this will be a cheaper option for many companies.

There are some general reasons which might slow down the adoption of IFRS for SMEs. SMEs usually face barriers to change. Some are internal, such as lack of resources (Farsi and Toghraee, 2014), while others are external, such as inadequate infrastructure. Therefore, it is important that SMEs are efficient, in order to reduce costs of adopting IFRS for SMEs, as well as effective, to be able to fit the IFRS for SMEs adoption within their own and wider social, cultural and economic context (Albu et al., 2013; Joshi and Ramadhan, 2002).

Kapurubandara and Lawson (2006) investigated the reasons for the reluctance of SMEs towards the adoption of information and communications technologies and electronic commerce in developing countries, which raises similar issues as those relating to the adoption of IFRS for SMEs. Figure 3-1 shows the external and internal barriers that SMEs may face when adopting a new process.

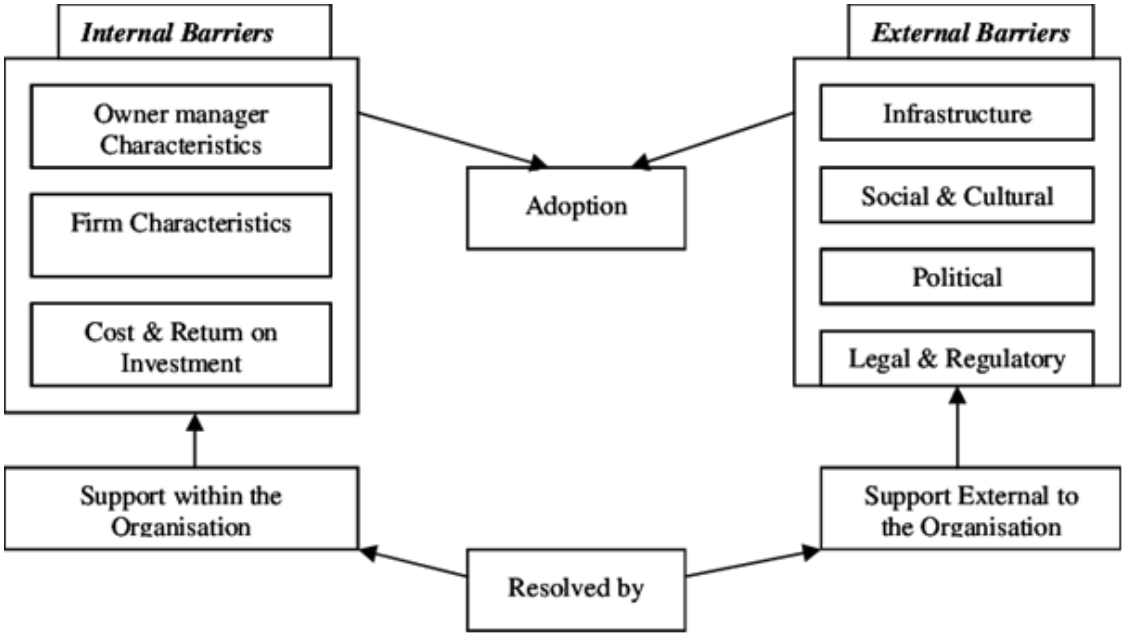

Figure 3-1: Model - barriers to adoption.
Source: Kapurubandara and Lawson (2006, p.6).

There are several factors that influence the decision to adopt IFRS for SMEs. Table 3-7 summarises some of these factors that are mentioned in the literature.

Table 3-7: Literature about the factors that influence the decision to adopt IFRS for SMEs

Factors that influence the decision to adopt IFRS for SMEs	References
Culture	Kamp (2010)
Legal system	Bonito and Pais (2018)
Quality of governance institutions	Kaya and Koch (2015)
Ability to develop national accounting standards for SMEs	Kaya and Koch (2015); Bonito and Pais (2018); Albu et al. (2010)
Current extent of use of IFRS	Kaya and Koch (2015); Bonito and Pais (2018)

Source: Prepared by the author

3.9 Benefits of adopting IFRS for SMEs, particularly in developing countries

Although the adoption of full IFRS has been extensively studied, there are fewer studies of adoption in the context of SMEs. The relevance of IFRS for SMEs in developing countries is a controversial subject in accounting literature. Some studies have indicated that adopting IFRS for SMEs in developing countries would introduce many benefits. Whereas there were other studies that show the opposite. Prior literature has suggested several benefits for adopting IFRS for SMEs, particularly in developing countries. For example, Albu et al. (2013, p.144) proposed "attraction of foreign investment, easier access to external capital, opportunities for the accounting profession to contribute to the development and enhancement of economic development" as specific benefits for SMEs in emerging economies, while in developed economies, they thought that the main benefit is "the increased comparability of financial reporting". Albu et al. (2013) studied the perception of different stakeholders (preparers, auditors, users, professional bodies' representatives and regulators) regarding the implementation of IFRS for SMEs in four emerging countries (Czech Republic, Hungary, Romania, and Turkey). The majority of respondents supported the adoption of IFRS for SMEs and preferred the convergence implementation approach, as they considered it a driver to improve the accounting profession. Overall, the increase in comparability and improvements in the business environment were considered the main benefits.

In addition, Uyar and Güngörmüs (2013), Kılıç, Uyar and Ataman (2014) and Kılıç and Uyar (2017) found that in Turkey, people were optimistic about the adoption and the implementation of IFRS for SMEs. Uyar and Güngörmüş (2013) explored the perceptions and basic knowledge of IFRS for SMEs among accounting professionals in Turkey. They found that the majority of participants favour IFRS for SMEs, however, participants were not fully aware of certain topics in IFRS for SMEs. Kılıç et al. (2014) revealed that in Turkey, most of the accounting professionals in small and medium-sized entities are optimistic regarding the adoption process; have made some preparations for the IFRS for SMEs; have a moderate awareness level about IFRS for SMEs; and attended training sessions about IFRS for SMEs. Kılıç and Uyar (2017) investigated the case of voluntary adopting IFRS for SMEs in Turkey. They concluded that there is a need for IFRS for SMEs to provide high-quality, reliable, transparent, and true and fair financial information. However, they highlighted that comparability of financial statements may be hindered due to the simplifications available in IFRS for SMEs.

Joshi and Ramadhan (2002) observed a successful experience when examining the voluntary adoption of IAS by SMEs in Bahrain (this study predated the development of IFRS for SMEs). They reported that the majority of SMEs claimed that the IAS is relevant and not costly. In fact, they reported many benefits of adopting IAS, such as facilitating the comparison and analysis of financial statements, improving the efficiency and the effectiveness of financial reporting and satisfying banks and credit providers. Another successful experience is reported by Alver, Alver and Talpas (2014), who stated that the adoption of IFRS for SMEs in Estonia went smoothly and did not face any opposition from interested parties. Al-Hussamee and Nassar (2017) surveyed auditors of SMEs in Jordan and found that their respondents considered that the Jordanian environment is suitable for implementing the requirements of IFRS for SMEs in presentation and explanation of financial statements.

The main benefits that have been suggested for adopting IFRS for SMEs are summarised in Table 3-8. Some of these benefits are the same as for adopting IFRS more generally, while other benefits relate specifically to adopting IFRS for SMEs.

Table 3-8: Benefits of adopting IFRS for SMEs

Benefits of adopting IFRS for SMEs	References
Reducing costs relative to adopting full IFRS	Joshi and Ramadhan (2002)
Attracting foreign investment	Albu et al. (2013, p.144)
Easier access to external capital	Albu et al. (2013, p.144)
Reducing the cost of raising finance	Albu et al. (2013, p.144)
Increasing comparability of financial reporting	Albu et al. (2013, p.144); Joshi and Ramadhan (2002); Kılıç and Uyar (2017)

Source: Prepared by the author

3.10 Problems of adopting IFRS for SMEs, particularly in developing countries

Some studies indicate the irrelevance of adopting IFRS for SMEs, particularly in developing countries. For example, Chand et al. (2015) assert that most SMEs find costs of complying with IFRS for SMEs are much more than the expected benefits of the convergence. When comparing the situation of converging to IFRS for SMEs in developed and developing countries, they clarify that SMEs in developing countries face more unfavourable consequences than in developed countries. That is because IFRS for SMEs was originally designed for large SMEs in developed countries. In addition, SMEs that operate in developing countries do not receive any help or support from professional organisations that facilitate their transition, unlike the case in developed countries where SMEs gain the support of multi high-quality professional organisations. Therefore, Chand et al. (2015) consider IFRS for SMEs inappropriate, costly and unsuitable for SMEs around the world as it does not, in their opinion, help SMEs in judgement and decision-making. There are plenty of innate problems in the standard itself and encountered when applying it.

Similarly, Aboagye-Otchere and Agbeibor (2012) indicated that the majority of small and micro businesses in Ghana do not need to adopt IFRS for SMEs, due to their limited international activities. In addition, the majority of issues addressed in IFRS for SMEs is irrelevant to small and micro companies in Ghana. Van Wyk and Rossouw (2009) also oppose the adoption of IFRS for SMEs in South Africa. They clarified that it is not suitable for small and micro SMEs and recommended a simpler version for them. Also, accounting practitioners in South Africa doubt that IFRS for SMEs will reduce the burden of financial reporting for SMEs. Dang-Duc (2011) found that SMEs in Vietnam face several hindrances when

implementing accounting standards and that the associated costs of implementing accounting standards for SMEs outweigh the benefits.

Laptes and Popa (2009) indicated that a majority of the European Parliament is against the adoption of IFRS for SMEs, due to their inappropriate timing. For the time being, companies are concerned about their existence, survival and overcoming the consequences of the economic crisis. Improving SMEs' financial reporting is considered less important. In their study, they found that Romania is not ready to implement IFRS for SMEs, due to the absence of an adequate number of knowledgeable accountants about the IFRS for SMEs and the negative effect of the international economic crisis on the Romanian economy. It is also proposed that the reason for the unsuitability of IFRS for SMEs in Romania is because most of the operated companies have fewer than 50 employees and do not conduct international activities.

Furthermore, Haller and Eierle (2007) stated in the final report of the survey on the Exposure Draft of IFRS for SMEs that the majority of respondents among German SMEs also do not express a need for such rules and state that the perceived costs are expected to be higher than the perceived benefits. More generally, Eierle and Haller (2009) suggested that there is little or no need for IFRS for SMEs as the international activities in the majority of the entities studied are limited and do not result in a need for internationally comparable accounting rules.

Several studies have reported issues and challenges that face SMEs when implementing IFRS for SMEs. For example, Kılıç and Uyar (2017) and Uyar and Güngörmüş (2013) revealed that high costs, lack of trained professionals and training programmes arranged by professional bodies are the main obstacles for implementing IFRS for SMEs in Turkey. Uyar and Güngörmüş (2013) also regarded the complexities in understanding the standards as an obstacle that hinders accountants from implementing IFRS for SMEs.

Albu et al. (2013) found that the largest perceived cost when implementing IFRS for SMEs results from training the accountants. In addition, there are other observed costs, which relate to the usage of advanced information technology systems and the fees for hiring

external experts and auditors. There are also some expenses related to changing the mind-set of accountants, so that they will apply IFRS for SMEs properly.

The majority of studies that addressed the topic of adopting IFRS for SMEs focused on the associated costs and benefits. Nobes (2010), writing about private company use of IFRS before any implementation of IFRS for SMEs, suggests that costs and benefits are influenced by how distant the country's accounting system was from IFRS. In support to the afore-mentioned point, a field test conducted by the IASB among 116 private firms from 20 countries to detect whether there is a noticed increase in the imposed costs on companies (which are represented in the administrative burden) when private firms implement IFRS for SMEs. Test results revealed that the greater the difference between the local GAAP in a country and IFRS for SMEs the more costs are increased (DRSC, 2008; IAS Plus, 2018). For example, there are few differences between the local GAAP in the UK and IFRS for SMEs, which results in minimal costs and ease in the transformation of private firms. However, there are many differences between local GAAP in Germany and IFRS for SMEs, which result in large costs and difficulties associated with the transformation (Litjens et al., 2012). Alkhtani (2010) indicated that the associated costs constitute an additional burden, which small companies and local auditing firms might not be able to handle or bear.

Nurunnabi (2015) indicated the impact of several factors, including lack of training opportunities, corruption and absence of a course about IFRS in universities' curricula, which had a negative influence on implementing IFRS in Bangladesh. Alsaqqa and Sawan (2013) list a number of obstacles for implementing full IFRS in the UAE. They found the language barrier and religious issues, such as Zakat requirements are the main cultural obstacles of adopting IFRS. They also considered the lack of accounting knowledge as a barrier. Some of their respondents believe that adopting IFRS might clash with the Emirati's pride and the system of government.

Table 3-9 summarises the main issues and challenges identified in prior literature relating to the adoption of IFRS for SMEs. Some of these issues and challenges were suggested in research into the implementation of full IFRS but will also apply to the adoption of IFRS for SMEs.

Table 3-9: Issues and challenges when implementing IFRS for SMEs

Issues and challenges that face SMEs when implementing IFRS for SMEs	References
Costs	Alkhtani (2010); Albu et al. (2013); Uyar and Güngörmüş (2013); Kılıç and Uyar (2017)
Cultural, linguistic and political barriers	Callao et al. (2007); Alsaqqa and Sawan (2013)
Lack of training programmes and trained professionals	Uyar and Güngörmüş (2013); Nurunnabi (2015); Kılıç and Uyar (2017)
Rigidity in the mind-set of accountants	Albu et al. (2013)
Complexities in the standards	Uyar and Güngörmüş (2013)
Inadequate university curricula	Nurunnabi (2015)

Source: Prepared by the author

3.11 Overcoming the challenges of implementing IFRS for SMEs

Much of the literature on implementation relates to full IAS/IFRS. For a successful implementation of full IAS/IFRS, Chand (2005) suggests that countries, especially developing ones, should consider their capabilities before making the decision to adopt IAS. Several factors should be considered, including the availability of financial resources, professional expertise, education and training, legal backing, the proportion of multinational corporations and local companies, in addition to the issue of whether it may be possible to adopt IAS with amendments.

A recommendation for a successful implementation of IFRS that can also be followed in the implementation of IFRS for SMEs is suggested by PricewaterhouseCoopers (2014). PricewaterhouseCoopers (2014) suggests that companies follow a three-phased approach that starts with preparing a detailed gap analysis, which produces a roadmap conversion. Secondly, doing a conversion, which results in the production of the first IFRS financial statements. Finally, embedding, which ensures that systems, processes, policies and behaviours are adopted to report efficiently under IFRS (or equivalent) on an ongoing basis.

Several prior researchers emphasise the importance of education and training for successful implementation. Alkhtani (2010) notes that the secret behind a successful implementation of IFRS is in training, not only the accounting staff, but also other related people from different levels. Albu and Albu (2012, p.350) suggest that “auditors are an important mechanism for securing IFRS compliance in emerging economies, given the relative weakness of other

enforcement mechanisms. In this regard, the Big Four and other multinational network firms can be more influential than those whose activities are entirely local". Wijekoon (2018) endorses the importance of auditors in implementing accounting standards. Nurunnabi (2015) recommends raising the level of IFRS knowledge within firms in Bangladesh, by incorporating IFRS materials in accounting education and providing ongoing training for different constituents. However, AlMotairy and Stainbank (2014) propose using an excellent professional accountancy educational programme to resolve the lack of IFRS knowledge and inadequate training for staff accountants.

Table 3-10 summarises the suggested ways to overcome the issues and challenges identified in prior literature relating to the adoption of IFRS for SMEs.

Table 3-10: Overcoming issues and challenges when implementing IFRS for SMEs

Suggested ways to overcome the issues and challenges that face SMEs when implementing IFRS for SMEs	**References**
High quality education and training	Chand (2005); Alkhtani (2010); Nurunnabi (2015); AlMotairy and Stainbank (2014)
Effective engagement by auditing profession	Albu and Albu (2012); Wijekoon (2018)
Availability of adequate financial resources	Chand (2005)
Legal backing for implementation	Chand (2005)
Networking with other companies	Chand (2005)

Source: Prepared by the author

3.12 Summary

This chapter discussed the different definitions of SMEs, the characteristics and the economic importance of SMEs, the recent debate on their financial reporting practices including the project of designing a financial reporting standard for SMEs, and the historical development of the IFRS for SMEs. It discussed the users of SMEs financial statements and their information needs, the content of the IFRS for SMEs and how it is different from full IFRS, and the different approaches to adopting IFRS for SMEs. In addition, factors that influence the adoption of IFRS for SMEs were explained. The benefits and problems of adopting IFRS for SMEs in developing countries were discussed. Finally, ways to overcome the challenged faced when implementing IFRS for SMEs were highlighted.

Appendix 3-1 shows previous studies that examined the adoption of IFRS for SMEs across different developing countries. These studies applied a wide range of theoretical frameworks to analyse the issue of adopting IFRS for SMEs, including institutional theory, agency theory, decision usefulness theory, stewardship theory, stakeholder theory, and theories of regulation, such as public interest theory, regulatory capture and private interest theory. Several studies have no explicit theoretical framework. Prior studies have used different research methods, including questionnaire surveys, interviews, analysing documents and literature reviews, and case studies.

Findings of the various studies are rather diverse: some studies suggested that it is beneficial to adopt IFRS for SMEs at the country and the company level, while others opposed the adoption of IFRS for SMEs and found that costs associated with the adoption outweigh the benefits. It is worth noting that the range of research findings relating to IFRS for SMEs is broadly similar to the corresponding findings for the adoption of full IFRS.

Since the focus of the study is on KSA, the following chapter (Chapter 4) will concentrate on the development of the accounting profession in KSA, with attention drawn to the role of the environmental variables that characterise the profession.

Appendix 3-1: Literature on adoption of IFRS for SMEs by single developing countries, arranged by region

Region	Country	Title	Author(s), year	Theory	Method	Findings
Europe	Turkey	Perceptions and Knowledge of Accounting Professionals on IFRS for SMEs: Evidence from Turkey	Uyar and Güngörmüş, 2013	No specific theory mentioned	A questionnaire survey	The majority of accountants in Turkey support the adoption of IFRS for SMEs. Respondents' level of awareness was moderate, due to lack of training. Turkish accountants who work in Big Four auditing firms are more knowledgeable about IFRS for SMEs than others, as they receive more training.
	Turkey	Preparedness for and Perception of IFRS for SMEs: Evidence from Turkey	Kılıç, Uyar and Ataman, 2014	No specific theory mentioned	A telephone questionnaire	Most participants are optimistic about the transition to IFRS for SMEs, support the implementation process, have a moderate level of awareness about its topics and attend some training courses to prepare for the adoption.
	Turkey	Preparedness of the Entities for the IFRS for SMEs: An Emerging Country Case	Kılıç, Uyar and Ataman, 2016	No specific theory mentioned	A questionnaire survey	Most SMEs in Turkey did not prepare to implement IFRS for SMEs. There is a positive effect on the preparedness of SMEs and three firm characteristics: size, level of international activities and type of auditing firm.
	Turkey	Adoption process of IFRS for SMEs in Turkey: Insights from academics and accountants	Kılıç and Uyar, 2017	No specific theory mentioned	In-depth interviews with open-ended questions	Most interviewees support the adoption process of IFRS for SMEs, however, they show concern regarding the additional simplification that may impede the comparability of financial statements.
	Romania	The IFRS Standard for Small and Medium-Sized Entities – Another Challenge for the Romanian Accounting?	Laptes and Popa, 2009	No specific theory mentioned	A questionnaire survey	Most of the European Parliament oppose the adoption of IFRS for SMEs, especially with the existence of a crisis that the world economy is facing. Particularly in Romania, it is not an appropriate time to implement IFRS for SMEs.

Region	Country	Title	Author(s), year	Theory	Method	Findings
	Romania	The Context of the Possible IFRS for SMEs Implementation in Romania: An Exploratory Study	Albu, Albu, and Fekete, 2010	No specific theory mentioned	Interviews and textual analysis	Countries that cannot construct local accounting standards with high quality for SMEs are expected to adopt IFRS for SMEs. The accounting background in each country effects the application of IFRS for SMEs. This shift will be accompanied by a change in the accounting profession and accounting education.
	Czech Republic	The Current Problems of Harmonization of Accounting for Small and Medium-sized Enterprises	Hýblová, 2019	No specific theory mentioned	Description, analysis, synthesis, modelling, comparison	A perfect harmonisation is a long-term process with an uncertain outcome, which will evolve depending on the decisions of financial reporting regulatory authorities, which may to some degree be affected by the users of financial statements.
Africa	Ghana	The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) Suitability for Small Businesses in Ghana	Aboagye-Otchere and Agbeibor, 2012	Institutional theory	A questionnaire survey	The majority of small and micro businesses in Ghana do not need international accounting rules. There is no association between the need for international accounting rules and the volume of international activities.
	South Africa	IFRS for SMEs in South Africa: A Giant Leap for Accounting, But Too Big for Smaller Entities in General	Van Wyk and Rossouw, 2009	No specific theory mentioned	A questionnaire survey	The main users of SMEs financial statements are owners, governmental agencies and bankers. IFRS for SMEs is not suitable for small and micro SMEs in South Africa and recommended a simpler version for them. Accounting practitioners doubt that IFRS for SMEs will reduce the burden of financial reporting for SMEs.

Region	Country	Title	Author(s), year	Theory	Method	Findings
Middle East	Jordan	An Investigation into the Suitability of International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) in Jordan	Altarawneh, 2015	Stewardship theory and decision usefulness theory	A questionnaire survey + some interviews to develop the survey questions	The main users of SMEs financial information include managers; banks and creditors; public authorities; and analysts. However, employees and shareholders were considered as less important users. All respondents recommended omitting some parts from the IFRS for SMEs standard. Preparers accept the concept of adopting IFRS for SMEs. Across the sample, managers were the most optimistic users about the convergence, while auditors were worried about several obstacles.
Middle East	Jordan	The Suitability of the Jordanian Small and Medium-Sized Enterprises to the Requirements of International Financial Reporting Standards	AL-Hussamee and Nassar, 2017	No specific theory mentioned	A questionnaire survey	The environment of Jordanian SMEs is suitable for implementing the requirements of IFRS for SMEs in presentation and explanation of financial statements.
	Bahrain	The Adoption of International Accounting Standards by Small and Closely Held Companies: Evidence from Bahrain	Joshi and Ramadhan, 2002	No specific theory mentioned	A questionnaire survey	The majority of SMEs in Bahrain claimed that they did not face any problems or costs when they voluntary adopted IAS. In fact, they reported many benefits of adopting IAS, such as facilitating the comparison and analysis of financial statements, improving the efficiency and the effectiveness of financial reporting and satisfying banks and credit providers.
	Vietnam	Users' Perceptions and Uses of Financial Reports of Small and Medium Companies (SMCs) in Transitional Economies: Qualitative Evidence from Vietnam	Duc Son et al., 2006	Decision usefulness theory	Semi-structured interviews	Tax authorities and governmental agencies are the main users of SMEs financial statements. Also, banks are less important users of SMEs financial statements. Users of SMEs financial statements highlight that what matters the most is displaying clearly indicators about forecasts and information about cash flow in SMEs financial statements.

Region	Country	Title	Author(s), year	Theory	Method	Findings
Asia and Oceania	Vietnam	Compliance with Accounting Standards by SMEs in Transitional Economies: Evidence from Vietnam	Dang-Duc, 2011	No specific theory mentioned	A postal questionnaire survey	Mainly, SMEs' comply with accounting standards due to legal requirements and perceptions of external uses of accounting information. Lack of accounting skills and weakness in the infrastructure are the main hindrance that face SMEs when implementing accounting standards. The associated costs outweigh the benefits. The study found that the decision usefulness theory is not applicable for studying SMEs.
	Sri Lanka	Towards the Development of a Financial Reporting Framework for Sri Lankan SMEs	Wijekoon, 2018	Institutional theory	A mixed method approach that uses questionnaire surveys and face-to-face semi-structured interviews	Owner-managers, banks, and governmental agencies are identified as the main users of SMEs financial information. Also, the adoption of IFRS for SMEs in Sri Lanka was driven by coercive institutional pressures at both country and individual firm levels.

Region	Country	Title	Author(s), year	Theory	Method	Findings
Asia and Oceania	Fiji	Adopting International Financial Reporting Standards for Small and Medium-sized Enterprises: Adopting IFRS for SMEs	Chand, Patel, and White, 2015	No specific theory mentioned	A questionnaire survey	Standard setters in Fiji found that IFRS for SMEs is not appropriate for micro entities and decided to exempt them from complying with these standards. The IASB should ensure that the requirements of IFRS for SMEs suit the needs of large and small SMEs. In Fiji, the application of IFRS for SMEs in the first year was accompanied by problems and errors. However, in subsequent years, these problems and errors were resolved. When applying IFRS for SMEs in Fiji, preparers faced more problems than auditors. This study raised concerns about the danger of applying a costly and unsuitable standard to SMEs around the world and that IFRS for SMEs does not help SMEs in judgement and decision-making. Finally, IFRS for SMEs is not appropriate, as there are plenty of problems inherent in the standard itself and encountered when applying it.
Source: Prepared by the author						

Chapter 4 The context and history of accounting in the Kingdom of Saudi Arabia

4.1 Introduction

This chapter discusses the Kingdom of Saudi Arabia (KSA) as the context for applying IFRS for SMEs, and is presented in six substantive sections: (4.2) gives a brief introduction about the political and economic features of KSA and how its history connects to the modern state; (4.3) explains the environmental factors that affect accounting practices in KSA; (4.4) illustrates the historical developments of the Saudi accounting system; and (4.5) reviews prior research into the adoption of IFRS in KSA. This chapter ends with a summary in Section 4.6.

There has been an appetite for rapid reforms in KSA. This study was carried out during a period of noticeable developments, which the adoption of IFRS and IFRS for SMEs may be considered as part of. It is a unique period to study the transition while it is happening and to take advantage of this opportunity by addressing the challenges at this historical time. Table 4-1 shows the dates of some local events, laws and regulations that are related to accounting. However, subsequent events were not taken into consideration or included in this thesis.

One body which features several times in Table 4-1 is the Saudi Organization for Certified Public Accountants (SOCPA), which will be explained in more detail in Section 4.4. Old SOCPA rules were used for listed companies and SMEs in KSA before the adoption of versions of IFRS. In this research, old SOCPA rules are called Saudi Accounting Standards (SAS). They no longer apply to any entity. Also, it is referred to the Saudi versions of IFRS by (IFRS/SOCPA), which stands for full IFRS as modified by SOCPA and (SME/SOCPA), which stands for IFRS for SMEs as modified by SOCPA.

Table 4-1: Dates of important local events

Year	The event
1989	Issuance of law of commercial books
1991	Issuance of law of professional companies
1992	Foundation of SOCPA
1999	Issuance of the former standard for accounting for Zakat
2008	Banks and insurance companies are required to report under IFRS standards as issued by the IASB without any modifications
2012	SOCPA announces the "Transition to international accounting and auditing standards" project, with a duration of five years plan
2015	Issuance of Saudis companies' law
2015	Establishment of "Qawaem" programme
2016	The government of KSA announces *Vision 2030*
2016	Establishment of "Monshaat" the general authority for SMEs (GASME)
2016	Issuance of the revised standard for accounting for Zakat
2017	All listed companies are required to report under full IFRS as modified by SOCPA (called here IFRS/SOCPA)
2018	Other publicly accountable entities are required to report under full IFRS as modified by SOCPA (called here IFRS/SOCPA)
2018	All non-publicly accountable entities (SMEs) are required to report under IFRS for SMEs as modified by SOCPA (called here SME/SOCPA)
2018	Introduction of Value Added Tax (VAT)

Source: Prepared by the author using sources cited in this chapter

4.2 The Kingdom of Saudi Arabia (KSA) at a glance

The location of KSA is unique, being in the centre of the ancient world (Asia, Africa and Europe). Geographically, KSA is the 14th largest country in the world covering around two million square kilometres. It is the biggest country in the Middle East and occupies four-fifths of the Arabian Peninsula. Its borders are the Red Sea in the west; the Arab Gulf, United Arab Emirates, and Qatar in the east; Kuwait, Iraq, and Jordan in the north; and Yemen and the Sultanate of Oman in the south. The capital city is Riyadh and the national currency is the Riyal.

In 2018, KSA had a population of 32.5 million, 20.7 million of whom are Saudi nationals (64% of the population). Almost half of the population are under the age of 24. The three largest regions in terms of population are Makkah, Riyadh and Dammam (General Authority for Statistics, 2018).

The Islamic religion shapes the identity of the Saudi State. The Holy Book of The Qur'an and the Sunnah (the teachings and practices of the Prophet Muhammad, peace be upon him) are the constitution of the country and the basis for the "Sharia": meaning law, legislation, code or canon. Sharia implies the approach or a method for life by reference to the rules of God and his messenger (AI-Abdullatif, 2007). Arabic is the official national language and is also the language in which The Qur'an was revealed. Monarchy is the political ruling system, with monarchs coming from the Al-Saud family. The King appoints a crown prince, who is one of the descendants of the founder (King Abdulaziz). In addition, the King usually holds the position of the Prime Minister and appoints the members of the Council of Ministers. He also appoints the members of the Shura Council, which is an advisory council. This council consists of 150 members, who suggest amendments and updates for old laws and proposals for new laws (Shura Council, 2017). KSA is considered the cradle of Islam, as it embraces the two holy mosques of Makkah and Madinah. The King is entitled "Custodian of the Two Holy Mosques".

The second feature that secures the importance of KSA is its economy. The country possesses 22% of the world's proven oil reserves and ranks as the largest oil producer and exporter in the world (OPEC, 2017). This gives the country power to affect the global economy. KSA is the only country from the Middle East that is a member in the Group of the Twenty biggest economies in the world (G20). It is also a member of the World Trade Organization (WTO) and the World Bank.

The capital market in KSA is the largest in the Middle East. In 2017, the value of the market capitalisation was about $451 billion (Statista, 2018). There has been a rapid expansion in the Saudi stock market (Tadawul), as it is shown in Figure 4-1 that the number of listed companies has increased from 57 companies in 1990 to 188 in the year 2018 (Tadawul, 2017).

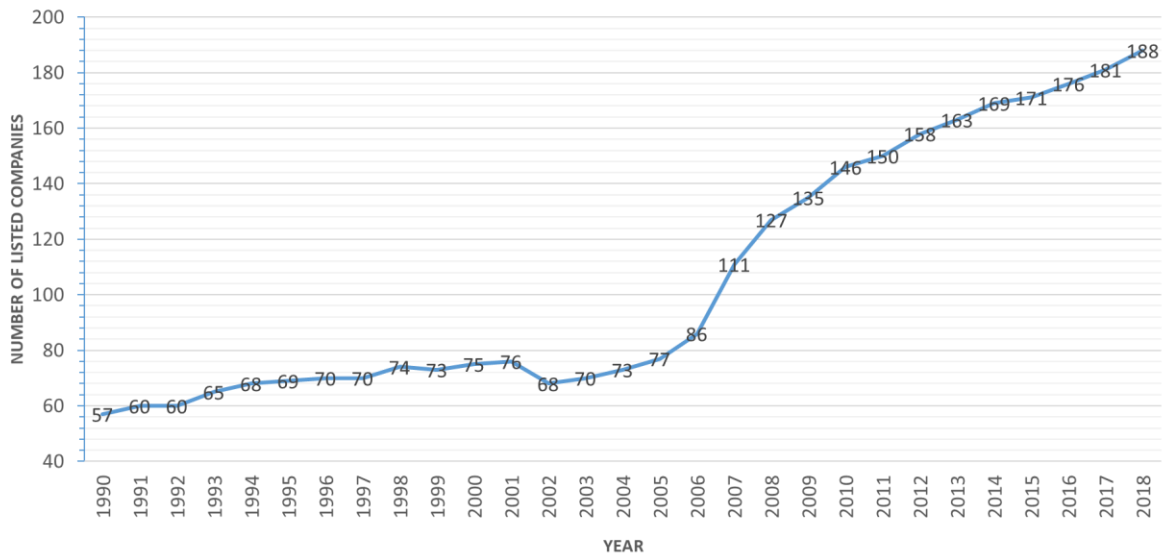

Figure 4-1: Number of listed companies in KSA (1990-2018).
Source: Nurunnabi (2018, p.170) with the number for 2018 added by the author.

Since 1970, the government has launched a series of five-year plans that seek to achieve development in four main projects that relate to economic resources, human resources, society and health, and infrastructure. Today, KSA is implementing its tenth developmental plan that covers 2015 to 2019 (Ministry of Economy and Planning, 2018). These developmental plans aim to use oil revenues to help in transforming the country into a modern state without losing its traditional Islamic values and customs. For example, one of the achieved aims is reducing the illiteracy and unemployment rates. In 2016, positive results were achieved. The illiteracy rate fell to only 6% and the unemployment rate was lowered to 20% (General Authority for Statistics, 2018).

The Gross Domestic Product (GDP) per capita in 2018 was 20,775.20 US Dollars (Trading Economics, 2018). Around 80% of the total revenues in KSA are generated from the petroleum sector; therefore, the growth of the GDP is affected by the increase or the decrease in oil prices. To ensure the stability of the economy, the government has decided to reduce its dependence on oil and to diversify its sources of income. This has motivated the government to adopt new strategies, in order to diversify the economy and meet the increasing demands of employment of the young Saudi population (Saudi Vision 2030, 2017). These strategies include paying considerable attention to develop the private sector.

The Saudi government attempts to attract foreign direct investments (FDI) and aspires to become one of the favourable environments for investment in the world. The World Bank

Doing Business Report in 2019 shows that KSA ranks 92 out of 190 countries in "ease of doing business" and ranks the third in the GCC region, after United Arab Emirates (UAE) and Oman (World Bank, 2019a).

In 2016, the government of KSA launched the Vision for the Future initiative and announced a national transformation programme *Vision 2030*. Prince Mohammad bin Salman Al-Saud (the first Deputy Prime Minister of KSA) stated that:

> We have outlined a comprehensive and ambitious Vision for Saudi Arabia until the year 2030. It is the first step on our journey toward a better and brighter future for our country and citizens. To achieve our aspirations and hopes, we have already launched many transformative programmes that have paved the way for the Vision and will help us achieve our goals (Saudi Government, 2016).

This vision is built around three themes: a vibrant society, a thriving economy and an ambitious nation. Each theme consists of a set of goals. Among these goals is the aim to boost small and medium-sized enterprises and create opportunities for them to thrive (Saudi Vision 2030, 2017).

The year 2018 has witnessed historic decisions, such as the application of the "Qawaem" programme, Value Added Tax (VAT), the adoption of IFRS for SMEs and the decision to allow Saudi women to drive. These decisions are included in the plan objectives for the Saudi *Vision 2030*. One of the goals of the Vision is to pump a million Saudi women into the labour market. To achieve this goal and help the plan to succeed, it is necessary to facilitate their mobility. Allowing Saudi women to drive will be synchronous with a renaissance in SMEs' projects. Private companies will also benefit from this decision, such as banks, insurance companies and other parties.

Adopting international standards (IFRS for SMEs) is a significant milestone in the development agenda of SMEs in KSA. It will improve SMEs' financial reports, which will enable them to apply for loans and make them attractive for investment. It is crucial if Saudi SMEs want to achieve new growth in global markets, as well as to raise external capital. The move comes in line with KSA's strategy to boost transparency by requiring all companies, other than listed companies, to adopt full IFRS or IFRS for SMEs from 1 January 2018.

It is evident that the Saudi Vision did not neglect the importance of SMEs to the economic growth and their role in creating jobs, supporting innovation and boosting exports. Further details about SMEs in KSA are found in Chapter 5. However, SMEs in KSA are not yet major contributors to the GDP, especially when compared to advanced economies. Therefore, the Vision aims to support SMEs' entrepreneurship, privatisation and investments in new industries by creating business-friendly regulations, easier access to funding, international partnerships and a greater share of national procurement and government bids (Saudi Vision 2030, 2017, p.36).

To achieve this Vision, the country has set a roadmap, which includes five key targets: to triple non-oil revenue; to decrease the amount spent on public wages by 5%; to increase private-sector jobs; to widen the debt to gross domestic product (GDP) ratio from 7% to 30%; and to install 3.5 gigawatts of renewable energy capacity (Al Arabiya English News, 2016). The *Vision 2030* will focus on ways to boost economic growth, create jobs, attract private investors and increase the legal accountability of ministries to reduce costs (Bianchi, Martin and Nereim, 2016).

The Saudi Vision statements or plans are claiming that opening the doors for non-Saudis to invest in KSA will boost productivity and improve the Saudi business environment, which will help in restructuring Saudi economic cities and deregulating the energy market to make it more competitive (Saudi Government, 2016). One of the developments that happened to the Saudi laws, which aims to enhance and facilitate the attraction of foreign direct investments, is the creation of the Saudi Arabian General Investment Authority (SAGIA) in the year 2000. Under its regulations, foreign investors are entitled to have full ownership of businesses, reducing income taxes and allowing them to own commercial or residential real estate in any city, except in the two holy cities of the Kingdom (Makkah and Madinah) (Hussein, 2009). In addition, SAGIA's new regulations allow foreign investors to buy in the Saudi stock market or to construct their own investment projects without a Saudi partner. This shows the desire of the state to attract foreign investors, as a step to improve the Saudi economy (Saudi Government, 2016; World Affairs, 2016). By 2030, KSA aspires to increase FDI from 3.8% GDP to 5.7% GDP (Saudi Government, 2016). This direction is of great importance to the government of KSA. The country payed high fees (surpassing US$1 billion) to management consultants to seek their advice on the economic transformation plan. State officials and

international firms such as McKinsey and Co. and Boston Consulting Group are drawing up plans for the future of the country. For example, one of the recommendations given by McKinsey is that the kingdom needs approximately $4 trillion in investments to help the country prosper (Bianchi et al., 2016).

To sum up, we can see how the new Saudi *Vision 2030* provides a context and plays an integral part in this study. There is a significant importance to reshape the accounting profession so that it conforms with *Vision 2030*. The Saudi Organization for Certified Public Accountants (SOCPA) stated in the endorsement document for transition to the international standards that its strategy is in alignment with *Vision 2030*. The transition to international standards in KSA is described as a logical developmental stage. For a successful transition, SOCPA stressed the importance of considering the local and environmental conditions and training qualifications that need management and resources (SOCPA, 2017). Part of SOCPA's endorsement document for transition to international standards in KSA is translated by the author and presented in Appendix B at the end of this thesis.

4.3 Environmental factors that influence accounting in KSA

To understand recent changes in accounting in KSA, we need to be aware of the environment in which the changes are taking place. Several environmental factors that affect accounting practices in general were mentioned earlier in Section 2.5, such as the legal system, the nature of the relationship between business enterprises and providers of capital, inflation levels, political and economic ties and the level of economic development (Nobes and Parker, 2016). However, some of these factors were not considered of great importance to KSA. Herath and Alsulmi (2017) clarified that culture, religion, accounting education and professional preparation are the most influential factors that influence the decision to adopt IFRS in KSA. The following part includes a discussion of the main factors that influence and shape accounting practices in KSA. These factors include culture, Sharia law, Zakat and taxes, and educational matters.

4.3.1 Culture

Culture can be defined as the "collective programming of the mind which distinguishes the members of one human group from another" (Hofstede, Hofstede, and Minkov, 2010, p.6).

Culture has been known as one of the environmental factors that significantly influences national accounting systems and their development (Radebaugh et al., 2006). It has also been argued that national accounting systems are a reflection of national cultures (Gray, 1988). Similarly, Deegan (2002, p.43) indicates that "accounting policies and practices adopted within particular countries are to some extent a direct reflection of the culture and individual values and beliefs in those countries".

One of the most famous scientists in this field (cross-cultural psychology) is Hofstede (1980), who developed a model for cultural differences. Hofstede's model has some dimensions and attributes that distinguishes the culture of each country. Hofstede argues that each country has a set of societal values that affect the practice of institutions. He defined four cultural dimensions, which include individuality versus collectivism, large versus small power distance, strong versus weak uncertainty avoidance and masculinity versus femininity. However, Nobes and Parker (2016, p.30) criticised Hofstede's classification and stated that in the accounting context, "cultural data may not be reliable". For example, when looking at employees in some large multi-national companies we can notice that the majority of employees come from other countries. In addition, McSweeney (2002) criticised Hofstede's methodology and opposed the idea of having a national culture. Also, Baskerville (2003) stated that it is wrong to equate culture with nation and treat culture as a numerical indicator.

Gray (1988), an accounting academic, attempted to use Hofstede's theoretical framework to explain the effect of cultural values on accounting practices. Gray developed the following four accounting values: professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency. He also attempted to understand how cultural variables might impact the design of accounting systems. The basic argument is that societies are influenced by different underlying technological and environmental factors and consequently develop different societal values. However, Nobes and Parker (2016, p.30) stated that it is much easier to explain accounting differences by looking at "relevant elements of the external environment of accounting, such as legal systems or equity markets, corporate financing, and tax systems" than trying to use Gray's model.

Nevertheless, researchers have tried to apply Gray's model. Deegan (2002, p.43) indicated that some countries have "cultural attributes that suggest they tend more toward secrecy than transparency, and their accounting disclosure requirements may reflect this cultural bias". Irvine (2008, p.137) stated that "the culture of secrecy, common in countries that have not previously been required to report financial information to a regulatory body, is likely to be a challenge" for them to adopt IFRS.

Some studies used Hofstede's model to explore the relationship between the national culture and the decision to adopt IFRS, such as Lasmin (2012) who concluded that the decision to adopt IFRS in developing countries is related to societal factors including culture more than economic pressures. Al-Htaybat (2018, p.32) stated that the "cultural impact is considered an important factor with regard to IFRS adoption, as elements such as power distance, uncertainty avoidance and collectivism lead to a preference for secrecy and conservatism".

Bjerke and Al-Meer (1993) refer to Hofstede's (1980) dimensions of the Arab culture in order to measure the Saudi culture as a homogeneous community. They find that the main dimensions of KSA's culture, similarly to other Arab countries, are high-power distance, such as between bosses and subordinates and a high level of uncertainty avoidance. Also, authorities are appreciated in the Saudi tradition, and status is recognised by hierarchy. People are more likely to push decision making upwards. To reduce the level of uncertainty, Saudi society is more likely to follow rules, regulations, and controls. KSA is ranked as having a high level of masculinity and individualism in Hofstede's dimensions of culture. Although the researcher agrees with Bjerke and Al-Meer (1993) in the afore-mentioned points, she does not agree with the claims made by these researchers that the Saudi culture is based on traditionalism and characterised by rigidity, and exhibits resistance to change and rejecting the opinions of others. These conclusions might have been true in 1993, but since then, several changes have happened to the Saudi society. It has become more tolerant to accepting other opinions, especially after the great openness that happened because of the technology and social media. Recently the modern Saudi society has been influenced greatly and changed by the increased levels of openness with Western cultures. This is obviously the case in the younger generations who are attracted to Western ways (Al Dossry, 2012).

This is similar to the case of other neighbouring countries, such as the UAE. According to Alsaqqa and Sawan (2013, p.13):

> Recently the levels of cultural influences within the UAE have substantially increased and the union of many different cultures has assisted in the adoption of IFRSs . . . It seems that this control has formed a new culture within UAE. The Western culture has influenced the modern Emirati culture and this result can be seen predominantly in the younger generations in UAE, which in turn, influence the culture of Emirati society, as it changes the way they dress and the way they speak, and attitudes of people.

Alsaqqa and Sawan (2013) found that the new culture in UAE accepts and supports the adoption of IFRS.

Several successful examples have shown that companies in KSA were able to introduce and integrate Western practices into a conservative Middle Eastern setting (Sidani and Showail, 2013, p.941). The Saudi society has been able to embrace Western technology while still attaching lots of importance to traditional values (Ali and Al-Shakis, 1985). However, Sidani and Showail (2013, p.942) indicated that "importing Western managerial practices into an Eastern society has to be done in a careful well-thought of manner so as not to be perceived as a foreign imposition on local value systems".

Askary et al. (2008) assessed the influence of cultural values in six Arab countries, including KSA, on accounting practices. They referred to Hofstede's (1980) and Gray's (1988) frameworks to examine the uniformity in accounting practices among the selected countries. Results confirm that countries that share common cultural factors are inclined to have similar accounting practices. However, across the sample, KSA had the lowest rank in accounting enforcement, in comparison with the other selected countries. This flags an issue, that KSA should consider when adopting IFRS, as it will be challenging for regulatory bodies to compel companies to apply new accounting standards.

Tsakumis et al. (2009, p.35) stated that "two accounting values directly influenced by national culture are conservatism and secrecy, which affect the measurement and disclosure of financial information in financial reports and have the greatest potential to affect cross-border financial statement comparability". The previous statement indicates that determining the attributes of a particular country makes it easier to understand its attitude

and position towards the imposition of new accounting standards. For example, it is indicated that KSA has a high level of conservatism and secrecy, which may affect accounting practices. Therefore, users of financial statements should consider these attributes when reading financial statements of Saudi companies.

With regard to the impact of culture on accounting practices, Alkhtani (2012) indicated that culture in KSA shapes the way people think and make their professional judgments. One particularly clear example that explains how culture affects the application of international accounting standards relates to the definition of a related party in IAS 24. According to IAS 24, a related party can include domestic partners in addition to children and dependants (IFRS, 2017). However, this definition does not suit the Saudi environment for two reasons. Firstly, the term domestic partner is not acceptable according to the Saudi laws, prevailing customs, norms and religion. Secondly, Saudi society is known for its interrelated and complex family ties (Abd El Razik, 2014). To make IAS 24 suitable for the Saudi environment, SOCPA has made some extensions to expand the scope of close members of the family of a person to include "that person's children and spouse, children of that person's spouses, parents, grandparents, brothers and sisters, grandchildren and other dependents of that person or that person's spouse" (SOCPA, 2017). Herath and Alsulmi (2017) therefore suggest that the IASB should consider different definitions of kinship around the world.

The consensus is that, in KSA, there is a high level of power distance, uncertainty avoidance and an inclination towards collectivism, secrecy and conservatism. However, IFRS is characterised by its large number of disclosures, which does not match the nature of the Saudi culture and is a challenge for its application.

4.3.2 Sharia law

Culture is linked to religion, which is clearly evident when conducting international transactions. Maali and Napier (2010) indicated that religion can affect accounting practices, as it has the potential to intervene in all aspects of life. This is particularly the case for Islam, which is considered not just a religion, but an approach to life as a whole. It is the basis of all activities, which includes business and commerce that involves accounting transactions (Alkhtani, 2012). Sharia is the Islamic law that is based on the Book of God (Qur'an) and the

path of His Prophet (Sunnah). Muslims take their guidance from this system that regulates all social, financial and matters of life.

In KSA, Sharia law requires all individuals to follow systems that are Sharia compliant. In any Islamic country, the user's needs for accounting information are influenced by some factors, such as the duty of all Muslims to pay Zakat, religious tax; see 4.3.3 below (Lewis, 2001; Napier, 2007). Separate bodies at both national and organisational levels, usually called the Sharia Supervisory Board, consist of experts in the field of Sharia, some of whom are world-renowned scholars with extensive knowledge and experience not only of Sharia but also applied aspects of modern Islamic Banking and Finance. The Board is available to answer questions and provide clarifications on matters that relate to business. The board will either confirm that a proposed business transaction is compatible with the provisions of the Sharia or reject the transaction as inconsistent with it. One of the biggest Islamic banks in KSA, the National Commercial Bank (NCB), stated that the role of the Sharia group "includes researching on Sharia matters especially relating to Islamic business, providing Sharia advisory, developing innovative Islamic products and services and ensuring required internal control for adequate Shariah compliance of NCB's Islamic business" (NCB, 2017).

Although, the existence of this board reassures society in general that the application of IFRS and IFRS for SMEs project is consistent with Sharia, some religious individuals in KSA may still perceive that IFRS is inconsistent with Sharia in some matters and oppose it. Under Sharia law, transactions involving the payment of interest (*riba*) are not considered to be permissible (Iqbal and Mirakhor, 2007). The use of net present value calculations and discounting in various IFRS could be considered as a way of imposing interest in accounting for transactions that were otherwise Sharia-compliant (Herath and Alsulmi, 2017).

However, Herath and Alsulmi (2017, p.7) stated that "IFRS may better serve Sharia goals more than SAS or it is likely to be considered the same". This issue is connected to Zakat, as explained in 4.3.3 below. Herath and Alsulmi (2017, p.7) add that the Saudi standard of Zakat is "very general and do not have a good degree of accuracy". Alkhtani (2012) supports the adoption of IFRS in KSA and suggests that it is more consistent with Sharia requirement than the previous local standards. The reason is because IFRS is more transparent, helps to provide appropriate information for decision-making and increases the level of disclosure. It is worth

mentioning that IFRS supports the use of fair value measurement for some purposes, which is a favourable method from the Sharia perspective.

To clarify this dilemma, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) published a conceptual study of the IFRS from Sharia, Islamic accounting perspective. It highlights cases where IFRS is compatible with Sharia and other cases where it is not (Ansari and Tabrazi, 2018). The Saudi approach for accounting for Islamic financial transactions is to apply IFRS with additional guidance or clarifications. SOCPA declared that the approach for convergence from SAS to IFRS and IFRS for SMEs in KSA considers the conditions of the Saudi environment, such as Sharia rules, prevailing regulations, level of technical preparedness and other elements. See Table 4-3 for more details on the amendments to IFRS made by SOCPA.

4.3.3 Zakat and taxes

This section provides clarification about the nature of Zakat and the tax system in KSA. In recent years, several types of taxes were imposed in KSA, such as the Income Tax, Withholding Tax, Excise Tax and Value Added Tax (VAT). However, this research will only introduce the Income Tax law, as it connects to IFRS. It is worth mentioning that preparing this section was very difficult, as there is no English version for Zakat law; and most of the tax materials are new and recently published.

From 1 January 2018, businesses in KSA faced the introduction of Value Added Tax (VAT), which in other countries has been associated with important changes in the quality of business accounts. So, the adoption of IFRS for SMEs is not something that is happening in isolation from other important changes. There is a link between introducing Value Added Tax (sales tax) and the adoption of IFRS for SMEs because many companies that have very basic accounting systems will need to improve their internal accounting systems in order to keep proper accounting records. However, VAT is stripped out of financial statements under IFRS, so we do not need to discuss its detail here. Appendix C, at the end of this thesis, provides more clarifications about Zakat regulations (1985) and Income Tax Law (2004).

1- Zakat

In KSA, one of the reasons for preparing financial statements is to provide information relevant to the calculation and payment of Zakat. The appropriateness of accounting standards for providing such information is likely to have an impact on the acceptance of these standards. Zakat is a donation by Muslims to needy people. It is one of the five pillars of Islam. The Qur'anic verse dealing with the disbursement and the beneficiaries of Zakat reads as follow: "Zakat expenditures are only for the poor and for the needy, and for those who work to collect it, and those whose hearts are to be reconciled, and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the wayfarers [or travellers]; a duty imposed by Allah, and Allah being knower and wise" (The Qur'an, Surat Al Taubah 9:60).

The literal meaning of the Arabic word Zakat is "that which fosters growth"; and there is an implication of "that which purifies" (Murtuza, 2002, p.210). Following a conventional definition of a tax (a levy paid to a public authority, for which the taxpayer receives nothing directly in return), Zakat would be classified as a religious tax. Although Zakat and tax share similar attributes, there is some hesitation about calling Zakat a tax as noted by Baydoun and Willett (1997, p.13). What distinguishes Zakat from tax is that it is a primarily obligation of a Muslim to God not only to society and the state.

All Muslims are required to pay Zakat, once every year, if they own an excess over a certain minimum amount (nisaab) of wealth. Specified amounts need to be paid on various forms of wealth. Zakat is calculated on individuals' cash and other property at a proportion of 2.5%. As for companies, the amount of Zakat payable is calculated by multiplying the percentage of 2.5% by the value of the net working capital, which is the difference between the current assets and current liabilities. To determine the value of inventory, Muslim scholars suggest the usage of the current market value after deducting distributional expenses. In regard to the debts, only the actual amount of bad debts can be subtracted from the Zakat base. Any provisions for bad debts and doubtful debts are not deductible (Haniffa and Hudaib, 2002). A detailed guidance for calculating Zakat is provided by the National Zakat Foundation (2019).

In KSA, individuals pay Zakat themselves and deliver it to the poor directly, without any intermediary. However, businesses hand over the amount due from them to a governmental agency called the General Authority of Zakat and Tax (GAZT) that belongs to the Ministry of Finance and is authorized with the task of collecting Zakat in KSA (General Authority of Zakat and Tax, 2019a). The two following groups are subject to Zakat collection (by law) in KSA:

1 - Saudi individuals or individuals from one of the Gulf Cooperation Council (GCC) countries, who conduct their activities within KSA in trade businesses.

2 - Saudi companies: Zakat collection will be on shares of Saudi partners or citizens of the GCC countries, as well as their shares in the companies registered in a GCC country and operating in KSA (Ministry of Finance, 2018).

The latest executive regulations for the collection of Zakat issued by Ministry of Finance Decree No. 2216 on 14 March 2019 stated that:

> For the purpose of preparing the Zakat Declaration, accounting treatments and financial reports should be prepared in accordance with the standards approved by SOCPA, unless otherwise stated (General Authority of Zakat and Tax, 2019a, Chapter 5, Article 12: Zakat accounting rules, as translated by the author).

Given that the accounting standards approved by SOCPA are the IFRS and IFRS for SMEs as modified by SOCPA, this means that, for the purpose of Zakat calculations, companies are not required to create a separate set of financial statements. The amount subject to Zakat is determined by starting from the financial statements prepared in accordance with IFRS/IFRS for SMEs as modified by SOCPA and making adjustments in accordance with the GAZT's rules for determining Zakat.

The view of the IASB indicated in the Basis for Conclusions of IFRS for SMEs (IASB, 2009, BC51-BC52) that determining the profit or loss in conformity with [IFRS or] IFRS for SMEs can be used as a basis for determining taxable profit and the distributable income under national laws or regulations by conducting a reconciliation that is easily done at a country level.

The accounting standards committee in SOCPA issued some clarifications about complementary local technical standards and opinions to the international standards. These complementary standards include a revised standard for accounting for Zakat that was

updated in 2016, which fulfils the gap in IAS 12 (Income taxes). KSA, adopted IAS 12 (Income taxes), as issued by the IASB, without any modifications. This is still relevant in KSA because foreign entities pay taxes on corporate profits rather than paying Zakat. However, the requirements of IAS 12 do not cover Zakat due to the main difference between Zakat and tax, as Zakat is imposed on wealth and any growth that follows, while IAS 12 deals with tax on income (SOCPA, 2018d; General Authority of Zakat and Tax, 2019a; 2019b).

To demonstrate the relationship between Zakat and accounting, we can refer to a statement by Haniffa and Hudaib (2002, p.36), who explain that "accounting for zakat purposes calls for the need to keep proper accounts and use of correct weights and measurement". In addition, the calculation of Zakat is one of the most important functions of accounting in Islamic countries (Lewis, 2001; Napier, 2007). Therefore, we can see how accounting serves one of the important purposes of Islam, which is to achieve socio-economic justice.

Alkhtani (2010, p.160) suggests that the adoption of international accounting standards in KSA may be beneficial. He indicates that financial reports prepared according to SAS "may not assist in calculating the exact amount of Zakat", as SAS lack sufficient disclosure, which makes it difficult for GAZT to properly verify the assessment of the amount subject to Zakat. Awang and Mokhtar (2012, p.290) stated that "the use of historical cost data in assessing business Zakat is inappropriate for Zakat purposes especially in the time of rising prices" they then added, "it is due to the fact that Zakat distribution to its beneficiaries would be undervalued during inflation". Alsaqqa and Sawan (2013, p.10) indicated that 89.1% of the respondents from listed companies in UAE believe that "information provided under IFRSs helps users to calculate Zakat".

2- Income tax law

In a resident corporation, Zakat (as mentioned earlier) is levied on a Saudi citizen's share of the corporation. This includes citizens of the Gulf Cooperation Council countries (GCC), who are treated as Saudis. While income tax is levied on a non-Saudi citizen's share (General Authority of Zakat and Tax, 2019b). Income Tax applies on:

1- **Resident corporations**, on the shares of non-Saudi owners in resident companies, whether they are residents or non-residents.

2- **Non-resident corporations**, carrying out activities in KSA through a permanent establishment.

3- **Non-resident persons**, whether Saudis or non-Saudis, carrying out activities in KSA, through a permanent establishment or generate income from sources within the Kingdom (General Authority of Zakat and Tax, 2019b).

Figure 4-2 records the cases where income tax is imposed, according to the Saudi income tax system.

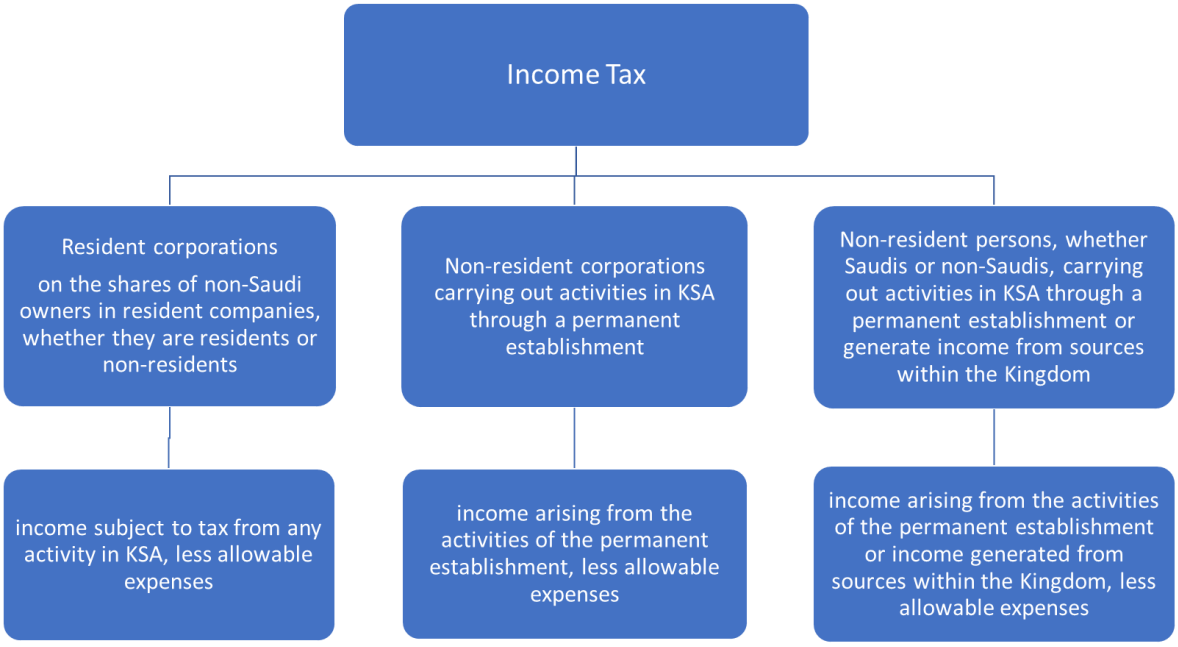

Figure 4-2: Determining the income tax base for corporations in KSA.
Source: Prepared by the author, using Deloitte (2018).

Thus, a Saudi corporation needs to calculate taxable profit if it is foreign or has any foreign owners. Tax is calculated on the foreigner share, in the resident company, and on all the ownership of the company that is not resident in the permanent establishment (Deloitte, 2018; General Authority of Zakat and Tax, 2019b). More details about Income Tax Law (2004) is available in Appendix C.

4.3.4 Accounting education

Accounting education is needed to implement sophisticated and advanced accounting systems. There is a positive connection between the level of accounting education and the level of professional accountants' abilities and capabilities (Mueller et al., 1987). Thus, the educational level of professionals is also related to the level of implementing IFRS (Herath and Alsulmi, 2017). Zeghal and Mhedhbi (2006) found that the educational level is an important motivational factor that is positively correlated with the decision to adopt IAS. Lasmin (2012) suggests that it is more likely that a country adopts IFRS if it has a high level of education.

Accounting education can be considered as one of the environmental factors that influence the way and the extent of adopting IFRS in a particular country. For example, in KSA, in regard to evaluation, Alkhtani (2012) found that Saudi accountants are not raised or trained to make professional judgments, which is possibly traced back to educational and cultural reasons.

Several studies have demonstrated the deficiency and shortage of accounting education in KSA. Albader (2015) found that the majority of Saudi universities did not provide accounting graduates with the necessary knowledge of IFRS, as this was not included in accounting curricula. Albader (2015) pointed to the shortage in the number of qualified accounting educators with knowledge of IFRS in Saudi universities. This might be related to the paucity of educational materials in Arabic that support the teaching of IFRS. This is a language problem, as English language abilities of academics and students in Saudi universities are considered low. The lateness in issuing the Arabic translation of IFRS can be addressed as an obstacle in teaching IFRS in KSA, given that the standards were not available in Arabic until January 2018.

Other studies, such as AlMotairy and Stainbank (2014) found that Saudi universities can be blamed for not fostering professional skills and practical experiences. However, they indicated that accounting staff can overcome the limitation in training and their lack of IFRS knowledge by obtaining intensive professional programmes that qualify them with the required accounting education.

Albader (2015) suggests that academics in Saudi universities should be trained and prepared to introduce IFRS in their curriculum. To raise the level of accounting education and qualify

the accounting staff, Nurunnabi (2018) indicated the need to incorporate materials about IFRS in accounting education. For a smooth transitional process to the IFRS, Herath and Alsulmi (2017) suggest that qualified academics from Saudi universities should be involved and engaged. Similarly, AlMotairy and AlTorky (2012) indicated that faculty members in Saudi universities should cooperate with accounting professionals in order to facilitate the adoption of IFRS. AlMotairy and Stainbank (2014) recommended another cooperation between Saudi universities and SOCPA, to ensure that what is being taught in the universities is compatible with what is been practised in the profession.

From the researcher's own experience, as a lecturer at King Abdul Aziz University, it is noted that recently efforts were made to include coverage of the standards as adapted by SOCPA for use in KSA in the university's accounting curricula. In addition, there has been a clear direction towards preparing students for the actual practice of the accounting and auditing profession, by hosting professionals from big companies and auditing firms to explain part of their job and speak to students. Also, a new subject called "collaborative training" has been added as a requirement for graduation. This subject requires students to attend training and gain live experience in the current work environment for a full semester (which is equivalent to 16 weeks). This course will help students to link what they have learnt in theory with practical reality and to identify the necessary skills needed for their future careers.

4.4 A Historical overview of the development of accounting in KSA

It is important to understand the developmental stages of accounting, as it contributes to change in businesses and society as a whole (Napier, 2006). According to Al-Angari (2012), the development of accounting in KSA has gone through three historical stages. At the time of that article, that seemed an appropriate classification, but it is now necessary to add a fourth stage.

Stage 1: from 1930 to 1973

Prior to 1930, there were no laws that regulated accounting and auditing in KSA. After 1930, the profession and recognition of financial reporting began to take shape when the regulation of commercial business (the earlier version of Saudi Companies Law that was issued in 1965) stated that accounting records should be maintained, and companies are required to sign a

contract with a licensed Certified Public Accountant (CPA) to audit their financial statements. These reforms aimed to enable better practices (Al-Angari, 2012; SOCPA, 2018a). In this stage, most auditing firms relied on professional standards of conduct and ethics that were derived from other countries (Al-Sudairi and Al-Angari, 2004).

Stage 2: from 1974 to 1991

The issuance of the first law of CPAs (which is recognised as the first law of auditors) in 1974 was the foundation stone that helped in organising the profession (SOCPA, 2018a). Concerted efforts contributed to the development of the profession, such as that by Al-Rashed Consultants and Accountants, a specialised professional national firm, which conducted a study to compare the status of the profession in a number of countries. In addition, King Saud University participated in the development of the accounting profession by commencing a series of symposiums, which provided an opportunity for those who are interested in the profession to share their views and ideas (Al-Angari, 2007; Al-Angari, 2012; SOCPA, 2018a). King Saud University also contributed to the establishment of the Saudi Accounting Association, which played a significant role in the creation of four advisory committees that deal with accounting standards, education and training, professional ethical codes, and accountancy regulatory systems (Al-Angari, 2007; Al-Angari, 2012).

In 1985, the first set of accounting and auditing standards was issued by the Ministry of Commerce and Investment (MCI). Although the establishment of those standards was a great achievement, there were some flaws and shortcomings in these standards. For example, these standards were not comprehensive enough and lacked coverage of many important issues. Another flaw is the absence of monitoring and quality review programmes, which made it unfeasible to prove professional compliance with these standards. Therefore, the compliance with these standards was voluntary and rested in the hands of practitioners, who faced no real pressure to comply. Several empirical studies, conducted at that time, such as Abdeen and Yavas (1985), indicated that professional practices did not change or improve, and the flexible nature of such practices remained as before (Al-Angari, 2007).

Stage 3: from 1992 to 2016

In 1992, the second law of CPAs (which is recognised as the second law of auditors) was issued and caused remarkable changes to happen. It stated in Article (19) that an Organization shall be established under the name of the Saudi Organization for Certified Public Accountants (SOCPA), which is a quasi-independent professional organisation that operates under the supervision of the Ministry of Commerce and Investment (MCI). It is responsible for regulating the accounting and auditing profession, and all matters that might lead to the development of the profession and improving its status (Al-Angari, 2007; SOCPA, 2018a). The establishment of SOCPA reflects a milestone in the history of accounting in KSA, as it contributed to rapid reforms and developments.

SOCPA was assigned to issue, review and develop local accounting and auditing standards, which were applicable until the activation dates for IFRS and IFRS for SMEs. In addition, SOCPA's responsibilities included holding the fellowship exams, granting fellowship certificates, organising continuous education programmes, monitoring the quality of professional performance, conducting special research work and studies covering accounting, auditing and other related subjects, publishing periodicals, books and bulletins that cover accountancy and audit-related subjects, and finally participating in local and international committees and symposiums that relate to the accounting and auditing profession (SOCPA, 2018a).

As a whole, SOCPA issued 22 accounting standards, 15 auditing standards and various accounting and auditing interpretations and professional opinions that were in compliance to a great extent with corresponding international standards. However, with the rapid developments, SOCPA felt that the local accounting standards were not efficient and did not cover comprehensive topics that are arising in the modern environment. Therefore, in 2002, SOCPA declared: "in case there is an issue that no standard has been issued thereof by SOCPA, the international standards shall be followed in this respect" (SOCPA, 2018a). This was an indication for the future's move towards the international standards.

This announcement was associated by another important declaration, which stated that banks and insurance companies, whether listed or not, are required by the Saudi Arabian

Monetary Authority (SAMA) to report under full IFRS as issued by the IASB without any modifications starting from 2008. Before this date, they were required to report under SOCPA's standards.

SOCPA noticed a great spread of IFRS around the world. At first, SOCPA was reluctant to follow other countries that adopted these standards. However, in the end, it was convinced by the need to adopt IFRS. The preparation to adopt IFRS and IFRS for SMEs started from studying the possibility of transition to the international standards. SOCPA's board of directors formed a steering committee, which includes representatives of the accounting and auditing standards committees, in addition to representatives of the Ministry of Finance, SAMA, and Tadawul to discuss the decision of transition from Saudi standards to international standards. The steering committee held a number of meetings to study the transition to international standards and was briefed on the studies carried out by the IASC and later by IASB. These studies pointed out that a substantial number of countries throughout the world have adopted or prepared plans to adopt international standards. SOCPA's steering committee tried to take advantage of the prior studies, in regard to achieving the pros and avoiding the cons of adopting international standards. A large number of studies indicated that in most cases, the pros outweigh the cons. The cons are mainly related to the lack of the readiness of the environment to adopt international standards (SOCPA, 2018a).

After deliberation, the steering committee decided, with the majority of its members, to consider an appropriate transformational project to the international standards that takes into its account local factors, such as Sharia rules, prevailing regulations, and level of technical preparedness. The steering committee recommended that this transition should be gradual and within a sufficient period of time to prepare the local environment technically and professionally (SOCPA, 2018a).

The most noticeable move was in 2012 when SOCPA's board approved the project for the adoption of IFRS and IFRS for SMEs in its tenth meeting of the sixth session, chaired by the Minister of Commerce and Investment (SOCPA, 2018c). This was a significant event in the history of accounting in KSA. One of the preparation measures conducted by SOCPA was to initiate a project called "Transition to International Accounting and Auditing Standards". This

project had a time frame of five years [from 2012 to 2017], to offer a smooth and gradual implementation of the project, and help to evaluate its process (SOCPA, 2018b).

As SOCPA is the main entity charged with implementing IFRS, it has prepared a transformational detailed roadmap in order to apply IFRS and IFRS for SMEs in KSA. One of the procedures was to assign a technical committee to study the international standards and interpretations and consider whether any amendments must be made to make them compatible with the regulations and local rules or whether they could be applied as they are. In addition, SOCPA arranged meetings to discuss the IFRS in detail with different parties, such as preparers, users, academics and representatives of supervision bodies, to take advantage of their expertise and perspectives (SOCPA, 2018b).

The transition to IFRS was applied in phases according to certain priorities, including categorisation of standards into groups of correlated topics, starting with international standards which are not expected to undergo major amendments in the near future, and taking in consideration the current need of the standards (SOCPA, 2017).

Within the annual programme, SOCPA has organised some specialised training courses in topics related to implementing IFRS. The targeted attendees of the specialised courses are SOCPA basic and associate members, in addition to those who are required to satisfy a specified number of educational points for each year. Also, other categories of individuals who work in the profession and need to obtain theoretical knowledge and practical skills related to accounting and auditing are included in the targeted attendees of the specialised courses (SOCPA, 2018b).

Another notable event, which is considered as a reform in the accounting profession is the establishment of the “Qawaem” programme by the Ministry of Commerce and Investment (MCI) with the collaboration of SOCPA and the General Authority of Zakat and Tax (GAZT). This programme needs to be understood, as it caused a change in the way businesses operate in KSA. Since 1 November 2015, all corporations (including commercial and industrial establishments) and auditing firms in KSA have been required to upload audited financial statements in the “Qawaem” website electronically (Qawaem, 2018). The electronic versions of the audited financial statements should be prepared in accordance with the international

rules and regulations (IFRS/IFRS for SMEs). Before the issuance of this programme, financial reports in KSA were prepared in accordance with the local accounting standards.

In the past, the purpose of financial statements was limited to meet users' needs and did not correlate with Zakat or tax requirements, as in KSA, Zakat and tax did not influence the financial reporting regulations and are calculated by the GAZT, which has its own rules and regulations. However, it is expected that the "Qawaem" programme will make better use of financial statements by providing accurate information to be used by relevant parties, such as beneficiaries, users, stakeholders, governmental sectors, banks and others (Qawaem, 2018). It is also expected that this programme will help to increase the credibility and transparency of the financial statements by providing a standardised version of the financial statements to be used by all concerned parties. Before this programme, it was possible for companies to issue different financial statements for different users. For example, the version submitted to banks when applying for loans could be different from the version submitted to the General Authority of Zakat and Tax. It is important to note that the MCI ensures that the financial information is secure in the "Qawaem" programme, as no party has the right to review financial statements of other companies unless they receive an official consent (Qawaem, 2018).

In addition, it is expected that the "Qawaem" programme will improve work efficiency. Converting submission procedures from paper-based to electronic – via a specific system – will make it easier for companies to upload their financial statements. Moreover, the programme will provide the authorised parties with the required information in high accuracy and promptly. Furthermore, it will help in strengthening and supporting the national economic and financial databases of the commercial and industrial sector, which will assist planners and researchers who may use it as an official reference in KSA. It will, in turn, enable the state to analyse the financial data of economic sectors in addition to studying and monitoring their performance indicators (Qawaem, 2018).

Companies that do not submit their financial statements to the "Qawaem" programme are exposed to penalties, including the cancellation of their commercial registrations and disabling all of their transactions. Auditing firms are allowed to be responsible for electronically submitting the financial statements after auditing them, which should help in

reducing fraud. The programme acts as a supervisory system that helps in monitoring the commitment of companies to different rules and regulations, such as the commitment to IFRS, which is one of the MCI's new requirements (Qawaem, 2018).

Stage 4: from 2016 onwards

In this period, different accounting frameworks were applied by different entities in KSA, with different obligation dates. Table 4-2 summarises the extent of IFRS application in KSA and the different regulatory bodies that enforce the requirements.

Table 4-2: The extent of IFRS application in KSA

Type of entities	Accounting framework	Regulatory body
Banks and insurance companies (listed + unlisted)	Apply full IFRS as issued by the IASB without any modification from 2008	Saudi Arabian Monetary Authority (SAMA)
Listed companies	Apply full IFRS as modified by SOCPA from 1 January 2017	Capital Market Authority (CMA)
Other entities, which form the rest of the companies irrespective of their size	Apply either full IFRS or IFRS for SMEs as modified by SOCPA from 1 January 2018	Ministry of Commerce and Investment (MCI) represented in SOCPA

Source: Prepared by the author, using SOCPA (2018b) and Al-Angari (2007)

In detail, banks and insurance companies are required by the Saudi Arabian Monetary Authority (SAMA) to apply full IFRS as issued by the IASB without any modification from 2008, as IFRS is incorporated into SAMA's laws and regulations. While listed companies are obliged legally by the Capital Market Authority (CMA) to apply the Saudi version of full IFRS from 2017. Finally, other entities, which form the rest of the companies irrespective of their size are obliged legally by the Ministry of Commerce and Investment (MCI) represented in SOCPA, because the chairman of SOCPA is the Minister of Commerce, to apply the Saudi version of IFRS for SMEs unless they choose to apply full IFRS from 2018 (SOCPA, 2012).

SOCPA has fully adopted some IFRSs, as issued by the IASB, without any modifications, while some standards were modified by additions or omissions. Table 4-3 explains the differences between full IFRS as issued by the IASB and the Saudi version of IFRS (IFRS/SOCPA) by listing the standards that are modified by SOCPA. The modifications affect the Framework and 19 of

the standards. Mostly, these modifications are additional disclosures or omissions of optional treatments to reflect Sharia and local law. These requirements also consider the technical and professional preparedness level in KSA.

Table 4-3: The differences between IFRS as issued by the IASB and the Saudi version of IFRS (IFRS/SOCPA)

Modifications to specific paragraphs	**How IFRS/SOCPA is different from IFRS**
The Conceptual Framework for Financial Reporting	The objective is expanded. Factors affecting investment decisions are added, such as information about the nature and kinds of the entity's transactions, its financial instruments, kinds of financing cost and investment return. This information is added because it reflects the needs of the users in the Saudi environment who are conscious with the compliance of the entities' transactions with Sharia and their cultural values.
IAS 1 Presentation of Financial Statements	The requirements are extended to include the presentation of the liabilities for Zakat payable, as defined in SOCPA standard on Zakat, and liabilities and assets for income tax as defined in IAS 12 Income Taxes. In addition, additional and detail disclosures are required on specific paragraphs.
IAS 7 Statement of Cash Flows	Requirement to present the Zakat paid.
IAS 16 Property, Plant and Equipment	The option to use the revaluation model will not be available for the first three years post-transition (2017 to 2019) for listed companies. Upon completion of the afore-mentioned period, the Capital Market Authority (CMA) will study whether to continue to require the cost model or whether to allow the application of the fair value model. In addition, some evaluation requirements are added to increase the confidence, if the entity chooses the revaluation model.
IAS 19 Employee Benefits	Requirement to present the Zakat paid. The entity shall provide additional disclosures about the components of the assets of the employee defined benefit plan in the same manner as required by the additional paragraph of IAS 1, for the detailed disclosure of financial assets.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	An entity is required to measure the fair value of nonmonetary grants that have no active market on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and type of the granted assets being valued. The name and qualification of the valuer should be disclosed.

Modifications to specific paragraphs	How IFRS/SOCPA is different from IFRS
IAS 23 Borrowing Costs	Borrowing costs should include finance charges that result from Murabaha, Tawarruq and other Sharia-compliant finance transactions.
IAS 24 Related Party Disclosures	The definition of close members of the family of a person is modified to make it suitable for the Saudi environment, excluding the term "domestic partner" and adding or considering parents, grandparents, brothers, sisters, grandchildren as close members of the family of a person, in addition to other dependants of that person or that person's spouse.
IAS 26 Accounting and Reporting by Retirement Benefit Plans	Paragraph 35(b)(viii) is expanded to include the reference of Zakat. Some modifications are added to specific paragraphs in the form of requiring additional disclosures. The report shall contain detailed disclosures about the investment return of the retirement benefit plan categorised according to the nature of the investments.
IAS 32 Financial Instruments: Presentation	Adding finance return and cost to the classification of related interest.
IAS 33 Earnings Per Share	Zakat is added as it is an expense to the entity.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Some modifications are added to specific paragraphs in the form of requiring additional disclosures.
IAS 38 Intangible Assets	Similar notes to that mentioned in IAS 16 Property, Plant and Equipment regarding the postponement of using the fair value model.
IAS 40 Investment Property	An entity is required in IFRS/SOCPA (as opposed to "encouraged" in IAS 40) to use the fair value in measurement. However, similarly to IAS 16 and IAS 38, the use of the fair value model is postponed in the first three years. Also, an entity shall disclose separately the amount of investment properties held for rental income, capital appreciation and for that held for a currently undetermined future use.
IAS 41 Agriculture	Replacing all examples that are contradictory to Sharia with suitable examples (para. 3, 4, 44). For example, in Paragraph 4, the example of pigs and their products is replaced with cattle and its products. Similarly, the example of vines and their products is replaced with olive trees and their products. An entity is required to measure the fair value of biological assets that have no active market on the basis of a valuation by

Modifications to specific paragraphs	How IFRS/SOCPA is different from IFRS
	an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and type of the biological assets and produces being valued. The name and qualification of the valuer should be disclosed.
IFRS 1 First-time Adoption of International Financial Reporting Standards	Specifically, the revaluation surplus of property, plant and equipment shall be recognised in the revaluation surplus account in the equity, and then treated according to IAS 16 requirements.
IFRS 4 Insurance Contracts	Some modifications are added to specific paragraphs in the form of requiring additional disclosures.
IFRS 7 Financial Instruments: Disclosure	An entity shall disclose the nature of the contractual arrangements of investment account and other financial instruments such as bonds, Sukuk and derivatives whether the entity is an investor or issuer of such instruments. Moreover, the entity shall disclose how the return or cost of such instrument are calculated (e.g., interest, rental income, full participation, limited participation with an upper or lower limit of the return, revolving Murabaha). An entity shall disclose separately the amounts of investment in debt instruments (e.g. bond, Sukuk and receivables) bought, transferred or sold during the annual period. An entity shall disclose separately the amount of each type of finance contracts that is mentioned in the standard, any types of risks and the amount of its compound financial instruments and the percentage of each component.
IFRS 12 Disclosure of Interests in Other Entities	The entity shall disclose the names of all of its investees regardless of the materiality of such investments. Additional disclosures are required if the investee is not an entity listed in the Saudi stock market.
IFRS 16 Leases	Some modifications are added to specific paragraphs in the form of requiring additional disclosures.

Source: Prepared by the author, using SOCPA (2017)

Appendices D and E at the end of this thesis show key differences between old SOCPA GAAP (called here SAS) and Saudi version of IFRS, as modified by SOCPA (called here IFRS/SOCPA).

SOCPA has mentioned the anticipated and desired benefits of adopting IFRS in general and IFRS for SMEs respectively. Examples of these benefits include easing transactions across borders, enhancing comparability and transparency of reported results, easing the process of

being listed on overseas stock exchanges, enhancing vigilance over contracting terms, improving employee skills, easing access to a broader investor base, lowering the cost of raising capital overseas, which results in improving liquidity, standardising processes across groups of companies, and finally improving investors' confidence and comparison of investment options (SOCPA, 2016).

4.5 Prior research into the adoption of IFRS in KSA

Compared with the extensive literature on the adoption of IFRS in emerging economies, relatively few studies have been conducted on the adoption of IFRS in KSA. These studies examine the adoption of full IFRS, and there has to date been no specific research on the adoption of IFRS for SMEs in the context of KSA. The main focus of existing studies is on accounting educational issues, benefits and challenges of adopting IFRS, the relevance of IFRS, users and their needs, the impact of the standards, and voluntary disclosure.

Alkhatani (2010) undertook an investigation into perceptions among Saudi listed companies, auditors and financial analysts of IFRS. He referred to the concepts of accountability and decision usefulness as a framework for his investigation. Alkhatani found that the stakeholders he interviewed believed that adopting IFRS (at least for listed companies) would enhance the quality of financial reporting in KSA. Because Alkhatani (2010) concentrated on listed companies, he did not specifically consider IFRS for SMEs. In a subsequent study, Alkhtani (2012) indicated that although adopting full IFRS would improve the quality of financial statements, this change would be accompanied by some difficulties and extra costs, particularly for small companies and local accounting firms.

Although there has been some subsequent literature relating to IFRS in KSA, much of this is journalistic, or extensions of the earlier Alkhatani (2010) study. For example, Albader (2015) took a novel approach by assessing the extent to which Saudi professional and academic establishments were prepared for the impending adoption of IFRS. He was disappointed to find a low level of readiness, particularly in Saudi universities, and made some recommendations for addressing this. Interestingly, he referred to IFRS for SMEs as well as full IFRS, reflecting the fact that, by now, the adoption of both standards was imminent. Otherwise, Herath and Alsulmi (2017) have reviewed both local and international publications

to explain the convergence to IFRS in KSA, though they do not specifically refer to IFRS for SMEs.

Alsalem (2012) found that the main factors that negatively affected the adoption of IFRS in KSA were related to the underdeveloped nature of the Saudi accounting profession, lack of appropriate learning materials on IFRS in Saudi universities and in accounting education and training more generally, and weak systems for monitoring compliance with accounting standards. Some international accounting standards were considered to be difficult to implement in the KSA because they were very technical and require expertise. For example, standards requiring fair value measurement were considered difficult because of complexity in fair value measurement and the lack of qualified evaluators to measure fair value in KSA. At the time of this research, there was no proper translation of IFRS into the Arabic language.

AlMotairy and AlSalman (2012), writing at the beginning of the implementation process for IFRS in KSA, recommended more cooperation between key institutions in KSA (including the SAMA, CMA, MCI and SOCPA) for a successful implementation of IFRS. The authors were uncertain about SOCPA's ability to supervise the transition to IFRS and recommended several points to take in consideration (AlMotairy and AlSalman, 2012, p.182-183). These included: the establishment of independent bodies for setting and enforcing accounting standards; ensuring that companies comply with the new accounting standards by developing monitoring processes; provision, particularly by SOCPA, of practical training relating to IFRS; ensuring that IFRS is adequately covered in accounting and related degrees in KSA (this would also involve training faculty); and making sure that there are sufficient accounting professionals with proper training and experience in using IFRS.

Al-Mousa and Al-Adeem (2017) observed a low level of awareness and readiness among accountants in KSA about the requirements of IFRS in general, and the international accounting standard for inventory (IAS 2) specifically before the obligation date for listed companies, which took effect in 2017.

Nurunnabi (2018) examined the perceived costs and benefits of adopting IFRS after one year of implementation in Saudi listed companies. The preliminary results showed that the benefits of adopting IFRS exceeded the costs. However, the study found that lack of qualified

accountants, significant dependence on Big Four auditing firms, inadequate coverage of IFRS in university education, and lack of research about the topic are major factors that affect the implementation of IFRS.

The studies of IFRS in KSA referred to in this chapter, as well as further studies by Alsuhaibani (2012), El Zoubi (2017), Nurunnabi (2017), and Oraby (2017) are summarised in Appendix 4-1.

4.6 Summary

This chapter started with an introduction about the Kingdom of Saudi Arabia (KSA), a country that is passing through a national transition phase. The political and economic features of KSA were highlighted. The role of *Vision 2030* for the development of accounting standards in KSA was emphasised. In addition, the environmental factors that influence accounting practises in KSA were explained. Also, the historical developmental stages of accounting system in KSA were illustrated. The chapter has discussed prior literature that focused on the adoption of IFRS in KSA. A table of prior research into the adoption of IFRS in KSA is presented in Appendix 4-1.

Chapter 5 will focus on small and medium-sized entities in KSA and offer clarifications about the project of adopting IFRS and IFRS for SMEs in KSA.

Appendix 4-1: Literature on adoption of IFRS in KSA

	Title	Author(s), Year	Theory	Method	Findings
1	The Relevance of IFRS to Saudi Arabia: Stakeholder Perspective	Alkhtani, 2010	The theory of accountability and decision usefulness	A mixed-methods research approach (questionnaire survey and semi-structured interviews)	When setting the accounting standards in KSA, it is found that the political needs and the economic factors are taken into consideration more than the users' needs and other factors, such as social, cultural and religion. In addition, the study suggests that the adoption of IFRS will enhance disclosure, transparency and the quality of financial reports. The results also reveal that the majority of participants support the adoption of IFRS.
2	The Relevance and Usefulness of IFRSs to Saudi Arabia	Alkhtani, 2012	The theory of decision usefulness	A mixed-methods research approach (questionnaire survey and a series of interviews)	Although adopting IFRS will improve the quality of financial statement, this change will be accompanied by some difficulties. Small companies and local accounting firms will face more difficulties and costs than listed companies and the Big Four.
3	Institutional Aspects and the Implementation of International Financial Reporting Standards in Saudi Arabia	AlMotairy and AlSalman, 2012	No specific theory mentioned	Document analysis (archives)	This paper was written before the decision was taken in KSA to adopt IAS/IFRS. It recommended more cooperation between key institutions in KSA for a successful implementation of IFRS. The authors are uncertain about SOCPA's ability to supervise the transition to IFRS and recommended several points to take in consideration.
4	A Survey of Accounting Curriculum and IFRS in Saudi Universities: Academic Perspectives	AlMotairy and AlTorky, 2012	No specific theory mentioned	A questionnaire survey	This study was conducted before the decision to adopt IFRS took place in KSA. Respondents to the survey about incorporating IFRS topic in accounting curriculum indicated that they were certain that the decision to adopt IFRS will happen soon in the Saudi environment. The majority of academics asserted the importance of teaching IFRS and incorporating it in the accounting curriculum.
5	Is the Kingdom of Saudi Arabia Ready to Implement International Financial Reporting Standards?	Alsalem, 2012	No specific theory mentioned	A mixed method (questionnaires and interviews). Grounded theory was adopted to analyse the qualitative interview data	The study examined some factors to explore the readiness for adopting IFRS in KSA. The study found that the main factors that negatively affect the adoption in KSA relate to accounting education and profession, monitoring systems, complexity and fair value measurement, language and religion.

	Title	Author(s), Year	Theory	Method	Findings
6	The Expected Impact of IFRS Adoption on Saudi Arabia Based on Lessons from Other Countries: A Focus on the Telecommunication Business	Alsuhaibani, 2012	No specific theory mentioned	A review of the literature	Before the decision was taken in KSA to adopt IFRS, the author found from the reviewed literature that there are different opinions and conclusions across different countries and firms about the impact of adopting IFRS and particularly in telecommunication business. It is expected that adopting IFRS will have an impact on several aspects including regulations, financial outcomes, and education. Telecommunication business might face bigger challenges, as it possesses many intangible assets and frequently do mergers with other companies.
7	Compliance with International Education Standards in Saudi Arabia: Policy and Educational Implications	AlMotairy and Stainbank, 2014	No specific theory mentioned	Document analysis (archives) plus some unstructured interviews	This article pointed to the importance of educating university students and providing strong accounting programme that incorporates the topic of IFRS. Until 2014, IFRS topic was not incorporated in the universities' syllabus, which may be a main factor for the low professional skills. Also, the environment has some ethical weaknesses and lack of training. To support the convergence, all stakeholders should be engaged in the process, including teachers in universities who play a vital role.
8	Transition to IFRS and its Implications for Accounting Education in Saudi Arabia	Albader, 2015	The theory of curriculum implementation and the network theory	A mixed-methods research approach (that combines online and mail questionnaire with semi-structured interviews)	The transformation to IFRS in KSA is not accompanied by the readiness of universities to incorporate the topic of IFRS in their accounting curriculum. Universities should seek to hire qualified accounting educators with knowledge about IFRS and provide suitable training and supporting resources. In addition, linguistic problems should be solved, as the local language of IFRS differs from the local language of Saudi Arabia.
9	Empirically Investigating Saudi Arabian Accountants' Readiness to Implement IAS 2	Al-Mousa and Al-Adeem, 2017	No specific theory mentioned	An online questionnaire survey	They found a lack of knowledge among participants, as 57% were not ready to implement IFRS. The majority of participants highlighted the importance of training courses about IFRS. They also acknowledged SOCPA's website and how it contributes in spreading awareness and knowledge about IFRS.
10	Expected Benefits and Challenges of Adopting IFRS- A Focus on Saudi Arabia	El Zoubi, 2017	The economic theory of networks	A questionnaire survey	Different stakeholders will benefit from the adoption of IFRS in KSA, as it is believed to offer better reporting and information. Companies that have subsidiaries in different countries will find it easier to use a single and consistent reporting standard. Also, investors will be more confident about the information presented in financial statements. Management will find it easier to get access to capital markets. National regulatory bodies will also benefit from the detailed disclosures. The biggest concern or challenge faced is related to ethical issues in the professional environment which includes poaching qualified and competent employees by other companies.

	Title	Author(s), Year	Theory	Method	Findings
11	International Financial Reporting Standards (IFRS): The Benefits, Obstacles, and Opportunities for Implementation in Saudi Arabia	Herath and Alsulmi, 2017	No specific theory mentioned	A review of the literature	This study was conducted in 2017, just before the activation date for IFRS in KSA. Overall, the study concluded that it is expected that the benefits of converging to IFRS outweigh the costs. It is argued from the literature that adopting IFRS will improve the market quality and attract foreign direct investments. However, there are several environmental factors that should be taken into consideration when adopting IFRS, such as culture, Sharia law, accounting educational and professional preparation.
12	IFRS and Saudi Accounting Standards: A Critical Investigation	Nurunnabi, 2017	No specific theory mentioned	No specific method mentioned	The study suggests that local and international regulators should be aware of the differences between IFRS and the Saudi GAAP and seek towards bridging the gaps. Also, it suggests a collaboration of efforts from SAMA, SOCPA and CMA to develop an effective enforcement mechanism to force local companies to adopt IFRS. Finally, it suggests raising awareness and providing training about IFRS for effective implementation.
13	IFRS and Accounting Information Relevance: The Case of Saudi Arabia	Oraby, 2017	No specific theory mentioned	A quantitative study that uses regression models to analyse financial statements	From examining 11 banks, listed in the Saudi Stock Market, this study found that among accounting information prepared under IFRS earnings per share has the highest quality in value relevance.
14	Perceived Costs and Benefits of IFRS Adoption in Saudi Arabia: An Exploratory Study	Nurunnabi, 2018	No specific theory mentioned	Semi-structured interviews and document analysis	The study found that the expected benefits of adopting IFRS in KSA exceed the costs. Benefits include improvements in transparency, accountability, efficiency and attracting foreign direct investments. However, the associated costs and obstacles relate to the lack of qualified accountants, dependency on Big Four accounting firms, inadequate coverage of IFRS in university education, and lack of research. The study suggested several recommendations.

Source: Prepared by the author

Chapter 5 Financial reporting by SMEs in the Kingdom of Saudi Arabia

5.1 Introduction

This chapter presents the topic of SMEs in KSA and portrays their case of adopting IFRS for SMEs. This chapter is presented in five substantive sections: (5.2) gives some information about SMEs and their importance in KSA; (5.3) is an overview of the accounting regulation for SMEs in KSA; and (5.4) illustrates the implementation of IFRS for SMEs as modified by SOCPA (called here SME/SOCPA). This chapter ends with a summary in Section 5.5.

5.2 SMEs in KSA

In KSA, SMEs are considered the basic engine to revive the economy and contribute to economic growth (Monsha'at, 2018b). Several and different local definitions for SMEs existed in the past. One of these definitions was issued by the Saudi Industrial Development Fund, which defines an SME as any profit activity with fewer than 25 employees and annual sales volume of no more than 15 million SAR, or a total budget of no more than 10 million SAR.

In 2016, due to the growing interest in SMEs in KSA, the Saudi Government established the General Authority for Small and Medium Enterprises (GASME), which has been assigned all matters that relate to this category of entities. The GASME classifies SMEs into micro, small, medium and large based on two criteria: number of full-time employees and revenues, whichever is higher. For example, if the financial classification for a company is in the medium range and the worker or labour classification is in the small range, then this company is classified according to the higher criterion as a medium company (Monsha'at, 2018a). Table 5-1 illustrates the specifications of each group and the percentage that each group represents from the total number of SMEs in KSA in 2017. The statistics demonstrate that the SME sector is dominated by micro entities, which constitute 87% of the total number of SMEs.

Table 5-1: Classification and percentages of SMEs in KSA

Size type of entity/Criteria	Micro	Small	Medium	Large
Number of employees	1-5	6-49	50-249	250 or more
Revenue	Less than 3 million SAR	3-40 million SAR	40-200 million SAR	More than 200 million SAR
Approximate percentage in 2017	87%	9%	3%	1%

Source: Monsha'at (2018a) and General Organization for Social Insurance (2018)

For the purpose of applying IFRS for SMEs in KSA, SOCPA did not develop a definition of small and medium-sized enterprises but adopted the definition used by the IASB, as discussed in Section 3.2. SMEs are defined as those entities or establishments that publish their general-purpose financial statements to external users but are not subject to public accountability. In other words, any company other than those listed on the stock market (or banks and insurance companies) is considered an SME (SOCPA, 2018c).

In 2018, there were 448,705 SMEs in KSA, which represent 99.23% of the total registered companies and absorb about 62.1% of the total employment (General Organization for Social Insurance, 2018). However, SMEs contribute only 21.9% to the non-oil GDP (General Authority for Statistics, 2016a), which is a weak contribution in comparison to other developing countries, where SMEs contribute at least 40% to the GDP (World Bank, 2019b). This contribution can reach up to 70% in advanced economies (Saudi Vision 2030, 2017). Therefore, *Vision 2030* aims to increase SMEs' contribution to GDP to 35% by the year 2030 (Monsha'at, 2018b; Saudi Vision 2030, 2017).

As SMEs represent the majority of operating companies in KSA, this indicates their effective role in creating jobs and achieving the Kingdom's economic objectives. Furthermore, SMEs help in developing the industry by achieving a fair and a balanced growth in the economy. Moreover, they contribute to the total value added in the economy and to the general provision of goods and services. In addition, they play a key role in strengthening innovation and testing, which is essential for structural change. Their activities lead to the emergence of efficient and ambitious businesses (General Authority for Statistics, 2016b).

There are different legal types for private entities, such as sole proprietorship (individual entrepreneurs), partnerships (general, simple or limited), limited liability companies and other economic units. Most of these entities are owned by single families and/or close friends. The number of private sector establishments in 2017, based on the different legal statuses, is explained in Table 5-2. This table shows how sole proprietorship and unlisted companies constitute a great proportion of the private sector in KSA.

Table 5-2: Private sector establishments registered for social insurance by legal status in 2017

Legal status	Number	%
Sole proprietorship	407,917	90%
Joint-stock/listed company	1,882	0.4%
Unlisted limited liability company	37,883	8.4%
General partnership	3,145	0.6%
Limited partnership	899	0.2%
Non-profit organisation	1,646	0.4%
Regional or international organisation	110	0.02%
Professional establishment	76	0.01%
Total	453,558	100%

Source: General Authority for Statistics (2018)

During the past few years, SMEs have faced difficult conditions in the Saudi market. Some owners of SMEs decided to exit and withdraw from the market, while others were forced to sell their companies or rent them to foreign labour, who benefited from these conditions. This led to the occurrence of a new problem of infractions in residence laws and regulations (General Authority for Statistics, 2016b). There are many reasons for the reluctance of Saudis to venture into managing small enterprises, and for the intervention of foreigners to run most of these institutions, such as the fear of failure and loss on the part of Saudi citizens, their lack of confidence about the importance of small projects and weak business knowledge among individuals. Additional constraints that have inhibited SMEs from prospering include lack of support from the government, difficulty in obtaining funding, complex regulatory and administrative procedures, and poor ability to attract talent (Monsha'at, 2018b).

To resolve some of the issues and challenges that face SMEs, the commercial and industrial chambers in the Kingdom have provided some services for SMEs, such as identifying the different obstacles that face them, whether related to production, legal, marketing or the organisation itself. In addition, these chambers have participated in organising training and rehabilitation programmes, especially for the owners, to raise their administrative, regulatory and legal abilities. These programmes inform the owners about the latest management techniques for using information, communication and technology data to help them manage their business. Moreover, the chambers conduct seminars, meetings, and lectures which address and discuss issues and problems that face SMEs. Furthermore, communicating with other countries and benefiting from their experiences in supporting and activating the role SMEs. The chambers also issue publications and work manuals related to SMEs (General Authority for Statistics, 2016b).

A highly visible project undertaken by KSA to support SMEs is the establishment of the "Kafalah" programme, which follows the Industrial Development Fund and aims to facilitate financing for SMEs (Saudi Industrial Development Fund, 2018). In addition, the recently established SME Authority (GASME) aims to improve the status of SMEs by reducing obstacles and regulations, facilitating their access to funding and establishing business incubators (Saudi Vision 2030, 2017, p.41).

From the above-mentioned points, it is evident that the Saudi Government is currently paying great attention to SMEs by creating a suitable environment that helps them prosper and thrive. Examples of efforts that have been taken to improve the conditions of SMEs include the recent move by Saudi commercial banks to support SMEs and offer them financial facilities. However, banks have expressed concern over the lack of adequate safeguards that guarantee loans to this category of companies. The majority of SMEs do not carry out market and feasibility studies for their projects, which may make the failure of some of those projects more likely. In addition, the poor administrative and financial experience of SME owners is considered an obstacle for the growth of SMEs, which negatively affects the methods of marketing SME products (General Authority for Statistics, 2016b). These factors hinder the progress and the success of SMEs in KSA and restrict their participation in improving the national economy.

5.3 Accounting regulations for SMEs in KSA

Historically, SMEs in KSA were not obliged to follow any fixed reporting requirements. However, some SMEs employed the full set of local accounting standards (SAS), as used by larger entities. As stated earlier (Section 4.4), SOCPA has recognised the inability of its local accounting standards to meet the current developments by declaring in 2002 that it was permissible to use the IFRS in cases where there was no suitable SAS to be followed (AlMotairy and AlSalman, 2012). That was the first time when IFRS was referred to in the context of SMEs.

SMEs or private entities in KSA are not subject to a requirement to publish their financial statements. It is impossible to find publicly any data on financial reporting of private firms unless provided by management. The new web portal "Qawaem" programme requires auditors to upload the financial statements of all companies after auditing them. However, these uploaded financial statements are currently only accessible to the General Authority of Zakat and Tax (GAZT).

Appendix C at the end of this thesis provides some extracts of important Saudi rules and regulations related to SMEs. Here, a brief explanation that summarises the local rules and regulations, which are important to SMEs and to the accounting standards, is presented.

It is stated in Article # 1 of the Saudi Law of Commercial Books (1989) that any establishment (sole proprietorship) is exempt from bookkeeping if its capital is less than 100,000 Saudi Arabian Riyals (SAR). Such businesses do not need to prepare financial statements, they may only submit an estimated report for Zakat. Article # 175 of the Saudi Companies Law (2015) requires all limited companies to prepare financial statements. This is also applied to professional companies according to the Saudi Law of Professional Companies (1991). Article # 10 of the Certified Public Accountants Law (1991) states that CPAs are required to comply with the accounting, auditing and technical standards issued by SOCPA. Article # 80 of the Governance Law (2017) indicates that the external auditor is responsible for preparing an objective and independent report about the company's financial statements expressing clearly the financial position of the company and its performance in the significant areas.

Although matters relating to Zakat and tax are only indirectly related to accounting regulation, it should be noted that, according to Zakat Regulations (1985), companies should select the

share of partners or individuals that are subject to Zakat and deduct the due amount of Zakat. More details about Zakat are found in Section 4.3.3. Finally, the Income Tax Law (2004) stated in Article # 2 and 6 that the regulation shall apply a tax rate of 20% on the shares of non-Saudi partners or individuals, whether they are resident or non-resident, natural or legal persons. In addition, the regulation of this law shall further apply a similar rate 20% on the shares of non-resident Saudis, who conduct business in the Kingdom through a permanent establishment or generate income from sources within the Kingdom. This tax requirement could be seen as deterring foreign direct investment in Saudi companies.

As explained in Chapter 4, all financial institutions and companies which have instruments traded in the financial market are required to report under full IFRS from 1 January 2017, while the rest of the companies irrespective of their size, are obliged by the Ministry of Commerce and Investment to report either under full IFRS or IFRS for SMEs from 1 January 2018 (SOCPA, 2018c).

Because there are no international accounting standards for non-profit entities, SOCPA's Board of Directors, in its fourth meeting held on 26 January 2016, decided that non-profit institutions (charities) are considered as part of the companies that should apply the international standards for SMEs, in addition to the local accounting standards for non-profit entities issued by SOCPA.

Figure 5-1 illustrates the companies and institutions that are required to prepare financial statements in accordance with IFRS or IFRS for SMEs in KSA. This figure shows that some companies are still exempt from any published reporting.

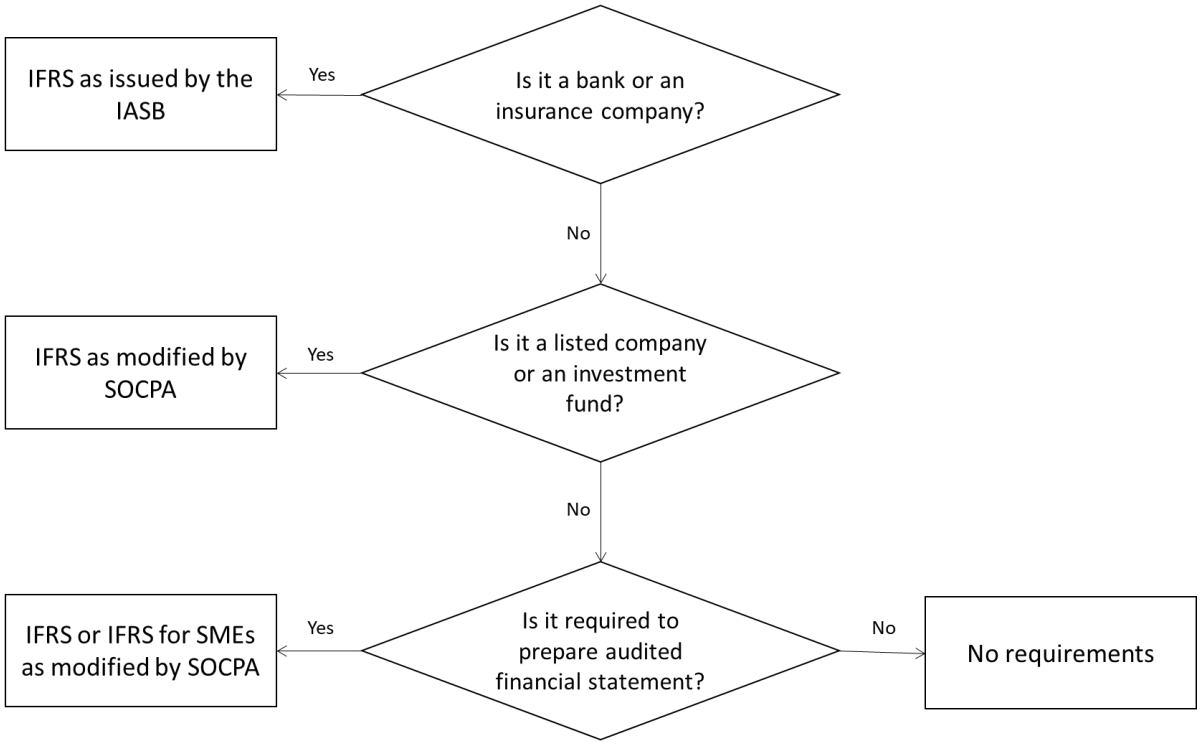

Figure 5-1: Determining the accounting framework for different entities in KSA.
Source: Prepared by the author.

As explained in Section 4.4, SOCPA felt it necessary to prepare a special Saudi version of IFRS (IFRS/SOCPA) because of cultural and religious features of KSA. Similarly, SOCPA prepared a special Saudi version of IFRS for SMEs (called here SME/SOCPA). The document announcing the decision to adopt IFRS for SMEs in KSA (SME/SOCPA) stated that the words "IFRS for SMEs" should be amended wherever they appear to "IFRS for SMEs as endorsed in KSA in addition to the other standards and approved versions that are published by SOCPA" (SOCPA, 2017, p.54).

SOCPA fully adopted most sections of IFRS for SMEs, as issued by the IASB, without any modifications, while five sections were modified by additions or omissions. The differences between the two versions of IFRS for SMEs are listed in Table 5-3. The modifications are mostly additional disclosure or recognitions of Saudi-specific factors. The additions are shown underlined in Table 5-3.

Table 5-3: Differences between IFRS for SMEs (2015) and the Saudi version of IFRS for SMEs (SME/SOCPA)

IFRS for SMEs	Saudi version of IFRS for SMEs (SME/SOCPA)
Section 4: Statement of Financial Position	4.11 Additional items should be disclosed to provide information to those investors, such as: (b) trade and other receivables showing separately amounts due from related parties amounts due from other parties, and receivables arising from accrued income not yet billed. These balances should be sub-classified more according to the nature of the financial arrangements and their general terms (for example, conventional finance, Murabaha) with sufficient disclosures that enable users to differentiate between different types of receivables. (g) financial assets (including cash, receivables and investments) are disaggregated into classes according to their nature and general terms as follows: iii. Term deposits, sub-classified into their nature and general terms (for example, conventional deposit and Murabaha deposit), with sufficient disclosure that enable users to differentiate between different types of term deposits. iv. receivables, sub-classified into their nature and general terms (for example, conventional lending and Murabaha financing), with sufficient disclosures that enable users to differentiate between different types of receivable v. equity investments subclassified into direct investments and investments in portfolios and investment funds, with more subclassification into different types of portfolios and funds (for example conventional fund and Sharia-compliant fund according to the fund manager's classification), with sufficient disclosures that enable users to differentiate between different types of equity investments. vi. Disclosure of investments in bonds separately from those in Sukuks, with sub-classification of each into their nature and general terms, with sufficient disclosures that enable users to differentiate between different types of bonds and Sukuks. (h) financial liabilities (including bank overdraft and payables) are disaggregated into classes according to their nature and general terms as follows: i. bank overdrafts are disaggregated into classes according to their nature and general terms (for example conventional and Tawarruq), with sufficient disclosures that enable users to differentiate between different types of bank overdrafts. This disclosure should be provided regardless of whether or not bank overdrafts are treated as part of managing cash and cash equivalents. ii. payables, sub-classified into their nature and general terms (for example, conventional borrowing and Tawarruq; vendors on the conventional basis or Murabaha), with sufficient disclosures that enable users to differentiate between different types of payables. iii. Disclosure of bonds separately from Sukuks, with sub-classification of each into their nature and general terms, with sufficient disclosures that enable users to differentiate between different types of bonds and Sukuks.

IFRS for SMEs	Saudi version of IFRS for SMEs (SME/SOCPA)
Section 5: Statement of Comprehensive Income and Statement of Income	5.5 As a minimum, an entity shall include, in the statements of the statement of comprehensive income, line items that present the following amounts for the period: (a) Revenue sub-classified into three categories: revenue from main operations, finance revenue (if it is not its main operation) and other revenues. (b) finance costs. (c) the share of the profit or loss of investments in associates (see Section 14 Investments in Associates) and jointly controlled entities (see Section 15 Investments in Joint Ventures) accounted for using the equity method. (d) tax expense and Zakat excluding tax allocated to items (e), (g) and (h) below (see paragraph 29.27). 5.12 A new paragraph is added after paragraph 5.11 to require detail disclosure about the entity's revenue to enable users to differentiate between different types from each source presented in the income statement. This paragraph should be read as follows: 5.12 An entity shall disclose details about its revenues as follows: i. Revenue from main operations sub-classified into major types of activities with sufficient disclosures that enable users to differentiate between different types of revenue from main operations. ii. Disclosure of finance revenue or interest revenue (if it is not the main revenue), from conventional time deposit and lending and bonds separately from other sources, such as those arise from finance lease, Murabaha, and application of time value of money,…etc., with sufficient disclosures that enable users to differentiate between different types of finance revenues. An entity must disclose interest revenue from conventional time deposits and lending no matter how small this amount. iii. Other revenues and gains, sub-classified into different types of revenues (for example gains from selling financial assets should be sub-classified into the different types of financial assets disposed), with sufficient disclosures that enable users to differentiate between different types of other revenues and gains. 5.13 A new paragraph is added after the new paragraph 5.12 above to require additional disclosure about finance cost. The disclosure is required because it provides important information to those investors whose investment decisions are affected by their understanding of the nature of the entity's operations in light of Sharia requirements. The paragraph is read as follows: 5.13 An entity must disclose finance cost or interest expense, sub-classified into different types, such as those arising from finance lease, borrowing, instalment purchases and Murabaha, and application of time value of money, …etc., with sufficient disclosures that enable users to differentiate between different types of finance costs. An entity must disclose interest expenses from conventional borrowing and bonds no matter how small is this amount.

IFRS for SMEs	Saudi version of IFRS for SMEs (SME/SOCPA)
Section 7: Statement of Cash Flows	7.4 Zakat is added to this paragraph to require presenting the Zakat paid. This paragraph is read as follows: 7.4 Operating activities are the principal revenue-producing activities of the entity. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of profit or loss. Cash flows from operating activities include: (e) cash payments or refunds of income tax or Zakat, unless they can be specifically identified with financing and investing activities. 7.22 A new paragraph is added after paragraph 7.21 to require disclosure about interests received and paid on finance and returns on investments segregated according to the nature of different finance and investment arrangements. This disclosure is required because it fulfils the information needs of those users who are Sharia conscious of the entity's operations. The paragraph should be read as follows: 7.22 An entity shall disclose, if not disclosed elsewhere in the financial statements, the details of the amounts of interests received and paid and returns received on investments, together with a description of the nature of each related finance or investment.
Section 16: Investment Property	A paragraph is added (16.7 A) for the purpose of preparation of the annual financial statements, an entity is required to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The name and qualification of the valuer should be disclosed.
Section 17: Property, Plant and Equipment	A new paragraph is added to section 17 with the number (17.15E) to require the use of the service of an independent and qualified person to perform the valuation when the entity chooses the revaluation model for an entire class of the property, plant and equipment. The requirement is added to increase the confidence in the financial statement since the valuation profession in Saudi Arabia is an emerging profession. This additional paragraph should be read as follows: 17.15E If the entity chooses the revaluation model for an entire class of property, plant and equipment, the valuation shall be performed by a qualified valuer who is independent of the entity and holds a recognised and relevant professional qualification and has recent experience in the location and category of the property, plant and equipment being valued. The name and qualification of the valuer should be disclosed.

Source: SOCPA (2017)

The approach to adopt IFRS for SMEs in KSA (i.e. creating a special national version) is different from the approach of most other countries, although the UK has done something similar with the creation of FRS 102. It raises the question of what happens when IFRS for SMEs is amended by the IASB. KSA have decided to apply a static approach in the process of adopting

IFRS for SMEs, which "implies that future changes in IFRS for SMEs do not become applicable for private firms automatically but need to be reflected in national regulation" (Gassen, 2017, p.554). Also, KSA decided to take a short timescale and a non-phased approach when adopting IFRS for SMEs. This is consistent with the view of participating accountants in field testing by the Association of Chartered Certified Accountants (ACCA) in the UK, which clarified that "a gradual or staged transition would be confusing for smaller entities and preparers. This would set a clear timetable for all to work towards, and also negate any confusion over effective and application dates" (ACCA, 2008, p.15).

5.4 The process of implementing IFRS for SMEs in KSA

As stated earlier, before the requirement to use SME/SOCPA, some Saudi SMEs were not reporting at all, while others were using old SOCPA rules (SAS). Because the coverage of SAS was limited in comparison with IFRS for SMEs, readers of financial statements prepared in accordance with SAS needed to refer to the interpretation section in most cases (Alkhtani, 2010).

Companies adopting IFRS for SMEs for the first time needed to undertake a thorough and robust planning process, because of the requirement to prepare comparative financial statements, according to IFRS or IFRS for SMEs rules for the year preceding first-time adoption including an opening balance sheet at the beginning of the comparative period. That means that SMEs were doing dual reporting and reconciliations in the year 2017 (by following SOCPA's rules and IFRS at the same time). However, starting from 1 January 2018, SMEs have used only IFRS or IFRS for SMEs standards at the reporting date.

By analysing the differences between old SOCPA rules and SME/SOCPA, we can tell the degree of change in accounting. Table 5-4 provides such a list. A more detailed version is shown in Appendix F at the end of this thesis.

The first notable difference is that there were two SAS that did not have corresponding sections in IFRS or IFRS for SMEs. These were on "Accounting for Zakat and Income Tax" and "Administrative and Marketing Expenses" (Nurunnabi, 2015). The second difference is related to the permissiveness of representing alternative accounting measurements. For example, IFRS for SMEs allows measurement of the cost of inventories using either the First In, First

Out (FIFO) or the Weighted average cost, whereas the SAS encouraged the use of Weighted average cost, while allowing FIFO and Last In First Out (LIFO) if justifications were provided and the numerical difference between the method used and the weighted average method was disclosed. Thirdly, in SAS historical cost was mostly used, and the use of fair value was limited to securities traded on markets only. However, within IFRS for SMEs the use of fair value is allowed more widely (e.g. para. 14.10, 15.15, 16.7, 34.2 and 17.15B). IFRS for SMEs requires much more extensive and detailed disclosure than SAS. Table 5-4 explains the areas where accounting practices are affected by the adoption of IFRS for SMEs in KSA.

Table 5-4: The differences between old SOCPA GAAP (SAS) and the Saudi version of IFRS for SMEs (SME/SOCPA)

Topic	Difference
1- Investment properties	Under SAS these were accounted for under cost model, but in SME/SOCPA, investment properties are required to be measured at fair value if their fair value can be determined on an on-going basis without undue cost and effort. Other investment properties are accounted for under the cost model.
2- Intangible Assets	• Under SAS, goodwill was tested for impairment annually. While, under SME/SOCPA, if a reliable estimate of useful lives of goodwill and other intangibles cannot be made, then the life is presumed to be 10 years. • Under SAS, the development and the establishment cost of a company was allowed to be capitalised. While in SME/SOCPA, development cost is not allowed to be capitalised, and is thus expensed.
3- Impairment of non-financial assets	Under SAS, impairment is assessed by comparing the gross undiscounted cash flows from an asset with its carrying value. Under SME/SOCPA, the methodology to calculate "value in use" of an asset in determining recoverable amount is different from SAS. It requires future cash inflows/outflows to be discounted at an appropriate discount rate.
4- Borrowing costs on constructing of assets	Was capitalised under SAS but is expensed under SME/SOCPA.
5- Inventory	SAS allowed Last In, First Out (LIFO), but SME/SOCPA does not.

Topic	Difference
6- Financial instruments	Under SAS, no guidance was available. In practice, loans without interest or at low-interest rate were recorded at transaction price. SME/SOCPA recognises that financing arrangements need to be taken into account. The issue of low-interest rate loans will be particularly important for intra-group loans, which were often carried at cost under SAS.
7- End of Service Benefits (EOSB)	Under SAS, limited guidance available on employment benefits, however, the standards do require discounting of long-term obligations to reflect the current costs. Practically, companies are accounting for the End of Service Benefits (EOSB) obligations based on actual payments that the company would require to make. SME/SOCPA allows the projected credit unit method to be used in the calculation of End of Service provision (defined benefit obligations) if the entity is able to use the method without undue cost or effort. Otherwise, the entity is permitted to use simplifications in measuring its defined benefit obligations.
8- Employee benefits	Under SAS, no guidance was available.
9- Financial derivatives	Under SAS, no guidance was available.
10- Components and parts of fixed assets	Under SAS, there were no special treatments for components or parts of fixed assets. While in SME/SOCPA, each part is depreciated separately from the other parts depending on its production life.
11- Provision for doubtful debts	Under SAS, an impairment of doubtful debts is made if the debtor delays paying for 90 days, while in SME/SOCPA, it is 30 days.
12- Rent	Under SAS, rent is calculated on the basis of annual instalments, and each year bears only the amount of the instalment. In SME/SOCPA, rent is accounted for as an expense in a straight-line manner.
13- Property, Plant and Equipment (PPE)	In SAS, it is only permissible to calculate PPE at its historical cost value and it is not permissible to use the fair value. In SME/SOCPA, it is permissible to calculate PPE at its historical cost value or fair value. However, for listed companies, the fair value option was put back for three years (from 2017 to 2020).

Source: Prepared by the author, using SOCPA (2017)

It was mentioned earlier, in Table 4-3, that in the case of listed companies, the option to revalue and use the fair value model for property, plant, and equipment, intangible assets and investment property in IAS 16, 38 and 40 will not be available for the first three years

post-transition (2017 to 2019). Upon completion of the afore-mentioned period, CMA will study whether to continue to require the cost model or whether to allow the application of the fair value and revaluation models (IFRS, 2018b). CMA announcement applies to listed companies in the Saudi stock exchange and companies in Nomu parallel market, which has lighter listing requirements that serves as an alternative platform for companies to go public. The investment in this market is restricted to qualified investors.

However, SOCPA did not make any declaration about postponing the application of the fair value model to any other companies than listed companies and Nomu parallel market. Therefore, it seems that it is permissible for SMEs (from 2018) to revalue and use the fair value model, as the Ministry of Commerce and Investment did not talk about it. Some studies have not supported the use of the revaluation and the fair value models for SMEs. For example, Eierle and Haller (2009, p.226) indicated that:

> An accounting method that seems not very suitable for SMEs is the revaluation of property, plant and equipment if the fair value needs to be estimated. A majority of entities regard this accounting method, albeit with size-based differences, to be (much) more costly and it is more frequently associated with (much) lower benefits than with (much) higher benefits for internal management and external information purposes.

Given that SOCPA's version of full IFRS does not at present allow widespread use of fair value measurement, it is unlikely that Saudi SMEs would deviate from historical cost measurement in their own financial statements.

SMEs are allowed to choose between applying SME/SOCPA or IFRS/SOCPA. Normally, SMEs prefer to apply SME/SOCPA because full IFRS is known for its complexity and excessive disclosures. However, if an SME anticipates future listing, it might wish to change from SME/SOCPA to IFRS/SOCPA. When this occurs, the list of differences between the two frameworks becomes relevant. Largely, the differences are those discussed in Chapter 3 (i.e. the differences between IFRS for SMEs and IFRS). An SME is not allowed to revert to SME/SOCPA if it has applied IFRS/SOCPA.

5.5 Summary

This chapter focused on SMEs in the Saudi context and included information about the definition of SMEs, their significance to the Saudi economy, statistical figures, current status and challenges.

There are still many obstacles faced by SMEs in the Saudi business environment, such as complex and unnecessary legal and administrative procedures, lack of skills and capabilities and difficulties in obtaining funding. Initiatives to improve the operations of SMEs in KSA include the establishment of the General Authority for Small and Medium Enterprises (GASME) and the "Kafalah" programme to facilitate financing for SMEs. More recently, the publication of *Vision 2030* has enhanced the role of and support for SMEs, with the aim of giving them a bigger role in contributing to the national GDP.

The historical development of accounting regulations for SMEs in KSA was outlined. Also, an analysis of the implementation of IFRS for SMEs and transition from old Saudi accounting standards to SMEs/SOCPA was provided. This chapter explored the main differences between financial reporting frameworks by conducting comparisons between IFRS for SMEs (2015) as issued by the IASB and the IFRS for SMEs as modified by SOCPA (SME/SOCPA), and also between old SOCPA rules and IFRS for SMEs as modified by SOCPA (SME/SOCPA).

The following chapter (Chapter 6) will present the theoretical framework and research questions.

Chapter 6 Theoretical framework and research questions

6.1 Introduction

The earlier chapters have provided the background for this thesis by reviewing the relevant literature in relation to the adoption of full IFRS and IFRS for SMEs. This literature revealed various issues common to studies of the adoption of full IFRS and IFRS for SMEs, which form the basis for the research questions identified in this chapter. However, other issues were identified as gaps in the literature. This chapter will develop the theoretical framework for explaining the rationales for adopting IFRS for SMEs in KSA and justifying the research methods used in the study.

Theoretical frameworks are important, as they guide both the research and the analysis of findings. A definition of the term "theoretical framework" is: "a set of interrelated constructs, concepts, definitions, or propositions that present a systematic view of phenomena which could be used to guide a particular research project" (Wijekoon, 2018, p.90 citing Collis and Hussey, 2014; Gaffikin, 2008). Theoretical frameworks help researchers to make sense of empirical findings that are of interest to a wider accounting research community. Llewelyn (2003, p.662) suggests that "theorisation is the 'value-added' of qualitative academic research"; it also "offers a greater understanding of the empirical issues under discussion".

This chapter is presented in six substantive sections: (6.2) explains the aims of the study and the research questions; (6.3) offers a basic introduction to research paradigm and introduces the two main paradigms, which are the positivism and the interpretivism; (6.4) discusses theories and reviews the principal theories that are commonly used in the accounting literature about the adoption of IFRS and IFRS for SMEs. Although a wide range of theoretical perspectives can be found in the literature, many of these are used only once. The dominant theoretical approaches are decision usefulness theory, agency theory, network theory, and, overwhelmingly, variants of institutional theory. This theory has therefore been used for the present study and is discussed in detail in Section 6.5. This chapter ends with a summary in Section 6.6.

6.2 The aims of the study and research questions

Babbie (2012) indicated that the main purposes for research in social science are to explore, describe and explain a topic or a phenomenon. This research serves all three purposes determined by Babbie (2012). Firstly, the research aims to **explore** the adoption of IFRS for SMEs in KSA, which is a new research context. The initial exploration of this research context through a pilot study (see Chapter 7) provided a deep understanding about the existing situation and assessed the possibility of researching it intensively using suitable research methods (Blanche et al., 2006). Secondly, the research aims to **describe** the current situation of adopting IFRS for SMEs in KSA. This approach to enquiry answers the what, where, when and how questions. Thirdly, the research aims to **explain** the attitudes to and practices of adoption of IFRS for SMEs in KSA, by answering the why question (Babbie, 2012).

Based on previous research in the area of adoption of IFRS (and IFRS for SMES) in specific countries, various research objectives have been developed, and specific research questions relevant to achieving these objectives have been formulated. Two studies were particularly valuable for determining research questions. Phan (2014) examined the adoption of full IFRS in Vietnam, while Kılıç et al. (2014) investigated the adoption of IFRS for SMEs in Turkey. Both of these studies were questionnaire based, and the questions posed in the studies can be researched using qualitative as well as quantitative approaches. These studies were valuable and useful, as they are relevant to the topic and recently published. The study of Kılıç et al. (2014) is particularly useful, as Turkey is a country that shares similar attributes to KSA and is located in the same geographical region. The present study has identified two research objectives, each of which is investigated through several research questions.

The first research objective of this thesis is **to understand the reasons for and the process of adopting IFRS for SMEs as part of the set of national accounting standards within KSA.**

To meet this objective, four research questions arise:

1-1. Why did KSA adopt IFRS?

This question is based on extensive previous studies of adoption of IFRS in various countries, such as Tyrrall et al. (2007) in Kazakhstan, Phan (2014) in Vietnam, Kaya and Koch (2015) in 128 countries, and Al-Htaybat (2018) in Jordan. The question needs to be posed because

adoption of IFRS is invariably a precondition for adopting IFRS for SMEs (although several, mainly developed, countries have adopted IFRS but not IFRS for SMEs). A factor that may be particularly important in KSA is the modernisation programme set out in *Vision 2030*, and this needs to be explored.

1-2. Why did KSA adopt IFRS for SMEs?

This question has been asked in some previous studies in other countries, for example the investigation of adoption of IFRS for SMEs in Turkey undertaken by Kılıç et al. (2014).

1-3. What are considered to be the purposes of financial reporting by SMEs in KSA, and to what extent is adopting IFRS for SMEs considered to meet those purposes?

This question has been discussed in several previous studies undertaken in other countries. Kılıç and Uyar (2017) investigated the main characteristics of financial reporting for SMEs in Turkey and the effects of IFRS for SMEs on different stakeholders. Duc Son et al. (2006) raised the same question in their study of the main users of SMEs' financial statements in Vietnam. Other studies, such as Van Wyk and Rossouw (2009) in South Africa, Albu et al. (2013) in Czech Republic, Hungary, Romania and Turkey, Altarawneh (2015) in Jordan, and Wijekoon (2018) in Sri Lanka focused on identifying the main uses and users of SMEs' financial statements.

1-4. What arguments were proposed by owners, managers, employees and advisors of SMEs in KSA in favour of and against the adoption of IFRS for SMEs?

Many studies have examined arguments raised for and against the adoption of full IFRS in different countries. For example, Tyrrall et al. (2007) explored perceptions towards the timing of full IFRS adoption in Kazakhstan. Jermakowicz and Gornik-Tomaszewski (2006) investigated perspectives towards the implementation of IFRS in EU publicly traded companies. Studies relating to the adoption of IFRS for SMEs are less common, but reference may be made in particular to two Turkish studies, by Kılıç et al. (2014) and by Uyar and Güngörmüş (2013).

The second research objective is **to understand the process of implementing IFRS for SMEs by companies in KSA, and the roles of the Saudi government and Saudi accounting profession in implementing IFRS for SMEs**.

To meet this research objective, three research questions arise:

2-1. What was the level of understanding of the content of IFRS for SMEs in KSA before implementation, and how did SMEs in KSA prepare to implement IFRS for SMEs?

Uyar and Güngörmüş (2013) and Kılıç et al. (2014) investigated the level of knowledge and awareness among accounting professionals in Turkey regarding the content of IFRS for SMEs. Phan (2014) in Vietnam, and Kılıç et al. (2016) in Turkey asked about preparation measures for adopting IFRS and IFRS for SMEs.

2-2. What issues and challenges did Saudi SMEs encounter when implementing IFRS for SMEs, and how did they address these issues and challenges?

There have been several studies of the issues and challenges faced by developing countries in adopting full IFRS, such as, Mir and Rahaman (2005) in Bangladesh, Phan (2014) in Vietnam, Chand et al. (2015) in Fiji, and Boolaky (2010) in Mauritius. Fewer studies focus on the adoption of IFRS for SMEs: these include Albu et al. (2010), who identified several obstacles that may impede the effective application of IFRS for SMEs in Romania, and suggested some strategies for overcoming these obstacles. Dang-Duc (2011) undertook a similar study in Vietnam, finding that implementation of IFRS for SMEs is hindered by lack of accounting skills. Kılıç, Uyar and Ataman (2014) and Kılıç and Uyar (2017) in Turkey highlighted the advantages and obstacles for adopting IFRS for SMEs and suggested some points for a successful implementation process.

2-3. How did the Saudi government work with the Saudi accounting profession to facilitate the implementation of IFRS for SMEs?

This is based on questions asked by Tyrrall et al. (2007) in Kazakhstan, Phan (2014) in Vietnam and Kılıç et al. (2014) in Turkey. Kılıç and Uyar (2017) investigated how the government accelerated the adoption process of IFRS for SMEs in Turkey.

6.3 The research paradigm

The word “paradigma” in Greek, is the original source for the word “paradigm” and means pattern (Miller and Brewer, 2003). A paradigm is “a cluster of beliefs and dictates which, for scientists in a particular discipline, influences what should be studied, how the research should be done, how the results should be interpreted” (RoyChowdhury, 2005, p.4).

A research paradigm is a framework that incorporates humans' assumptions, attitudes, perceptions, and philosophies about the nature of knowledge and the world. Therefore, the paradigm within which the researcher works guides the direction of the research (Collis and Hussey, 2014). It is important to study research paradigms, as they play an integral role in determining what will be studied and how it will be studied. Two interrelated assumptions should be considered: ontology and epistemology.

Ontology is "the study of being" (Crotty, 1998, p.10). It focuses on the notion of "reality" and the researcher's perception about the world (Chua, 1986). Ontological assumptions include "beliefs about physical and social reality" (Chua, 1986, p.605). Ontology is about what we know (or what constitutes reality). Chua (1986, p.604) indicated that "ontology lies prior to and governs subsequent epistemological and methodological assumptions". **Epistemology**, on the other hand, is about understanding "how we know what we know" (Crotty, 1998, p.8). It focuses on identifying the cumulative components of knowledge (Saunders et al., 2016). Epistemology is related to knowledge and the justification of what is considered acceptable knowledge in a particular field of inquiry (Burrell and Morgan, 1979; Chua, 1986). Epistemology is "a person's beliefs about knowledge (such as 'what can be known?'); also, the subdiscipline in philosophy in which researchers study the nature of knowledge" (Kuper, Reeves and Levinson, 2008, p.405). In other words, how a researcher understands the social world is related to the researcher's decision about whether to refer to principles, techniques and ethos that are like those used in natural sciences or to refer to logic, which is a unique ability of human beings.

In most research in the social sciences, ontological and epistemological assumptions generally fall under one of the following paradigms, namely positivism or interpretivism (Bryman, 2015). The following section provides an explanation of each paradigm separately.

6.3.1 The positivist paradigm

Positivism is "a theoretical framework that is guided by the search for the objective truth that will contribute to the progress of humankind" (Kuper et al., 2008, p.405). Positivism's **ontological** position is that there is a single reality that exists independent of the observer and can be observed objectively. Humans have to take social reality as given – they do not "construct" social reality. The positivist's **epistemology** assumes that knowledge about the

world is based on observation of the world, and observation may be made directly (how we view the world is "objective", not "subjective", so we should all observe the world in the same way. In terms of **methods**, positivist researchers often use quantitative methods, because measuring is considered to be particularly "objective". As Collis and Hussey (2014, p.43) observe, positivism is:

> [A] paradigm that originated in the natural sciences. It rests on the assumption that social reality is singular and objective, and is not affected by the act of investigating it. The research involves a deductive process with a view to providing explanatory theories to understand social phenomena.

In the past, positivism was the most common paradigm used to justify social science knowledge. However, recently, the interest in the interpretive paradigm has increased noticeably, especially in management and organisational sciences. This shift is justified by a claim that the objectivist knowledge provided by positivism does not contribute effectively to the understanding of human and organisational phenomena. In other words, researchers found that the methods of natural science do not suit social sciences. A trend towards more case studies, interviews and observations rather than using surveys and questionnaires exemplifies this shift (Llewelyn, 2003; Sandberg, 2005; and Collis and Hussey, 2014).

6.3.2 The interpretive paradigm

Collis and Hussey (2014, p.44) introduce the interpretive paradigm as a contrast to the positivist paradigm. To these authors, interpretivism ". . . rests on the assumption that social reality is in our minds, and is subjective and multiple". Interpretivism's **ontological** position is that reality is subjective and socially constructed. Therefore, social reality is affected by the act of investigating it. The interpretivism **epistemology** assumes that knowledge comes from subjective evidence from participants and that the researcher interacts with phenomena under study. In terms of **methods**, interpretive researchers often use qualitative methods because they wish to study the meanings and beliefs of individuals. The research involves an inductive process with a view to providing interpretive understanding of social phenomena within a particular context. In interpretive research, knowledge is itself subjective and is obtained as the researcher interacts with research subjects. Issues of quantification are less important, as researchers focus on gathering data about the beliefs and perceptions of research participants rather than measuring them.

People use the interpretive paradigm in their everyday life without noticing, as they refer the actions of themselves or others to past experiences they have in their minds, which is called “making sense” (Chua, 1986, p.614). To have a true interpretation of action, it is necessary that it is compatible with logic, is a subjective interpretation and provides an adequate assumption. Chua (1986) clarifies that it is hard to identify a single process of conducting an interpretive research, as this is likely to differ from one researcher to another and from one research setting to another.

The interpretive paradigm emphasises the importance of the subjective individual experience of the world. The focus is on what people perceive and believe as a reality, not any other reality that exists externally to them and does not have any effect on them (Hopper and Powell, 1985). It is presented more often through narratives, rather than analysing data. It argues that the social world cannot be interpreted in the same way as the physical environment (Saunders et al., 2016, p.140). Theorists of this approach maintain that investigations should be driven by situations rather than theory (Cohen, Manion and Morrison, 2000). They isolate the individual phenomena in order to trace their unique development (Crotty, 1998).

Collis and Hussey (2014, pp.46-47) provide a useful table that compares and contrasts the core assumptions of the positivist and the interpretivist paradigms. This is reproduced as Table 6-1 below.

Table 6-1: Assumptions of the two main paradigms

Philosophical assumption	Positivism	Interpretivism
Ontological assumption (the nature of reality)	Social reality is objective and external to the researcher. There is only one reality.	Social reality is subjective and socially constructed. There are multiple realities.
Epistemological assumption (what constitutes valid knowledge)	Knowledge comes from objective evidence about observable and measurable phenomena. The researcher is distant from phenomena under study.	Knowledge comes from subjective evidence from participants. The researcher interacts with phenomena under study.
Axiological assumption (the role of values)	The researcher is independent from phenomena under study. The results are unbiased and value-free.	The researcher acknowledges that the research is subjective. The findings are biased and value-laden.
Rhetorical assumption (the language of research)	The researcher uses the passive voice, accepted quantitative words and sets definitions.	The researcher uses the personal voice, accepted qualitative terms and limited a priori definitions.
Methodological assumption (the process of research)	The researcher takes a deductive approach. The researcher studies cause and effect, and uses a static design where categories are identified in advance. Generalisations lead to prediction, explanation and understanding. Results are accurate and reliable through validity and reliability.	The researcher takes an inductive approach. The researcher studies the topic within its context and uses an emerging design where categories are identified during the process. Patterns and/or theories are developed for understanding. Findings are accurate and reliable through verification.

Source: Collis and Hussey (2014, pp.46-47).

Collis and Hussey (2014) also summarise some of the important points that clarify the research specifications of each paradigm. This is reproduced as Table 6-2 below.

Table 6-2: Differences in the research approaches of positivism and interpretivism

Positivism	Interpretivism
Common terms used to describe the paradigm	
Quantitative	Qualitative
Objective	Subjective
Scientific	Humanist
Traditionalist	Phenomenological
Features of the paradigm	
Use large samples	Use small samples
Have an artificial location	Have a natural location
Concerned with hypothesis testing	Concerned with generating theories
Produces precise, objective and quantitative data	Produces "rich" subjective and qualitative data
Produces results with high reliability, but low validity	Produces findings with low reliability, but high validity
Allow results to be generalised from the sample to the population	Allow findings can be generalised from one setting to another similar setting
Methodologies associated with the paradigm	
Experimental studies	Hermeneutics
Surveys (using primary or secondary data)	Ethnography
Cross-sectional studies	Participative enquiry
Longitudinal studies	Action research
	Case studies
	Ground theory
	Feminist, gender and ethnicity studies

Source: Collis and Hussey (2014, pp.46, 50, 60).

6.3.3 Choice of research paradigm in this study

It is important to adopt a philosophical stance in the research design. All research in social science adopts a specific ontological and epistemological stand. Some researchers state explicitly their philosophical stance, while others, who form the majority, do not express their stance explicitly and keep it implicit. However, it is possible to detect the researcher's philosophical stance even if it was not explicitly acknowledged and discussed, as the chosen theory, methods and data of a research implicitly shape the research approach (Teddlie and Tashakkori, 2009). Soundararajan (2014, p.154) indicated that "as social science researchers, it is necessary to recognise that no philosophical tradition should be considered to be inferior to others, and that every point of view should be treated with equal dignity".

As this research includes a social and an organisational aspect, the researcher decided to take an interpretive philosophical stance. Much research claims to use the interpretive approach,

which gives its main attention to the perceptions and explanations of the research subjects (Hopper and Powell, 1985). Justifications for this choice for the present study include: firstly, there is little existing research that explores the experiences of managers when implementing new accounting standards, taking into consideration that accounting plays an important role in helping companies to prosper and be in harmony with the surrounding environment. Secondly, this approach provides a better understanding of accounting practices as the meanings are withdrawn and generated from the society. Thirdly, this approach allows the researcher to formulate and extract the research questions during the development stages of the research, which makes the research questions closely relevant to the research problem and more expressive of the true situation (Hopper and Powell, 1985).

In most accounting research, the explicit or implicit paradigm is either positivist or interpretive. However, several studies have added additional dimensions. Three important studies are Burrell and Morgan (1979), which identified four paradigms: *functionalism*, *interpretivism*, *radical structuralism*, and *radical humanism;* Hopper and Powell (1985), with three paradigms: *functional*, *interpretive* and *radical;* and Chua (1986), with *positivist (or mainstream), interpretive,* and *critical*.

Burrell and Morgan (1979) identified four important aspects that relate to the nature of social science and should be taken into consideration when conducting research in accounting. **Ontology**, which calls for the research to contain reality and objectivity; **epistemology**, which relates to knowledge; **human nature and the relationships between people and their environment**, as studies show that investigating human's behaviour and attitude in a systematic way could help in understanding and predicting their attitude in the future; and finally **methodological** implications employed in the previous three points in order to draw relationships between variables.

Burrell and Morgan (1979) framework aims to understand and classify existing sociological theories through a two-by two matrix based on two bipolar continua. The vertical continuum provides two contrasting dimensions in respect to the nature of society and consists of "sociology of radical change" versus "sociology of regulation", while the horizontal continuum consists of "subjectivist" versus "objectivist" as alternative approaches to understanding empirical research.

Combining these metrics forms four major types of paradigms, which are *functionalism, interpretivism, radical structuralism*, and *radical humanism* as illustrated in Figure 6-1.

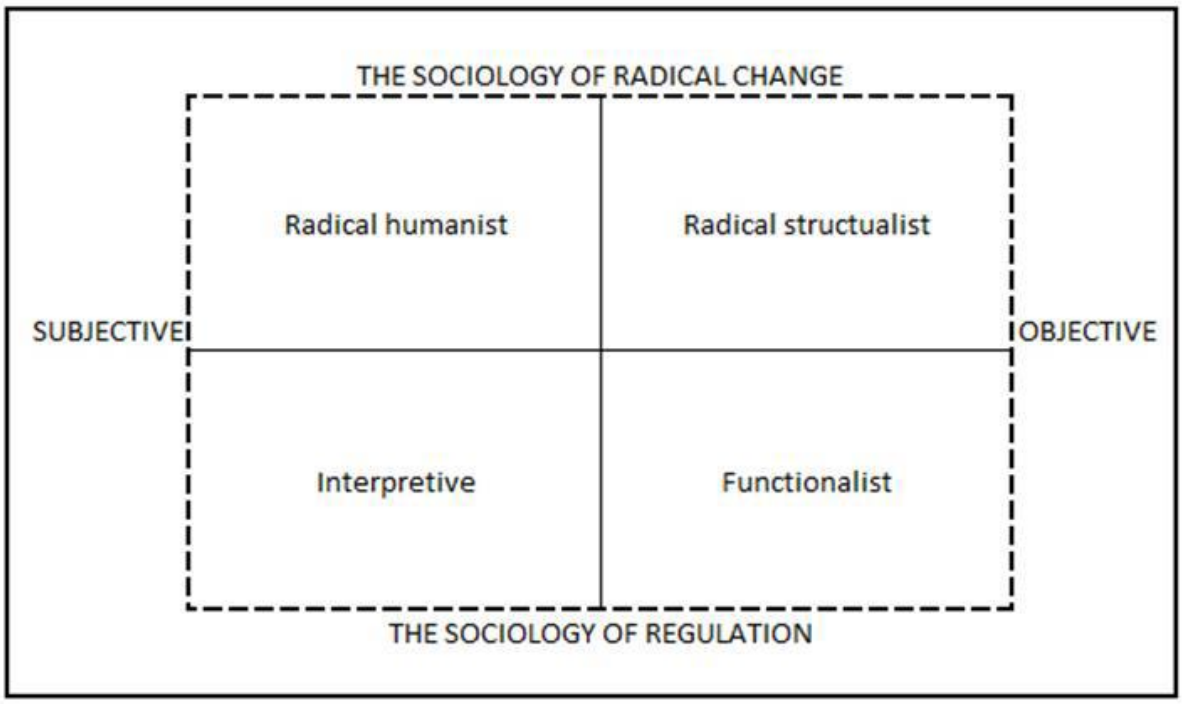

Figure 6-1: Burrell and Morgan's four paradigms for the analysis of social theory.
Source: Burrell and Morgan (1979, p.22).

According to Burrell and Morgan (1979, p.25) the *functionalist paradigm* "represents a perspective which is firmly rooted in the sociology of regulation and approaches its subject matter from an objectivist point of view". This paradigm has been widely used in organisational studies. It asserts that organisational behaviour can be understood through hypothesis testing. Relationships are concrete and can be identified, studied and measured through science. Burrell and Morgan (1979, p.28) argue that, by contrast, the *interpretive paradigm* is "informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action". Researchers in this paradigm observe, from their individual point of view, the on-going processes in an organisation to understand its behaviour.

Burrell and Morgan (1979) suggest that researchers who adopt either a *radical humanist paradigm* or a *radical structuralist paradigm* agree with the principle of change. However,

those who adopt a *radical humanist paradigm* "develop a sociology of radical change from a subjectivist standpoint" (Burrell and Morgan, 1979, p.32). Researchers who employ the *radical humanist paradigm* observe society through a subjective lens and seek to change social structures by removing restrictions on human potential. They aim to understand the relationship between individual perceptions and the external world (Burrell and Morgan, 1979). This paradigm is mainly anti-organisation in scope. On the other hand, those who adopt a *radical structuralist paradigm* "advocate a sociology of radical change from an objectivist standpoint" (Burrell and Morgan, 1979, p.33). This paradigm emphasises the ability of inherent structural conflicts in a society to generate change through political and economic crises. Marx is considered an exemplar of this paradigm, especially after his active political involvement and great interest in evolution and political economy.

Hopper and Powell (1985) brought the work of Burrell and Morgan (1979) to the attention of accounting researchers, defining whether accounting literature relates to assumptions that deal with social science or with society. Hopper and Powell (1985) illustrated the distinct accounting schools and their social paradigms by referring to a similar two-by two matrix to that used by Burrell and Morgan (1979). The horizontal dimension consists of objectivism versus subjectivism, while the vertical dimension consists of regulation, order and stability versus radical change. The latter dimension focuses on "interest, conflicts and unequal distribution of power" (Hopper and Powell, 1985, p.432). However, Hopper and Powell (1985) did not see the radical humanist and radical structuralist paradigms of Burrell and Morgan (1979) as fundamentally distinct. They categorised accounting literature, according to the organisational and social aspect, into three paradigms: "*functional*, *interpretive* and *radical*" (Hopper and Powell, 1985, p.432). Figure 6-2 illustrates Hopper and Powell's framework.

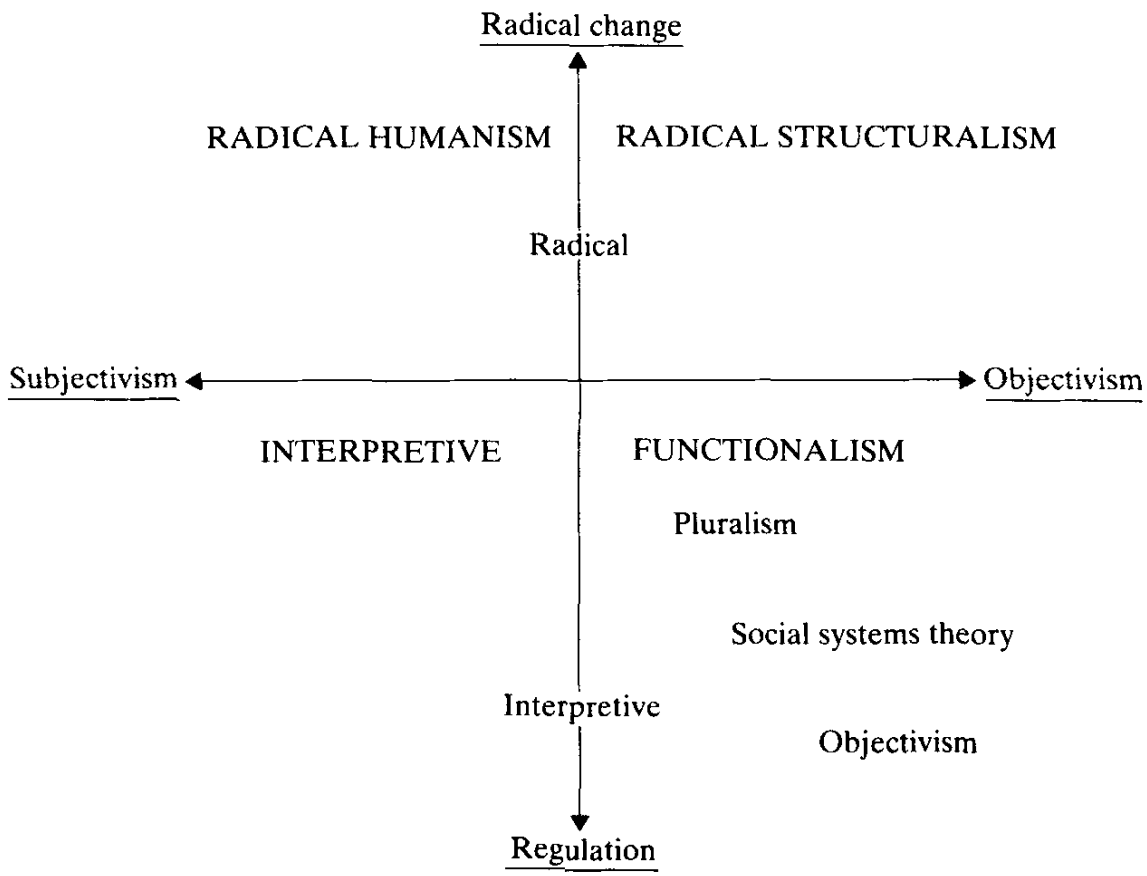

Figure 6-2: Hopper and Powell's three paradigms for the analysis of social theory.
Source: Hopper and Powell, (1985, p.432).

Chua (1986) identified three classifications or paradigms for accounting research. The first of these, which she sees as the dominant paradigm of what she refers to as "mainstream accounting research", is the *positivist*, which uses quantitative research approaches that allows generalisation. This "is dominated by a belief in physical realism – the claim that there is a world of objective reality that exists independently of human beings and that has a determinate nature or essence that is knowable" (Chua, 1986, p.606). Chua (1986, p.606) explains that "What is 'out there' (object) is presumed to be independent of the knower (subject), and knowledge is achieved when a subject correctly mirrors and 'discovers' this objective reality". Chua (1986, p.611) indicates that beliefs about knowledge include that "theory is separate from observations that may be used to verify or falsify a theory". Also, it is accepted to use hypothetico-deductive accounts for scientific explanation.

The second paradigm relates to the *interpretive* perspective. Beliefs about knowledge include that "scientific explanations of human intention sought. Their adequacy is assessed via the

criteria of logical consistency, subjective interpretation, and agreement with actors' common-sense interpretation. Ethnographic work, case studies, and participant observation encouraged. Actors studied in their everyday world" (Chua, 1986, p.615). Beliefs about physical and social reality include that "social reality is emergent, subjectively created, and objectified through human interaction. All actions have meaning and intention that are retrospectively endowed and that are grounded in social and historical practices. Social order assumed. Conflict mediated through common schemes of social meanings". In relation to theory and practice, "theory seeks only to explain action and to understand how social order is produced and reproduced".

The third and last paradigm relates to the *critical* perspective. Beliefs about knowledge include that "criteria for judging theories are temporal and context-bound. Historical, ethnographic research and case studies more commonly used" (Chua, 1986, p.622). Beliefs about physical and social reality include that:

> [H]uman beings have inner potentialities which are alienated (prevented from full emergence) through restrictive mechanisms. Objects can only be understood through a study of their historical development and change within the totality of relations. Empirical reality is characterized by objective, real relations which are transformed and reproduced through subjective interpretation. Human intention, rationality, and agency are accepted, but this is critically analyzed given a belief in false conscious-ness and ideology. Fundamental conflict is endemic to society. Conflict arises because of injustice and ideology in the social, economic, and political domains which obscure the creative dimension in people.

In relation to theory and practice, "theory has a critical imperative: the identification and removal of domination and ideological practices".

The discussion of paradigms shows that the whole approach to research, from selecting and using an appropriate theory to identifying research methods, is shaped by the paradigm being adopted. In interpretive research, theory is often used to provide a framework to understand subjective phenomena rather than as a source of testable hypotheses. In the next section, theories that have previously been used to research the adoption of IFRS and IFRS for SMEs are summarised, and the theoretical approach used in the present study is discussed in detail.

6.4 Theories

As the tables in Chapters 2, 3 and 4 summarising previous studies of the adoption of IFRS both generally and with respect to IFRS for SMEs in developing countries show, a wide range of theoretical perspectives has been used. As observed from the reviewed literature, the institutional theory has the overriding use in studies about the adoption of IFRS and IFRS for SMEs in different countries. Table 6-3 illustrates the number of studies that employed certain theories.

Table 6-3: The number of studies utilising different theories

Theory	**Number of studies that used the specified theory**
Institutional theory/New institutional theory/ Institutional logics	12
Decision usefulness theory	4
Agency theory	3
Network theory/Economic theory of network	2
Stakeholder theory	1
Theory of accountability	1
Theory of curriculum implementation	1
Gramscian theory of hegemony	1
Signalling theory	1
Capital needs theory	1
Stewardship theory	1
Theories of regulation, such as public interest theory, regulatory capture and private interest theory	1

Source: Prepared by the author.

The principal theoretical approaches are institutional theory (both traditional and new), decision usefulness theory, agency theory, and network theory and these are discussed below. Other theoretical approaches, which tend to be used in only a few studies, are stakeholder theory, theory of accountability, theory of curriculum implementation, Gramscian theory of hegemony, signalling theory, capital needs theory, stewardship theory, and theories of regulation, such as public interest theory, regulatory capture and private interest theory.

The following section reviews the core theories used in financial reporting research and IFRS implementation. The discussions of decision usefulness theory, agency theory and network

theory are shorter than the discussion of institutional theory because the latter theory has been used to provide the theoretical framework for the present study.

6.4.1 Decision usefulness theory

Key elements

This theory considers accounting as a process of multiple functions, including identifying, recording and communicating the economic activities of an organisation to interested users who analyse these activities for the purpose of making wise decisions. Therefore, it is based on the belief that "the basic objective of accounting is to aid the decision-making process of certain 'users' of accounting reports by providing useful, or relevant, accounting data" (Godfrey et al., 2010, p.24). The objective of the decision usefulness theory focuses on the financial information that clearly influences stakeholders' decisions. According to this theory, financial statements are used to provide stakeholders with useful financial information that helps them in making economic decisions, in addition to helping companies in foretelling and comparing information, which contributes to achieving their future goals and cash flows (Staubus, 2004).

Staubus (2004, p.278) clarifies that the "decision-usefulness view begins with an enquiry regarding the objectives of financial reporting which leads to the usefulness of financial reports in making decisions, especially those of investors, thus focusing on the view of wealth held by participants in financial markets". From this statement, it is noticeable that the main concern of the decision usefulness theory is to supply investors with useful information, as it considers them the most important user.

Use in research into adoption of IFRS and IFRS for SMEs

Staubus (2000, 2004) indicated that the decision usefulness theory is able to justify reasons for implementing IAS. The argument put forward by previous researchers is that countries adopt IAS/IFRS because they see these standards as providing high quality decision relevant information. Studies have applied the decision usefulness theory to examine the relevance and usefulness of IFRS (Alkhtani, 2010, 2012, investigated this topic with reference to KSA), the users' and stakeholders' perceptions on adopting IFRS for SMEs in SMEs' financial reports

(Duc Son et al., 2006 explored this with reference to Vietnam), and the relevance and suitability of IFRS for SMEs (Altarawneh, 2015 examined this with reference to Jordan).

The decision usefulness theory supports the IFRS and is favoured by the IASB. It is also accepted by several national standard setting bodies in different countries (Staubus, 2004). Obviously, the objective of the decision usefulness approach is considered the basic and the main objective of the IASB and is included in the centre of the IFRS Conceptual Framework and hence it is reasonable to conclude that IFRS meet the demand for decision useful information. This theory is considered the main feature that supports the idea of information disclosure, which enhances the financial accounting and supports the process of standards setting in developing countries (Staubus, 2000).

It is worth differentiating between the adoption of full IFRS and IFRS for SMEs. Staubus (2004) suggested that it is important to identify the users of financial statements and their uses. The key users of SMEs' financial statements, as identified in the literature by Collis and Jarvis (2000) and Ram (2012) and as stipulated in the IFRS for SMEs (2015, para.1.2), include tax authorities, owners, managers, shareholders or owners who are not managing the business, existing and potential lenders or creditors, financial institutions, banks, vendors, credit rating agencies and customers. This is a longer list than the key users of big listed entities' financial statements, which mainly include investors and creditors, as discussed in full IFRS. The users of SMEs' financial statements do not specifically include investors, who are conceptualised by the IASB as buyers and sellers of marketable securities.

The IASB has declared that the main difference between the users' needs of SMEs and larger listed entities' financial statements, is that users' needs are more sophisticated in larger entities. Therefore, it is not helpful to present financial information for SMEs' users in the same way as in listed entities, as SMEs users are not interested in some information that would be presented in the general-purpose financial statements of listed entities. According to the decision usefulness approach, only useful and crucial information should be included in the financial reports (Ijiri, 1975).

Why it is inadequate for this thesis

The application of the decision usefulness theory is unsuitable for this study, as this theory cannot explain the reasons for adopting IFRS for SMEs by small firms. The objective of full IFRS is mainly to satisfy the needs of investors in listed companies, not any other users. On the other hand, SMEs' shareholders have different objectives. It is difficult to determine whether decision usefulness is an explanatory theory or a normative theory. Providing information that is decision-useful may be the objective of high-quality financial reporting, but this does not mean that actual financial statements will be decision-useful. Hence, decision usefulness theory may be used by regulators to justify the adoption of IFRS and IFRS for SMEs, but it does not explain attitudes towards such standards by preparers, as the focus of the theory is on users.

Previous studies, such as Martin (2005), Duc Son et al. (2006), and Dang-Duc (2011), found that the decision-usefulness theory seems not to apply to smaller firms. Dang-Duc (2011, p.97) indicated that this might be because "SMEs have somewhat different objectives, motivations and actions". In particular, "external use was not the main driver of the firms' financial reporting practices" (Dang-Duc, 2011, p.102).

6.4.2 Agency theory

Key elements

This theory explains the relationship between agents (such as the company's managers or directors) and one or more principal(s) (such as shareholders). Gaffikin (2008, p.59) clarifies that "an agency relationship exists where one party (a principal) delegates some decision-making authority to another party (the agent). The principal and the agent will enter a contract that recognises the relationship", in return for some rewards. Jensen and Meckling (1976, p.308) define an agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". They also argue that such delegation means the principals need to put trust in their agents to act in the principals' interests.

Some researchers, such as Eisenhardt (1989), claim that agency theory deals with two problems that may arise in companies as a result of agency relationships. The first is the existence of conflict of interests, motives, beliefs, goals and strategies between agents and principals. Baiman (1982) indicates that the existence of conflict of interest arises from the assumption that the agent and the principal will act out of self-interest. It is sometimes difficult to verify that the agent is acting appropriately, in the interest of the principal (Eisenhardt, 1989). The second is the existence of different attitudes towards the accepted levels of risk taking between the agent and the principals, which may result in differences in actions (Eisenhardt, 1989). Byrd et al. (1998) indicate that several problems arise due to the conflicts between agents and principals. These problems relate to effort, horizon, differential risk preference, and asset use.

To resolve problems related to the agency model (that result from information asymmetries and self-interest) some mechanisms should be put in place. For example, to align the interests of agents with principals, the principal can control and reduce irregular acts of the agent by establishing certain incentives to motivate the agent in addition to bearing monitoring expenses that aim to reduce the irregular actions of the agent and allow the principal to control and measure the agents' behaviour (Jensen and Meckling, 1976).

Use in research into adoption of IFRS and IFRS for SMEs

Agency theory is considered one of the widely used theories by business researchers, including accounting, finance, marketing, and economics (Eisenhardt, 1989). Studies have applied the agency theory to examine the effect of compliance with IFRS on the value relevance of accounting information (Alfaraih, 2009, examined this with reference to Kuwait), factors influencing the adoption of IFRS (El-Firjani, 2010, investigated this topic with reference to Libya), and the suitability of the IFRS for SMEs (Eierle and Haller, 2009, surveyed attitudes to IFRS for SMEs among German SMEs).

Agency theory suggests that financial reports are used to supply information to principals, in exchange for the appropriate return to the provider(s) of the report (the agent) (Deegan, 2006). Agency theory explains specifically the adoption of IFRS and IFRS for SMEs, by proposing that these standards constitute a high-quality and widely recognised set of

accounting standards, which owners will wish managers to use in preparing financial statements to increase their reliability.

Why it is inadequate for this thesis

This theory considers only the relationship between managers and their principals (Gaffikin, 2008), which is a limited group. This research requires considering the interests of a wider group and different users of SMEs financial statements, including officials from governmental agencies (tax authorities), banks which have the position of lenders of capital, suppliers, customers, rating agencies, in addition to shareholders of the SME who are not in a management function.

6.4.3 Network theory

Key elements

This theory is based on the assumption that "countries within a region are influenced by each others' actions" (Ramanna and Sletten, 2009, p.12). The network theory suggests that there are generally two main reasons for adopting a network-dependent product. The first reason is related to the intrinsic benefits of the product itself (or its innate quality). The second reason is the value derived from the fact that the product exists within a network, and hence can give rise to network effects (Katz and Shapiro, 1985; Liebowitz and Margolis, 1994, 1998). For example, adoption of a particular set of accounting standards may be more attractive to a country if the accounting standards are also used by other countries with which a significant amount of economic activity takes place, as these countries can be regarded as forming a trading network.

Use in research into adoption of IFRS and IFRS for SMEs

The network theory can be used to investigate why countries choose to adopt IFRS, which can be considered as a decision to adopt a product with network effects (Ramanna and Sletten, 2009, p.5). Studies have applied the network theory to examine the transition to IFRS and its implications for accounting education (Albader, 2015, investigated this topic in the context of KSA), and the expected benefits and challenges of adopting IFRS (El Zoubi, 2017, investigated this topic with reference to KSA).

Ramanna and Sletten (2009) investigated the reasons for adopting IFRS by non-European Union (EU) countries and found that countries that are geographically located near countries that are IFRS adopters or are trade partners with them are more likely to adopt IFRS. They argue that the direct benefits of adopting IFRS in a certain country "is represented by both the net economic and net political value of IFRS over local standards" (Ramanna and Sletten, 2009, p.2). In other words, it is likely that a country decides to adopt IFRS if other countries choose to adopt it as well.

> [This] is significant for at least two reasons: (1) it suggests countries internalize the network effects of IFRS in their adoption decisions; and (2) it suggests that as the network benefits from IFRS get large, countries may adopt the international standards even if the direct economic benefits from such standards are inferior to those from locally developed standards. (Ramanna and Sletten, 2009, pp.27-28)

Why it is inadequate for this thesis

This theory may explain the influence of dealing with other countries on the decision to adopt IFRS in KSA, but, because it operates at a national level, it cannot explain attitudes towards the adoption of IFRS at the company level. Although some SMEs will have international links and hence will be interested in following accounting standards adopted by companies in other countries, most SMEs are based entirely within one country, and will gain no benefit from network effects. "Firm-level studies of IFRS adoption are conditional on countries' decisions to allow or mandate IFRS, suggesting that firm-level studies examine the second stage in what is at least a two-stage process" (Ramanna and Sletten, 2009, p.28). Furthermore, KSA was the first country in the region to adopt IFRS for SMEs, so the local network seems less important. One key aspect of the network theory is included in Institutional Theory (as "mimetic isomorphism"), to which we now turn.

6.4.4 Institutional theory

As the concept of "institution" is central to institutional theory, it is worth explaining the meaning of this term. Hodgson (2006) indicated that there are multiple definitions for the term "institution", as it is used in different disciplines, such as in philosophy, sociology, economics and politics. Similarly, Scott (2001, p.48) states that "there is no single and universally agreed definition of an "institution" in the institutional school of thought". In the Oxford dictionary, an institution is "an organization founded for a religious, educational,

professional, or social purpose". It could also mean "an established law or practice". From this dictionary definition, it can be seen that institutions may be thought of as entities or organisations, but they can also be more intangible, existing as practices. Giddens (1984, p.24) clarifies that "institutions by definition are the more enduring features of social life". He goes on to refer to "institutional orders, modes of discourse, political institutions, economic institutions and legal institutions" (Giddens, 1984, p.31).

Hall (1986, p.19) defines institutions as:

> . . . the formal rules, compliance procedures and standard operating practices that structure the relationship between individuals in various units in the polity and economy.

Turner (1997, p.6) defines institutions as:

> A complex of positions, roles, norms and values lodged in particular types of social structures and organising relatively stable patterns of human activity.

Scott (2001, p.48) defines institutions as:

> Social structures that have attained a high degree of resilience. [They] are composed of cultural-cognitive, normative and regulative elements that, together with associated activities and resources, provide stability and meaning to social life.

These definitions bring out various common factors, such as the emphasis on stability (Turner, 1997) and resilience (Scott, 2001), implying that institutions change slowly. Some definitions, such as that of Hall (1986), mention individuals, but others focus on social structures.

According to the new institutional theory, institutions are conceptualised as "generative of interests, identities and appropriate practice models that take shape in wider socio-cultural contexts" (Dobbin, 1994, cited in Lounsbury, 2008, p.349). Thornton et al. (2012, p.10) indicated that:

> Institutional orders in society [have] both material and symbolic elements. By material aspects of institutions, we refer to structures and practices; by symbolic aspects, we refer to ideation and meaning, recognizing that the symbolic and the material are intertwined and constitutive of one another.

If we say that institutions behave in a symbolic as well as a material way, then that expands our understanding. For example, the adoption of IFRS for SMEs in KSA is important not just because of the material effect it has on companies' accounts, but also because of the symbolic

effect that may be represented by the adoption of international standards by KSA, which could be interpreted as part of a move towards modernisation and liberalisation of KSA.

Institutional theory has been widely used by various researchers in sociology, political science, business and management as well as in information systems and technology (Weerakkody, Dwivedi and Irani, 2009). These authors also suggest the possibility of finding increased use of institutional theory in other disciplines and areas of research over the coming years. However, the most noticeable and acknowledged use of institutional theory is in social sciences and particularly in organisational analysis (Lounsbury, 2008) and in management accounting (Dillard et al., 2004).

Numerous researchers have asserted the suitability, usefulness and reliability of an institutional approach to explain changes in accounting practices and to interpret international accounting research, such as: Carpenter and Feroz (1992); Covaleski and Dirsmith (1995); Dillard et al. (2004); Rodrigues and Craig (2007); and Irvine (2008).

Institutional theory perspectives have been used to explain the various responses of organisations to institutional pressures (Oliver, 1991; Greenwood and Hinings, 1996). DiMaggio and Powell (1983) illustrated that this theory is based on the idea that organisational behaviour is driven by socially embedded norms, values and shared meanings. Albu et al. (2013) observe that this theory emphasises the importance of culture, social structures, institutions, rules, habits, routines, norms and beliefs. It focuses on the process of developing and learning new practices (Dillard et al., 2004). It explains collective behaviour in specific cases by analysing social rules and organisational structures and behaviours (Friedland, 2012).

Utilising institutional theory in different disciplines has resulted in the emergence of multiple versions of the theory, as it is adopted by different schools of thought. For example, in economics there are old institutional economics and new institutional economics. In sociology (specific to organisational analysis) there are old institutionalism and new institutionalism. In this section, the researcher acknowledges the different assumptions of institutional theory in order to define the version adopted in this study.

Key elements

The concept of "institutional isomorphism or pressure" developed by DiMaggio and Powell (1983) is one of the central ideas that has emerged from the "new institutional theory" that was constructed by Meyer and Rowan (1977). This approach is sometimes referred to as **new institutional sociology** (NIS). It offers a framework for understanding the socio-economic, political and legal influences on both countries and firms and their strategic responses to those influences (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). NIS seeks to explain the similarity among organisations which operate in similar environments, societal sectors or organisational fields (Scapens, 2006). Meyer and Rowan (1977) were the first to mention institutional isomorphism, which they discussed as operating at a macro (national or social) level. DiMaggio and Powell (1983) moved the focus of attention from society in general to specific fields of activity (that is, from a macro to a micro level).

The basic idea of the concept of institutional isomorphism is that institutions adopt the same structure as other institutions ("isomorphism" literally means "same structure") due to various external factors, even though the institutions may have evolved in different ways. DiMaggio and Powell (1983) proposed the "structural isomorphism theory", which includes three forms of isomorphism, namely: **normative**, **coercive**, and **mimetic.**

Based on this theory, any change in the structures and practices of an organisation can be traced back to one of the three sources of pressures towards institutional isomorphism. These three forms of isomorphism are explained in the following section.

1- Normative isomorphism

This type of isomorphism stems primarily from the process of professionalism. Institutions adopt what they believe are the best practices, as certified by a professional body or other authoritative source, in order to become more successful (DiMaggio and Powell, 1983). The source of legitimacy in this form of isomorphism is the profession, and best practices can be promoted in several ways, for example, by professional bodies themselves, through trade associations, or by consultants.

2- Coercive isomorphism

This type of isomorphism involves a law or regulation that forces institutions to adopt and adhere to a particular practice or structure. This form of isomorphism is a result of political influence that institutions face when they are exposed to formal or informal, direct or indirect pressures exerted by other superior organisations in the environment (DiMaggio and Powell, 1983). Gyasi (2010, p.18) stated that "in most instances, such pressures might be perceived by the organizations as force, persuasion or an invitation to adopt a particular policy". In this case, the state (which could in some cases include a transnational body) is seen as the source of legitimacy, as it can exercise political power in an environment where organisations are likely to obey rather than resist.

3- Mimetic isomorphism

This type of isomorphism arises in organisations that copy and imitate the behaviour of other organisations, for example, successful trade partners and multinational corporations with which they have been dealing through global networks. Guler, Guillen and Macpherson (2002) clarified that organisational practices transit across borders as a result of the relationships between companies. Due to the high uncertainty in an organisation regarding the future effects of its current principles, the organisation copies or imitates the behaviour and norms of successful organisations when responding to similar problems (DiMaggio and Powell, 1983). Here, the market is regarded as the source of legitimacy, with the practices of successful organisations expected to drive out those of less successful organisations.

Despite the significant influence of institutional theory as developed by DiMaggio and Powell (1983), there are some criticisms of this theory. These criticisms include in particular the inability of their approach to explain why different organisations in the same field do not always adopt the same form. Their approach shows how things are similar but does not show how things can be different. It is argued that DiMaggio and Powell (1983) put too much emphasis on structures and not enough emphasis on people. It is claimed, even by the authors themselves, that DiMaggio and Powell (1983) downplay the role of agency and interest in organisational decision processes (DiMaggio, 1988; Oliver, 1991). A significant critic of the early form of neo-institutionalism was Friedland, who later commented: "Neo-

institutionalism lacked a theory of actor interest and hence had neither a basis for individual agency nor consequently for theorisation of institutional change, an astonishing deficit" (Friedland, 2012, p.587).

In addition to the under-emphasis on agency, institutional theory has been criticised for not paying enough attention to culture. For example, Thornton et al. (2012, p.47) indicated that the DiMaggio and Powell (1983) approach did not "emphasize the role of culture in institutions". Thornton et al. (2012, p.18) also suggest that early researchers such as Meyer "were focused on the homogeneity of Western culture", while DiMaggio and Powell emphasised "the homogeneity of organizational fields". Various extensions of the institutional isomorphism approach attempted to respond to these criticisms. For example, Scott (2008) developed over several versions the "institutional pillars" approach. The three institutional pillars are **regulative**, **normative** and **cultural-cognitive**, corresponding to coercive, normative and mimetic isomorphism respectively. Each institutional pillar is seen as embodying a specific logic: the logic associated with the regulative pillar is instrumentality, with the normative pillar is appropriateness and with the cultural-cognitive is orthodoxy. We would expect to see rules, laws and sanctions as indicators of the regulative pillar, while the normative pillar is indicated by certification and accreditation. The cultural-cognitive pillar is indicated by common beliefs and shared logics of action. The approach of Scott has been seen as "useful as a typology of institutional approaches rather than an attempt at theoretical integration" (Thornton et al., 2012, p.47).

Beckert (2010, p.150) argues that the emphasis on institutional isomorphism "is a one-sided focus that leaves out many insights from other institutional and macro sociological approaches and does not do justice to actual social change because it overlooks the role played by divergent institutional development". Beckert (2010, p.150) suggests that the mechanisms that DiMaggio and Powell (1983) identified as the sources of isomorphic change could give rise to divergence and heterogeneity, not just to convergence and homogeneity. A similar view was expressed by Lounsbury (2008, p.349), who clarified that:

> The popular understandings of neoinstitutionalism as a theory of isomorphism need to be revised as institutionalists have shifted attention towards the study of organizational heterogeneity. As part of this shift, old emphases on a

> rational mimicry and stability have been replaced with new emphases on institutional rationality and ongoing struggle and change.

These critics of DiMaggio and Powell (1983) do not accept explanations that deny rationality to organisational agents, implying that institutional forces are somehow outside their control. As Lounsbury (2008, p.350; citing Tolbert and Zucker, 1983; Mizruchi and Fein, 1999) puts it:

> This has been especially apparent in empirical research that emphasizes a two-stage diffusion process whereby early adopters are motivated by technical considerations and later adopters engage in mindless imitation fueled by anxiety-driven pressures to conform . . . [O]ver reliance on mimesis as the core mechanism used to explain diffusion led to the relative neglect of power dynamics.

Then came the idea of "institutional orders", which was introduced by Friedland and Alford (1991) claiming that institutions differ greatly in their aims, symbols and rituals. This idea was taken further by Thornton and Ocasio (1999), who introduced the "institutional logics" perspective. They defined institutional logics as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material substance, organize time and space, and provide meaning to their social reality" (Thornton and Ocasio, 1999, p.804). These authors develop the earlier work of Friedland and Alford (1991), by setting out seven different "institutional orders": family, community, religion, state, market, profession and corporation. Each of these orders has various "categories" attached to it: root metaphor, sources of legitimacy, sources of authority, sources of identity, basis of norms, basis of attention, basis of strategy, informal control mechanisms, and economic system. Table 6-4 sets out the system of institutional orders as suggested by Thornton et al. (2012, p.73).

Table 6-4: Revised interinstitutional system ideal types

Categories	Family (1)	Community (2)	Religion (3)	State (4)	Market (5)	Profession (6)	Corporation (7)
Root Metaphor 1	Family as firm	Common boundary	Temple as bank	State as redistribution mechanism	Transaction	Profession as relational network	Corporation as hierarchy
Sources of Legitimacy 2	Unconditional loyalty	Unity of will Belief in trust & reciprocity	Importance of faith & sacredness in economy & society	Democratic participation	Share price	Personal expertise	Market position of firm
Sources of Authority 3	Patriarchal domination	Commitment to community values & ideology	Priesthood charisma	Bureaucratic domination	Shareholder activism	Professional association	Board of directors Top management
Sources of Identity 4	Family reputation	Emotional connection Ego-satisfaction & reputation	Association with deities	Social & economic class	Faceless	Association with quality of craft Personal reputation	Bureaucratic roles
Basis of Norms 5	Membership in household	Group membership	Membership in congregation	Citizenship in nation	Self-interest	Membership in guild & association	Employment in firm
Basis of Attention 6	Status in household	Personal investment in group	Relation to supernatural	Status of interest group	Status in market	Status in profession	Status in hierarchy
Basis of Strategy 7	Increase family honor	Increase status & honor of members & practices	Increase religious symbolism of natural events	Increase community good	Increase efficiency profit	Increase personal reputation	Increase size & diversification of firm
Informal Control Mechanisms 8	Family politics	Visibility of actions	Worship of calling	Backroom politics	Industry analysts	Celebrity professionals	Organization culture
Economic System 9	Family capitalism	Cooperative capitalism	Occidental capitalism	Welfare capitalism	Market capitalism	Personal capitalism	Managerial capitalism

Source: Thornton et al. (2012, p.73)

Each of the institutional orders can be thought of as providing a different institutional logic, and the various institutional logics interact in different ways in different locations and time periods. For example, the logic of religion may be particularly dominant in a highly religious society, especially if a single religion is pervasive. On the other hand, the logic of religion may be less important in a highly secular society. For example, in majority Muslim countries, there may be pressure on companies to provide information relating to Zakat, which would not be considered relevant in secular countries. By examining the impact of different logics in a given

setting, and how some logics may "compete" with each other, we may be able to gain insights into how rules, practices, beliefs and values evolve.

According to Thornton et al. (2012, p.12), "The institutional logics perspective assumes that institutions are historically contingent". This means that institutions are shaped, structured and operate depending on external and historical factors. For example, institutions in KSA have developed in a different way from institutions in the UK, because KSA's history has taken different forms from the UK's history. An implication of historical contingency is that there is no single, essential type of organisation. These authors also argue that "The metatheory underlying the institutional logics perspective has grown around the concept of the interinstitutional system as it assumes that institutions operate at multiple levels of analysis with potential for cross-level interaction effects" (Thornton et al., 2012, p.14). This has important implications for the present study, which is examining the adoption of IFRS for SMEs at both the national and the corporate level. Following this remark of Thornton et al. (2012), attention will need to be given to the interactions between these two levels of analysis as well as examining them separately. At the same time, specific entities at one level, such as highly respected companies, may not only be subject to pressures to adopt a particular accounting practice, but may become examples for other businesses.

Busco, Giovannoni and Riccaboni (2017) highlighted the existence of conflicting logics in hybrid organisations, which are organisations that mix elements from the public, private and voluntary sectors. They also asserted the mediating role that accounting plays in sustaining a diversified environment, by acting as a boundary object. Accounting engages multiple parties to participate in the process of creating innovation. For example, in an organisation that has conflicting logics (in the case studied by the authors, social and commercial logics were in conflict), accounting is used as a tool to maintain a specific logic for each party. Accounting deals with conflicting logics to create innovation. Accounting does not aim to unify the different logics across different parties in an organisation. On the contrary, accounting contributes to restricting different parties to their own logic, allowing them to communicate and configure, which stimulates innovation, while preserving diversity. Although this was not a study of the adoption of IFRS, it shows how the institutional logics approach can help us to understand how conflicting pressures in an organisation can be managed through the use of accounting.

Many central contributions to the institutional theory literature exhibit a high level of theoretical abstraction, but offer ways of understanding social phenomena. Institutional logics help in applying the theory to understand practical situations. Hence it is not surprising that institutional theory has been widely used in studies of IFRS and IFRS for SMEs adoption, and that recent work has reflected developments in institutional theory such as a greater awareness of the importance of culture and how institutional logics can provide a framework for understanding both tensions in existing settings and processes of change.

Use in research into adoption of IFRS and IFRS for SMEs

Recently, there have been several studies that apply institutional theory to explain organisational and governmental responses to international standards, and in particular the convergence to IFRS, in national contexts. For example, Albu and Albu (2012) and Albu et al. (2014) studied the global institutionalisation of financial reporting with reference to Romania. Mir and Rahaman (2005) and Nurunnabi (2015) explored the topic with reference to Bangladesh. Vellam (2012) examined the key determinants of adopting IFRS in the context of Poland. Phan (2014) researched the rationale and process of adopting IAS in Vietnam.

Irvine (2008) investigated adoption of IFRS in the United Arab Emirates and found the institutional theory useful in terms of analysing research on IFRS adoption as it links organisational activities with social values and beliefs.

Al-Htaybat (2018) utilised the isomorphic pressures and integrated them with the contingent determinants to develop a model that he used to explain the adoption and transition process to the IFRS taking into consideration the environmental variables in the Jordanian context.

Some researchers, such as Judge, Li, and Pinsker (2010), Guerreiro, Rodrigues, and Craig (2012), Maroun and van Zijl (2016), have found that the adoption of IFRS is not driven by the economic logic and efficiency of IFRS or by coercive regulatory forces alone. Nonetheless adoption is also driven by social legitimation pressures. Mantzari and Georgiou (2017, p.7) indicated that:

> Powerful local actors and institutions and the mutual conflicting interests of these actors for legitimacy determine the adoption and implementation of IFRS in local contexts. However, we still know little about the rationalities that condition the perceptions of actors on financial reporting standards and IFRS.

Similarly, some studies apply institutional theories to explain the convergence to IFRS for SMEs, in national contexts. Examples of these studies include Aboagye-Otchere and Agbeibor (2012) exploring the suitability of IFRS for SMEs in Ghana, Guerreiro et al. (2012) examining the voluntary adoption of IFRS by large unlisted companies with reference to Portugal and using the institutional theory combined with institutional logics, Albu et al. (2013) investigating stakeholder's perceptions when implementing IFRS for SMEs in the Czech Republic, Hungary, Romania and Turkey, and Wijekoon (2018) studying the development of SMEs financial reporting framework with reference to Sri Lanka.

6.5 Justifications for using the institutional theory

Institutional theory has the capacity to motivate and guide the research questions at both the macro and micro levels of analysis (country and company level). It also allows the integration of insights and theories. The researcher plans to link the institutional theory (as developed by Meyer and Rowan (1977) and DiMaggio and Powell (1983), and sometimes referred to as New Institutional Sociology) with the institutional logics perspective.

Utilising the institutional logics perspective is expected to be helpful in the analysis, as it allows the researcher to use a single theory to tease out two levels of analysis. This is because the theory allows for the institutional logics to operate differently at different levels of analysis, for example, the country and the company level. Using the theoretical perspective of the institutional theory in the context of KSA is considered a contribution to knowledge. No previous research has used institutional theory to examine the adoption of IFRS or IFRS for SMEs at the country level of KSA and at the organisational level of small and medium-sized entities, and most studies in other countries use institutional isomorphism without incorporating the insights of the institutional logics perspective.

This is not the first study that uses institutional logics perspective in the context of financial reporting. Guerreiro et al. (2012) use this framework to study the adoption of IFRS in Portugal, while Ghio and Verona (2018) have recently referred to institutional logics in their study of the adoption of IFRS for SMEs in Italy. The present study extends the application of institutional logics in a number of ways. First, Guerreiro et al. (2012) focus only on the company level, while this thesis examines institutional logics at both company and country

levels. Secondly, Ghio and Verona (2018) restrict their investigation to the attitudes of accounting practitioners towards the adoption of IFRS for SMEs, and also use a quantitative research approach based on a survey. The present study is qualitative in nature, and investigates the views of a much wider range of respondents, and is therefore able to identify relevant institutional logics at a deeper level.

The theoretical framework for adopting IFRS for SMEs in KSA

In this thesis, the researcher undertakes analysis of the adoption of IFRS for SMEs in KSA at the national (country) level and the implementation of IFRS for SMES at the organisational level.

1- The country level

To explain what **coercive**, **normative**, and **mimetic** isomorphism would look like in the context of KSA, it is important to clarify that it is not just a case of one of these three, but there could be a dominant explanation and other less important explanations. The problem is that it might be difficult to draw a line between the three types of influence, particularly between the **normative** and the **mimetic** pressures.

It is expected, based on previous research, that the **coercive** isomorphism is the main driver, which includes external pressures from powerful agencies and transnational bodies, such as the International Monetary Fund (IMF), and the World Bank. These players are pushing countries to adopt IFRS or develop their national standards based on IFRS, and even in some cases making the adoption of IFRS a requirement for the provision of financial support. For example, Mir and Rahaman (2005) in Bangladesh, Irvine (2008) in the United Arab Emirates, and Al-Omari (2010) in Jordan conclude that the adoption of IFRS was a response to pressures from external forces. Chua and Taylor (2008, p.463) claim that "diffusion of IFRS is more about political and social dimensions of globalisation than it is about the alleged economic benefits of convergence in international accounting standards". Chua and Taylor (2008) suggest that government and regulators play a major role in the diffusion of IFRS across countries, regardless of economic rationale. It could, therefore, be argued that the need for international accounting standards cannot be explored appropriately without an understanding of the institutional forces that provide the context for such a decision.

Similarly, in the context of IFRS for SMEs Wijekoon (2018) found that in Sir Lanka, the decision to adopt IFRS for SMEs was a result of coercive institutional pressures at both country and individual firm levels.

However, it is possible that the main thrust comes from the **normative** influence, believing that IFRS are the best practices and the ideal standards, because IFRS are published by a well-recognised and regarded international body. Therefore, it can be considered as a **normative** or professional type of structure. Also, there might be a certain amount of pressure that comes from **mimetic** influence as a secondary factor. The mimetic influence comes from copying what other countries are doing. Copying practices of more developed countries could be seen as a way of achieving the Saudi *Vision 2030*, which calls for a "post oil plan" with an initiative to reform state institutions that demonstrate a modern administrative structure using economic methods to develop state resources. However, mimetic isomorphism can be considered a less important explanation, as KSA could have decided to copy the US GAAP rather than the IFRS. Therefore, we can conclude that KSA did not adopt IFRS just because other countries are adopting it, but because IFRS are issued by an international authoritative body, and therefore come with a sign of high quality and best practice.

The motivation that leads developing countries to adopt IFRS and IFRS for SMEs is their desire to create a favourable environment for investment (Albu and Albu, 2012; Ionascu et al., 2007) and to be considered as a "modern, organized and well-regulated place to do business" (Jermakowicz and Gornik-Tomaszewski, 2006, p.191). A factor that differentiates KSA from developing countries is its membership in the G20, which represented a pressure on KSA to adopt these standards, as the majority of countries in the G20 group have adopted these standards. In addition, local practitioners believed that Saudi accounting standards did not meet the needs of the contemporary accounting profession, while SOCPA was concerned about its capabilities to deliver high quality standards.

2- The organisational level

In KSA, the government issued a regulation that obligated SMEs to adopt these new standards from the beginning of the year 2018. This suggests that there is only one explanation at the organisational level for adopting IFRS for SMEs, which relates to the **coercive** isomorphism,

as companies are required by law to adopt these standards. At this level, the institutional logics can be employed to explain differences between companies with respect to attitudes towards adoption of IFRS for SMEs.

As mentioned in Chapter 4, there are several local and governmental institutions that influence the choice of adopting IFRS and IFRS for SMEs in KSA, such as the Saudi Organisation for Certified Public Accountants (SOCPA), Capital Market Authority (CMA), Saudi Arabian Monetary Agency (SAMA), Ministry of Finance, Ministry of Commerce and Industry, General Authority of Zakat and Tax (GAZT) and Council of Saudi Chambers. These internal parties are exercising their power, whether through the force of law or through strong persuasion, in the direction towards the adoption of IFRS and IFRS for SMEs.

Albu et al. (2013, p.158) stated that "mandatory adoption implies a form of coercive isomorphism". However, coercive change may face resistance and decoupling. Resistance can take the form of a refusal to adopt a particular regulation, which may be possible in a country where enforcement powers are weak. Decoupling (Meyer and Rowan, 1977) can take the form of compliance on the surface with a regulation, while the organisation's own practices do not achieve compliance. In the context of adoption of IFRS, this is sometimes referred to as "IFRS-lite" (Al-Htaybat, 2018). Albu et al. (2011) suggest that this may be what happened in Romania when all large entities were obliged to adopt full IFRS, without any consideration of users.

This research utilises the institutional logics perspective that allows for a more nuanced analysis than the institutional isomorphism framework, which seems to lead to a single isomorphism as the explanation. Also, this research covers both levels of analysis that discusses how different logics can provide explanations for different attitudes. For example, at country level, government, market and professional logics all seem to reinforce each other in terms of supporting adoption of IFRS and IFRS for SMEs (this could therefore reinforce the view that normative isomorphism is the **main** explanation, though with some coercive and mimetic elements), while at organisation level, there may be tensions between market, government, family and religion logics (for example, if accounting regulation is seen as something imposed by government rather than useful for companies, then there could be resistance). Some business owners will welcome IFRS for SMEs as best practice, others will

comply because it is a legal requirement, but with no great interest either for or against (owners rely on accountants and advisers to tell them how to comply), while a few may resist through decoupling tactics (complying in financial statements but not embedding IFRS for SMEs in internal accounts, for example). This means that coercive isomorphism may be the **main** explanation at organisation level, though with some mimetic and normative elements.

6.6 Summary

In sum, this chapter seeks to provide a theoretical framework to help in analysing the reasons for the transformation in accounting standards that have taken place in KSA. The chapter began by explaining the aims of the study, setting out the research questions, and linking these with earlier studies. Then, it presented research paradigms and clarified the main characteristics of the positivism and interpretivism paradigms. After that, the chapter presented three seminal studies that have been widely used to classify accounting research, namely Burrell and Morgan (1979), Hopper and Powell (1985), and Chua (1986). The chapter summarised and reviewed the core theories used in financial reporting research and IFRS implementation. The chapter concluded with a discussion of the suitability of institutional theory to explain and understand how the adoption process is influenced in KSA.

This thesis adopts new institutional theory (DiMaggio and Powell, 1983) as its theoretical lens, although the thesis incorporates subsequent developments of this theory, in particular institutional logics (Thornton et al., 2012). In the framework of adopting IFRS for SMEs in KSA, three types of pressure (coercive, normative and mimetic) can be investigated. This chapter has clarified how the notion of institutional isomorphism, introduced by Meyer and Rowan (1977) and developed by DiMaggio and Powell (1983), has been affected by the institutional logics perspective. The following chapter (Chapter 7) deals with the research methodology.

Chapter 7 Research methodology

7.1 Introduction

The earlier chapters presented a discussion on the research aims and objectives, reviewed the related literature and introduced the theoretical framework. This chapter is a detailed discussion on how the research aims and objectives have been addressed. It explains the research methodology and the methods used to collect empirical data.

This chapter consists of eleven substantive sections: (7.2) gives an overview of research methodologies, including the quantitative and qualitative approaches, and highlights the chosen methodology for this study; (7.3) illustrates the research design; (7.4) addresses ethical issues; (7.5) outlines the pilot study; (7.6) clarifies the ways of gaining access; (7.7) describes the data collection process; (7.8) discusses the methods used for collecting data and justifies the reasons for selecting them; (7.9) gives details of the interviewees; (7.10) demonstrates the data analysis process; and (7.11) is a summary.

Researchers have used various different world views to rationalise and explain reality. Different dimensions have been proposed by Burrell and Morgan (1979), Hopper and Powell (1985), and Chua (1986). This study seeks to examine subjective views and attitudes towards the adoption of IFRS for SMEs in the specific cultural and social context of KSA and the factors that led KSA to take this decision. It aims to understand (i) the reasons for and the process of adopting IFRS for SMEs as part of the set of national accounting standards within KSA, and (ii) the process of implementing IFRS for SMEs by companies in KSA, and the roles of the Saudi government and Saudi accounting profession in this. As discussed in Chapter 6, the worldview that is most suitable is interpretivist. Within this approach to knowledge, researchers may use different theories to explain phenomena. This suggests an alignment between the new institutional theory and elements of the institutional logics. These theories will form the basis of our methodological and analytical choices.

7.2 Research methodology

Although "methodology" and "methods" of social science research may seem to be synonyms, Neuman (2014, p.2) clarifies the difference between these two terms. He identifies that:

> Methodology is broader and envelops methods. **Methodology** means understanding the entire research process—including its social-organizational context, philosophical assumptions, ethical principles, and the political impact of new knowledge from the research enterprise. **Methods** refer to the collection of specific techniques we use in a study to select cases, measure and observe social life, gather and refine data, analyse data, and report on results. The two are closely linked and interdependent.

Selecting a certain methodology depends on the underlying philosophical assumptions (see Chapter 6). Methodology can be defined as the steps taken by the researcher to construct the research enquiry and infer results from the gathered data. Thus, the methodology is not only the method used for collecting and analysing data, but also the tools used for inquiring into the social world (Collis and Hussey, 2014). Methodology can also be defined as the framework of tools used to gain knowledge. Its main interest is to reflect on the way knowledge is created, and how a particular research work is inspired by its philosophy (Neuman, 2014). Methods, on the other hand, include the procedures, techniques and tools used to collect and analyse data.

Collis and Hussey (2014) indicated that the most recognised classification of research methodologies is the qualitative and quantitative approaches. There are different arguments about the dominance of each of the two approaches. In the first half of the twentieth century, the quantitative approach was dominant in social research. However, after the 1960s, there was a shift towards qualitative research (Rahman, 2016). In this regard, an overview of these two research approaches is provided in the following subsections.

7.2.1 The quantitative approach

Quantitative research is commonly used by natural scientists, as they consider it an appropriate approach to examine the natural world. It is defined as research focusing on facts and causes of actions, whereby the information obtained takes the form of numbers (Golafshani, 2003). It uses a systematic way – "a mathematical process" – to explore and explain relationships between variables (Golafshani, 2003, p.598). Bryman (2012, p.35)

defined quantitative research as “a research strategy that emphasises quantification in the collection and analysis of data”. Neuman (2014, p.11) indicates that the quantitative approach “is the ability to reason with numbers and other mathematical concepts”. In quantitative research, polls, questionnaires, surveys, and manipulating pre-existing statistical data using computational techniques are the most common methods used for collecting data (Babbie, 2010).

Bryman (2012) identified that positivism is a concept that underpins quantitative research. Usually, the quantitative approach follows a deductive logic, which often starts from selecting a certain topic for research and reviewing the relevant literature and theoretical assumptions that are related to the topic. Then, a hypothesis or hypotheses are inferred to test and measure the subject. Examining the hypothesis uses quantitative methods for collecting data. Later, the collected data are processed and analysed in order to reach conclusion(s). The deductive approach usually tends to test theories rather than to develop them (Soundararajan, 2014).

The analysis of quantitative data relies on laws and statistical tests that ensure objectivity and do not allow the intervention of the researcher’s views or values in the analysis process (Collis and Hussey, 2014). Therefore, it is considered a valid and reliable approach to generate empirical findings that can be generalised across contexts. This gives researchers more confidence in their findings and results (Macpherson, Brooker and Ainsworth, 2000). Another noticeable advantage of using the quantitative approach is its suitability for examining large samples and over long periods (Berg, 2004). Also, data analysis is considerably facilitated through statistical software such as SPSS (Rahman, 2016).

Despite these strengths, the quantitative approach has some limitations. It does not consider the subtle, but valuable observations that relate to social phenomena, such as respondents’ experiences, perspectives, values, norms and traditions, which are hard to quantify (Rahman, 2016). This approach fails in achieving a deep understanding of meanings and explanations. It gives an overall picture by taking a snapshot of a phenomenon and measuring variables at a specific moment in time, rather than providing a dynamic understanding of phenomena.

7.2.2 The qualitative approach

Qualitative research is an inquiry approach, in which the researcher believes that the world encompasses numerous realities (Kisely and Kendall, 2011). This does not regard truth as agreeing upon shared realities (objectivity), but as a subjective reality that is experienced differently by each individual (Vishnevsky and Beanlands, 2004). Strauss and Corbin (1990, p.11) define qualitative research as:

> Any type of research that produces findings not arrived at by statistical procedures or other means of quantification. It can refer to research about persons' lives, lived experiences, behaviours, emotions, and feelings as well as about organisational functioning, social movements, cultural phenomena, and interactions between nations.

Qualitative research is used when the research objective requires a deep understanding of a phenomenon enabled through collecting detailed and rich information. It does not require any statistical tests. It is described as an interactive approach, characterised by flexibility and openness to change as the research design can be modified according to events that happen during the research process (Maxwell, 2012; Rahman, 2016). Another advantage of this approach is that it involves a variety of epistemological viewpoints, research methods, and interpretive techniques of understanding human experiences (Denzin and Lincoln, 2002).

Saunders et al. (2016, p.165) describe qualitative research as techniques for collecting and analysing information using non-numerical data, as they take a text or verbal form. The purpose of this approach is to explore individuals' experiences, views, perceptions, thoughts, ideas and, in some instances, to develop new theories rather than generalising data to the population (Vishnevsky and Beanlands, 2004; Ryan, Coughlan, and Cronin, 2007). Qualitative research methods enable "qualitative researchers to look at interesting research questions, in varying contexts and from different perspectives" and "can serve to inspire theoretical development" (Humphrey, 2004, p.51-52). In qualitative research, interviews, focus groups, participant observation, ethnography, document and text analysis are the most common methods used for collecting data (Collis and Hussey, 2014; Rahman, 2016).

Bryman (2012) sees interpretivism as a concept that underpins qualitative research. Contrary to the quantitative approach, the qualitative approach usually follows inductive logic, which starts from selecting general research questions about the research topic and then initiating

the process of collecting the relevant data. After that, the collected data is interpreted and analysed. In this stage, the theoretical framework evolves and becomes clear. This might need collecting additional data and its interpretation in a repetitive process. Finally, generalisable analytical implications may be formed from empirical observations (Soundararajan, 2014).

There are some limitations associated with the usage of the qualitative approach, such as the possibility that the researcher's objectivity might be impaired by his/her relationship with the participants. In addition, this approach deals with relatively small samples, which raises the issue of generalisability to the whole population of the research. It is sometimes difficult to gain access to particular participants (Stacks, 2016). Qualitative research may also be costly, as it can consume a considerable amount of time and money, particularly when conducting and transcribing interviews. Data interpretation and analysis may be more difficult and complex (Rahman, 2016). Because of these limitations, some social sciences often give more regard to quantitative orientation (Berg, 2009). In addition, some policymakers give low credibility to results from qualitative approach (Rahman, 2016).

7.2.3 Choice of research methodology in this study

The present research seeks to contribute to our understanding of the adoption and implementation of financial reporting standards by providing an in-depth exploration of the unique events related to the adoption of IFRS for SMEs in a specific location (KSA) and a specific period of time (transition period 2017-2018). After reviewing the research questions, objectives, and paradigm, the qualitative approach was found suitable for the purposes of this study more than the quantitative. The qualitative approach enabled the researcher to collect in-depth perceptions on social attitudes relating to the adoption of IFRS and IFRS for SMEs in KSA.

Adopting a quantitative approach was not practical for this study because databases containing lists of small companies or financial reports are not publically available in KSA. In addition, access to significant volumes of data to perform viable quantitative analysis and comparison was not possible. Although a pilot study was carried out using a questionnaire, this research approach turned out to be inappropriate (see Section 7.5), as many potential respondents were not aware of the topic, and the researcher did not get sufficient, useful

responses through surveys. Therefore, the researcher decided to use multiple qualitative methods to improve confidence in the gathered data.

7.3 Research design

A research design can be defined as "plans and the procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis" (Creswell, 2009, p.3). The main objective of research design is to "ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible" (De Vaus, 2001, p.9). According to De Vaus (2001), a research design may have two approaches. The first one is descriptive research, which attempts to answer the "what" questions. The second is explanatory research, which attempts to answer the "why" questions. Setting the research design is important, as it clarifies how data is collected, analysed and interpreted. Sekaran (2003) clarifies that there are six elements that should be included in the design of any research project. These elements are:

1- The purpose of the study

This study is exploratory in nature and seeks to understand the reasons for and the process of adopting IFRS for SMEs by KSA and the process of implementing IFRS for SMEs by companies in KSA, and the roles of the Saudi government and Saudi accounting profession in implementing IFRS for SMEs.

2- Type of investigation

The study follows an interpretive and qualitative approach that utilises interviews, observations and document analyses as methods for gathering data.

3- Extent of researcher interference

The researcher is external, which means that the researcher was not directly involved in any of the organisations or individuals that were part of the research. The researcher did not have any influence on the interviewees. The researcher's interest was only to collect respondents' opinions.

4- Study setting

The field study was carried out in KSA, primarily in the city of Jeddah.

5- Unit of analysis

The unit of analysis is individuals, as the researcher was exploring stakeholders' points of view and their perspectives towards the adoption of IFRS for SMEs in KSA.

6- Time horizon

The overall period for the study from conceptualisation to completion was four years. Preparation for data collection started with three stages of pilot testing to explore the field. The actual data collection (interviews) including travel took approximately four months (three months from December 2017 to March 2018, in addition to one month from May to June 2018). Three to four months were used to finalise the theoretical framework. Additional data collection and follow-up contacts were undertaken in early 2019. Data analysis took approximately six months, including data transcription, translation, and analysis of text in addition to addressing other methodological concerns. Discussion of findings and results took six months.

7.4 Ethical issues

Ethics, as defined by the Oxford dictionary, are "moral principles that govern a person's behaviour or the conducting of an activity". Social research ethics are defined as "the set of ethical principles that should be taken into account when doing social research" (Hammersley and Traianou, 2012, p.17). Although research ethics has long been a topic of interest for social scientists, it now receives more attention than before (Bell and Bryman, 2007; Hammersley and Traianou, 2012). Many different professional associations, government agencies, and universities have adopted specific codes, rules, and policies relating to ethics for the conduct of research.

The Economic and Social Research Council (ESRC) set out a framework that consists of six key ethical principles that social scientists should consider during the process of conducting research (ESRC, 2018). Most UK universities base their research ethics clearance process on

the ESRC framework. These key principles are: 1. Research should aim to maximise the benefit for individuals and society and minimise risk and harm. 2. The rights and dignity of individuals and groups should be respected. 3. Wherever possible, participation should be voluntary and appropriately informed. 4. Research should be conducted with integrity and transparency. 5. Lines of responsibility and accountability should be clearly defined. 6. Independence of research should be maintained and where conflicts of interest cannot be avoided, they should be made explicit. In the following section, the researcher will explain how attention has been given to the topic of ethics in this thesis.

The researcher applied to the research ethics committee at Royal Holloway, University of London for ethical clearance, and approval was obtained on 2 February 2017 (see Appendix G for ethics review details). The nature of this research does not involve any risks to participants, the environment or society and the topic is not sensitive. Ethical procedures relating to interviews were taken into consideration, such as informing the participants about the nature of the research, having the participants sign a consent letter before the interview regarding the usage of a recorder and guaranteeing the confidentiality of the participants (see Appendices H and I for the English-Arabic language versions of the consent letter).

The interviews were recorded (with the interviewee consent), stored on the researcher's own laptop and protected by a password. Only the researcher had access to the collected information, stored as encrypted electronic documents. Paper-based documents were stored separately in a locker with limited access. All research notes and working papers will be shredded on the completion of the thesis and subsequent publications. The researcher has protected the privacy and anonymity of participants by assigning each participant a code and using that code on all materials relating to the subject instead of the participant's actual name.

One issue highlighted during the ethical clearance procedure was what to do in cases where apparently inappropriate or even illegal behaviour in accounting terms is uncovered during the interviews. This could be a situation where during the interview, a respondent shared that they did not fully comply with accounting requirements. The researcher considered the issue and discussed with her supervisor whether her duty of confidentiality to the interviewee should take precedence. As there is no obligation in KSA for someone learning about possible

accounting irregularities to report these to the authorities, they agreed that the duty of confidentiality should govern such situations. However, the researcher did not face any situation that created such a difficulty. Further, no potential safety concerns were identified during data collection.

7.5 The pilot study

It is quite typical, in qualitative research projects, to start with a pilot study that includes broad objectives (Glaser and Strauss, 1967). The term "pilot study" refers to "[a] small-scale versions of the planned study, trial runs of planned methods/measures, or a miniature version of the anticipated research" (Prescott and Soeken, 1989, p.60). The pilot study is planned deliberately at the beginning of a research project, before the main fieldwork. It is intended to find out what is likely to work and not work in the main study. Pilot studies tend to be exploratory, and this was the case for the present research.

The researcher started by identifying people who were personally known to meet the research criteria and negotiating access with them. During these stages, the researcher collected some addresses of potential interviewees and arranged possible dates for interviews. As the study progressed, referral chains (see next section for details) were used in order to access more related respondents. In the pilot study, the researcher used a mixed-method approach that utilised questionnaires, interviews, document analysis and observations as the main methods for gathering data. The researcher sought to take the interviewees' oral permission to audio record and transcribe the interviews. In the pilot study, 21 semi-structured interviews were conducted over three periods between July 2016 and July 2017. Details of each period are explained in the next section and in Table 7-1.

First period: July 2016

The researcher prepared a questionnaire survey with questions extracted from research about IFRS and IFRS for SMEs implementation in Vietnam and Turkey (Phan, 2014; Kılıç et al. 2014). The questionnaire asked for responses on a seven-point Likert scale and aimed to explore the perceptions of relevant parties regarding the adoption of IFRS for SMEs in KSA. The questionnaire was drafted in both English and Arabic (see Appendices J and K).

The questionnaire was distributed to 15 potential respondents, primarily people who owned or worked in SMEs. Only 5 complete surveys were received. The main explanation for the lack of participation given by respondents was their ignorance of the subject. This suggested that a quantitative approach may run into practical difficulties.

In addition, five initial semi-structured interviews were conducted with two auditors, two managers, and one accountant. The distinctive finding was the ignorance of most respondents about IFRS for SMEs. It was observed that no training courses, workshops or seminars on IFRS adoption were offered to the public during this period.

Second period: December 2016

During this period, five further exploratory semi-structured interviews were conducted with one director from SOCPA, one financial advisor, one accountant, one academic, and one banker. The researcher also attended two workshops on the adoption of IFRS in KSA. An elevated level of interest and awareness on the topic was noticeable among the stakeholders during this period. Experience of interviews led to refinement of interview questions.

Third period: May, June and July 2017

Further interviews were conducted in order to obtain insights and perceptions about the implementation of IFRS for SMEs in KSA. Eleven semi-structured interviews were conducted with two managers, two accountants, three auditors, two owners, and two officials from a governmental agency (representatives of Jeddah Chamber of Commerce). This round of interviews was characterised by a significant increase in interest about the adoption of IFRS for SMEs. The researcher observed that some preparation measures and actions were underway. For example, training workshops and seminars on the adoption of IFRS were being held. During this period, the researcher attended two symposiums related to the implementation of the Value Added Tax (VAT) and the adoption of IFRS in KSA. Details of the sessions attended during the pilot study and the main data collection are given in Table 7-3.

Not all interviews in the pilot study were completely satisfactory, as some interviewees did not have a clear perception of the purpose and context of the study. However, the pilot study was useful in several ways. Firstly, it assisted and facilitated the actual practice of doing the main study by providing an understanding of the research context. Secondly, it confirmed the

suitability of using particular techniques and methods for conducting the research. Thirdly, it helped in determining the objectives of the study and in narrowing its focus. Therefore, it is considered as an effective tool to modify the research design and the interview guide, which is discussed later in Section 7.8.1. Furthermore, the pilot study allowed the researcher, as a novice, to gain the necessary skills and techniques for conducting the main research, and it may be considered as a training process. Finally, it helped in identifying the potential interviewees and the ways of gaining access to them.

7.6 Gaining access

This research is based on interviewing the main actors involved with the application of IFRS for SMEs. Therefore, it was necessary to negotiate access with the organisations that fall under the definition of an SME. Some scholars have identified difficulties associated with gaining access, such as "convincing organizations to participate in field research - particularly when individuals considered the project as a threat to their organization's legitimacy, when interviewees are of high rank, and when information about actual processes is likely to be disclosed by the researcher" (Gendron, 2000, cited in Humphrey and Lee, 2004, p.194). However, the researcher did not expect this research to threaten the legitimacy of any organisation, so this barrier to access was not expected to apply.

From the outset, it was clear to the researcher that in order to contact appropriate people for interviews, personal introductions would need to be used. Although this does not allow deep penetration into the field of interest, it was the only way to approach prospective respondents where the researcher is not directly known. Using personal referrals is cited heavily in the research literature and is also called *snowball sampling* or *chain referral sampling.* More details about snowball sampling, and how it has been used in this research are found in Bakr and Napier (2019).

The earliest use of the term snowball sampling appears to be by Coleman (1958), who described snowball sampling as a process that begins with a small number of persons, then asking those persons for names or even introductions to other potential respondents, and continuing this chain of introductions until the sample is large and representative enough for the purposes of the research being undertaken. Despite attempts to bring snowball sampling

within the range of mathematical statistics (for example, by Goodman, 1961), snowball sampling is usually employed where the researcher does not intend to undertake sophisticated statistical analysis. Biernacki and Waldorf (1981) suggested that snowball sampling is particularly relevant in the case of potential interviewees who are likely to ignore approaches from researchers unless the researchers are introduced to them by a personal contact.

Saunders et al. (2012, p.282) suggest various criteria for choosing snowball sampling. First, it is not practical to collect data from a complete population, which therefore requires the use of sampling. Secondly, a sampling frame, such as a complete list of a given population, should not exist. Thirdly, the researcher should not be planning to make statistical inferences about the whole population from the sample. Fourthly, it should not be necessary for the sample to represent the population in terms of proportions of members of different sub-groups. Fifthly, relevant cases in the population should be difficult to identify or reach. In the present research, these conditions are satisfied.

In particular, the absence of detailed lists of SMEs in KSA makes it impractical to adopt any access policy based on direct impersonal contact (such as a mail or internet-based questionnaire). Cultural mores in many countries, including KSA, mean that potential contacts are highly unlikely to refuse to speak to a researcher who has been referred to them by a person they know, as such as refusal would be regarded as disrespectful to the referrer. These cultural factors confirmed the choice of snowball sampling as the most appropriate for this investigation.

The researcher encountered some methodological problems related to the utilisation of the snowball sampling technique. Some of these problems are mentioned by Biernacki and Waldorf (1981). They suggested five specific problems. In this study, the researcher was able to overcome the first hurdle, which is starting the referral chain and finding initial respondents. The researcher was able to start the process in a straightforward way by using different personal, family and work connections. A researcher from outside the culture being researched would need to establish such contacts.

The researcher had to deal with the other four problems identified by Biernacki and Waldorf (1981), which are to verify the eligibility of potential respondents, to engage respondents as research assistance, to control the number of cases and type of chains and finally to monitor data quality and the pace of referral chains.

One of the problems when using the snowballing technique is to allocate the number of interviews until it reaches saturation. For example, researchers must always ask themselves: how many more interviews do they need and from which category? There are two considerations that should be taken into account. The first is: does the sample represent the reality? The second is: whether there is any repetition in the data? This will guide the direction of the snowball. For example, the researcher conducted several interviews with people from micro, small and large SMEs. Then the researcher realised that she had conducted only one interview with a medium SME. Therefore, the researcher decided to search for referees from this category of companies, in order to bring closer the number of interviewees with the other categories. Also, the researcher realised that most of her interviewees were males, therefore, she searched for female interviewees to bring their number closer to the number of male participants. The researcher stopped conducting interviews and limited the referral chain when she felt that data had become repetitious and she was confident that variations in the population were taken into account.

In reality, both considerations "are sometimes compromised in light of practical considerations. In certain instances, additional but nonessential interviews might be conducted so as not to alienate or offend an enthusiastic respondent who could jeopardize the continuation of some referral chains" (Biernacki and Waldorf, 1981, p.157). In this particular case, because the transition process was ongoing and respondents were potentially busy, the researcher was able to reasonably assess a point of saturation and stop interviews without any further concerns to continuation.

The researcher must control the development of referral chains and not fall into dissipation. As it is normal to get drowned in a series of social networks. The researcher must monitor "the speed with which a chain referral sample develops must be paced in the sense that from time to time its progression must be stimulated, slowed, or temporarily stopped" (Biernacki and Waldorf, 1981, p.158). The researcher was lucky enough to have a moderately stable

referral chain. There were no significant periods of quick or slow progress of the chain itself and no periods of temporary stoppage. Referral chains progressed at a normal, manageable rate and the interviewer was able to arrange and conduct interviews without any major dissipation.

There are other several problems associated with the snowball sampling technique, such as growing fatigue and disinterest among the interviewer or misunderstandings concerning precisely what should be explored and probed in each new interview. In the current project, the field of interest is specifically defined. Time and requirements were pre-set with the respondents to avoid these problems.

Apart from the referral chains referred to in the previous section, the researcher used social media to discover some courses and workshops that she then attended, such as following SOCPA's account on Twitter to know about their official announcements for courses and published documents.

The process of gaining access in both the pilot study and the actual data collection is represented in Figure 7-1 and 7-2 respectively. Each figure illustrates a tree diagram with different connections – the various branches of the trees are "referral chains", as they show how introductions to later interviewees depend on links established by earlier interviews and by other individuals who were not necessarily interview subjects. These figures evidence the difficult process of gaining access to relevant people and demonstrate the complexity of snowball sampling that can evolve in the actual data collection. The researcher used personal, family and work connections and directions from interviewees (referrals) to gain wider access.

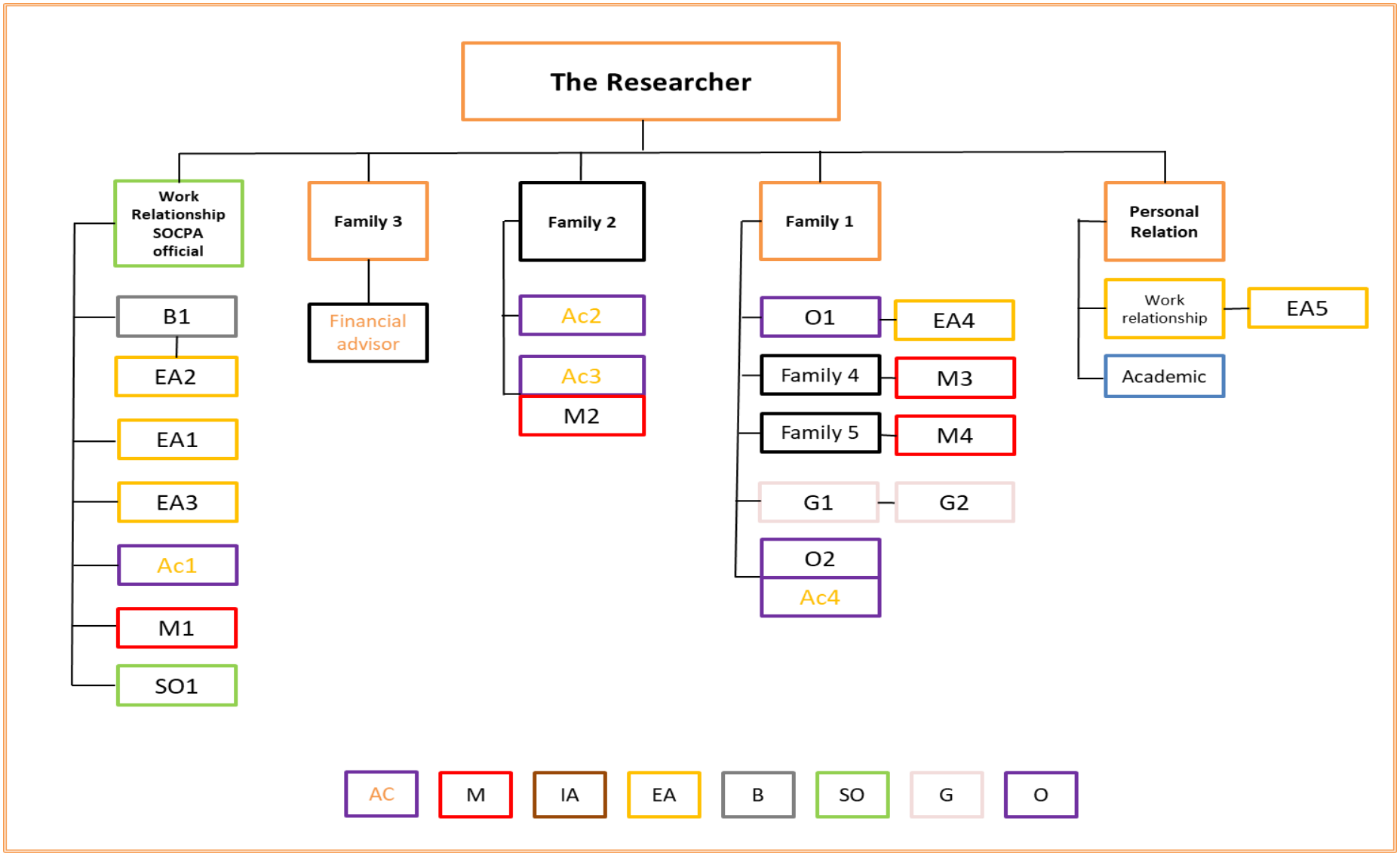

Figure 7-1: How access was gained in the pilot study.
Source: Prepared by the author.

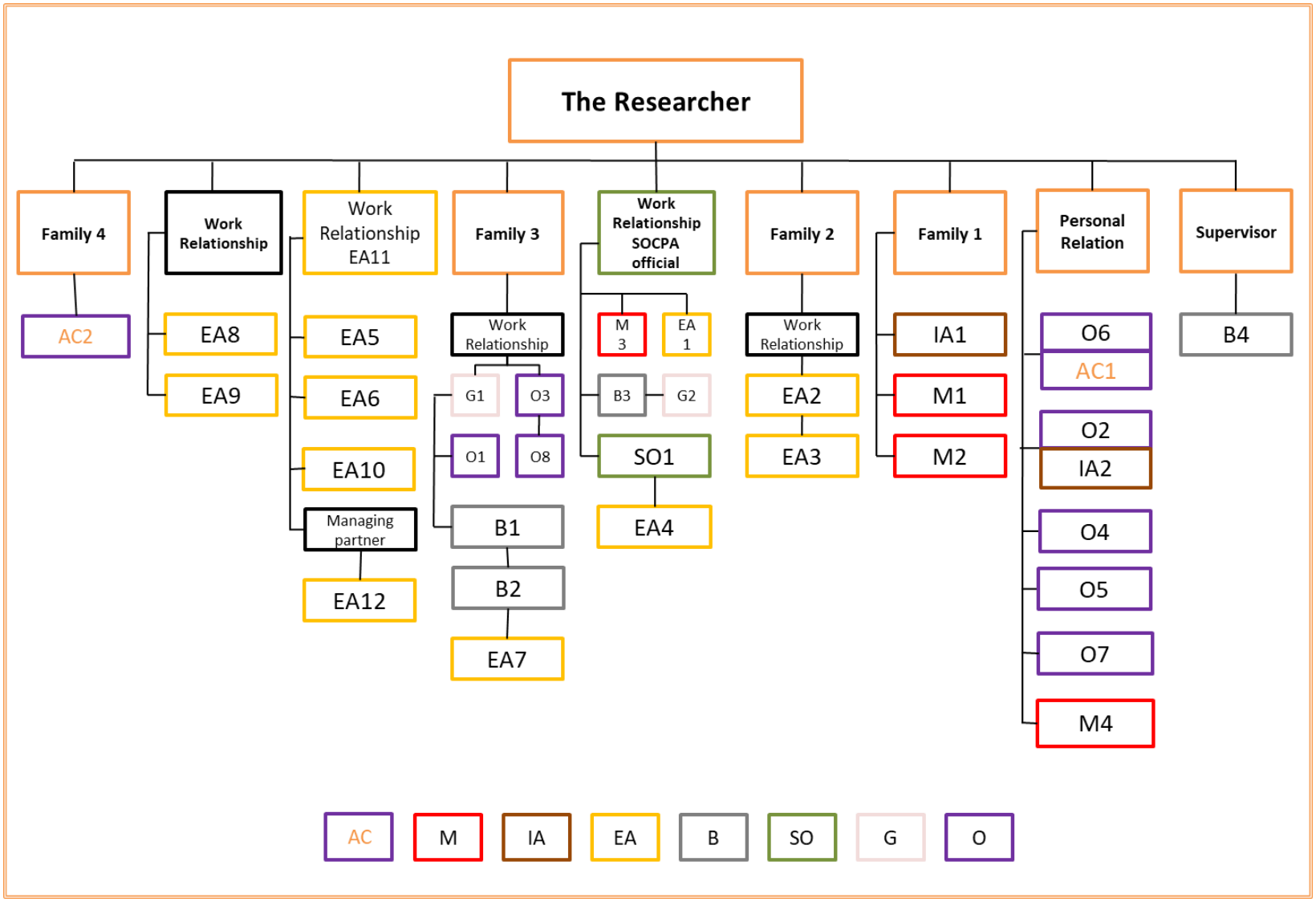

Figure 7-2: How access was gained in the actual data collection.
Source: Prepared by the author.

Figure 7-2 shows that introductions to the first group of interviewees came through family and other personal contacts. This is slightly different from the approach to snowball sampling advocated by Biernacki and Waldorf (1981), who suggested that the researcher should identify the initial group of participants directly. However, in this case, the researcher had very few direct contacts in the field and found it more effective to go through family, work and personal contacts. The use of personal relationships was particularly valuable in identifying owners of SMEs, while contacts in accounting firms usually provided referrals to other auditors (not necessarily in the same firm). Figure 7-2 also shows the complexity of some of the referral chains, with one chain involving as many as six levels of referral. As the research progressed, the researcher monitored the representativeness of the interviewees. Given the wide scope of the definition of SMEs, it was desirable to ensure that all sizes of SMEs were included, and referrals were particularly sought for under-represented groups. By the end of the fieldwork, interviews had been undertaken in 15 businesses, with all sizes of SMEs represented at least twice. Overall, the snowball sampling approach made it possible to gain access to a wide range of respondents and hence to collect detailed views that are likely to be representative of the stakeholders involved in the adoption and implementation of IFRS for SMEs in KSA.

7.7 Data collection

Researchers are involved in collecting data about the topic of their study. Data is defined as "known facts or things used as a basis for inference or reckoning" (Collis and Hussey, 2014, p.196). Data collected by the researcher may take a quantitative (numerical) form or a qualitative (text or images) form. Data can also be classified by their source to primary or secondary data. *Primary data* refers to data that has been generated from an original source and gathered by the user. The researcher is involved in generating and obtaining the data. Examples of primary data include, data gathered from researchers own experiments, questionnaires, interviews, observations and focus groups. On the other hand, *secondary data* refers to data that has been gathered by someone other than the user from an existing source. It is used in a research project but was originally collected for another purpose (Saunders et al., 2016). Examples of secondary data include data gathered from publications, databases, documents, annual reports, censuses and records. It is argued that using

secondary data saves time and is cost-efficient, in comparison of time and cost spent when collecting primary data (Lee, 2012). Also, secondary data is particularly useful in quantitative research, as it can provide a larger and higher quality of information that would be unbearable when collecting primary data (Given, 2008).

This research depends on both primary and secondary data. Primary data were gathered from interviews and observations, while secondary data were gathered from published documents and literature. Table 7-1 illustrates the different stages for data collection process in this thesis, including three stages of pilot studies.

Table 7-1: Data collection

Period	Data collection mechanism
July 2016	Pilot study (stage 1): Conducted five initial interviews and distributed questionnaires.
Dec 2016	Pilot study (stage 2): Conducted five semi-structured interviews and attended SOCPA's and EY's IFRS workshops.
May - July 2017	Pilot study (stage 3): Conducted eleven semi-structured interviews with different stakeholders and attended two symposiums (on the adoption of IFRS and the implementation of VAT in KSA).
Dec 2017- March 2018	Official data collection: Conducted thirty-three semi-structured interviews with multiple stakeholders and attended SOCPA's workshop on the adoption of IFRS for SMEs.
May- June 2018	Supplementary interviews: Conducted two interviews and attended KPMG's and Talal Abo Gazala's IFRS for SMEs workshops.
February 2019	Follow-up contacts with selected interviewees.

Source: Prepared by the author

7.8 Research methods

Differences between methodology and methods were mentioned earlier. This section will focus on the methods used for data collection in this study. As noted earlier, Collis and Hussey (2014, p.59) defined a method as "a technique for collecting and/or analysing data".

This research follows an interpretive approach that utilises "multi-qualitative methods" (Saunders et al., 2016, p.167) namely: semi-structured interviews, observations and document analysis. The combination of these different methods provides the researcher with valuable information that allows for exploring the situation in-depth and gaining new insights about the overall process of accounting harmonisation (Humphrey and Lee, 2004, p.340).

Also, it may enhance the understanding of the way IFRS for SMEs adoption is taking place in KSA. Yin (2009, p.116) clarifies that "data triangulation" allows the researcher to utilise multiple sources of evidence, which is a major strength, as it substantiates the findings and provides a rich argument. Humphrey and Lee (2004, p.329) illustrate that triangulation "is seen as a way of enhancing construct validity as each source of evidence may be 'tested' against each other source of evidence". In the following, the methods used in this study will be explained.

7.8.1 Interviews

An interview is a method for collecting data, whereby an interviewer asks participants some questions to explore what they do, feel and think (Collis and Hussey, 2014). Interviews can be classified into qualitative and quantitative. Qualitative interviewing is a technique "…whose purpose is to gather descriptions of the life-world of the interviewee with respect to the interpretation of the meaning of the described phenomena" (Kvale, 1983, p.174). It usually takes the form of semi-structured or unstructured interviews. On the contrary, quantitative interviewing aims to answer certain questions by choosing one of the answers that have been created by the researcher. It mainly takes the form of structured interviews (Silverman, 2011; Bryman, 2012; Collis and Hussey, 2014). Table 7-2 provides additional clarifications for structured, unstructured, and semi-structured interviews.

Table 7-2: Differences between the three types of interviews

Types of interviews	Characteristics
Structured interviews	There is a precise and pre-defined set of questions, which all interviewees need to answer in the same order (known also as close questions).
Unstructured interviews	There is no pre-defined set of questions that the interviewer should follow when carrying out (known also as open questions).
Semi-structured interviews	The interviewer has pre-defined guide questions; however, they are mostly open-ended, which enable the interviewer to ask additional questions or mention other topics during the interview. The interview may be adjusted according to the flow of the conversation. It is not necessary to ask the questions in a specific order.

Source: Silverman (2011); Bryman (2012); Collis and Hussey (2014)

Qualitative interviews give the researcher certain advantages. For example, interviewees are allowed to take control of the interview by directing it according to their vision and departing from the interview guide questions (Silverman, 2009). This might increase the possibility of discovering new things and encourages interviewees to mention what comes to their minds without interference from the interviewer. Here, the interview guide questions are flexible, as they can be designed and refined allowing other questions to emerge (Bryman, 2012, p.470). Semi-structured interviews allow the interviewees a degree of freedom to explain their thoughts, feelings and ideas. They also enable the researcher to question certain responses in greater depth (Humphrey and Lee, 2004, p.340). It is useful to allow deliberate silences or pauses, in the interview in order to encourage interviewees to think and have a chance to explain and elaborate (Parker, 2008, cited in Humphrey and Lee, 2004).

Interviews are the most widely used method in qualitative research (Nunkoosing, 2005; Bryman, 2012). This is due to their ability to provide an in-depth understanding of individuals' experiences, viewpoints and behaviors (Rowley, 2012). Also, interviews allow the interviewer to observe verbal and non-verbal communication, which enhances the accuracy of the analyses (Wilson, 2010). Opdenakker (2006) indicates that the interviewer can grasp hints from the interviewee's voice, intonation, and body language, which provide additional information to the verbal answer to the question.

Interviews can be conducted with individuals (one-to-one) or groups (interviewing more than one interviewee at the same time). Also, they can be conducted face-to-face, through the telephone, and online (Skype) (Blumberg, Cooper and Schindler, 2011). For a comprehensive interpretation, interviews may have more than one interviewer. Each interviewer has specified tasks. This is to ensure that all issues are fully explored, notes are taken with nuances, and gestures are recorded in robustness.

However, there are some limitations associated with the usage of interviews. For instance, some researchers consider interviews as biased activities and describe them as "carrying a political element" (Nunkoosing, 2005, p.704). This is due to the risk that the researcher will ask biased questions that tend towards serving the purpose of the study, which in turn affects the reliability of interviewees' responses. Furthermore, interviewees may be unwilling to

answer questions and perceive them as embarrassing. In addition, limited insights are gathered when interviewees decide to withhold information (Wilson, 2010).

Sometimes collecting data face-to-face is time-consuming and costly. Therefore, it is advantageous to use technologies, such as telephone or online interviewing in these cases, as they are cheaper, quicker and easier to administer (Bryman, 2012). However, Blumberg et al. (2011) indicated that shorter interview duration and the possibility of terminating the interview by the participants are weaknesses linked to the use of telephones and Skype in interviewing. Holbrook, Green and Krosnick (2003) found that the quality of data from telephone interviews is inferior compared to face-to-face interviews.

In this thesis, interviews are considered the main method for gathering data. The researcher chose to conduct semi-structured face to face interviews. Justifications for this choice are listed below:

1- As stated earlier, during the pilot study, the researcher found from her own experience that there were not enough useful responses from surveys while semi-structured interviews were much more helpful.

2- The application of interviews enabled the researcher to get in touch with people who are engaged with the the implementation of IFRS for SMEs, reveal insights about the challenges and benefits they find and explore participants' views, opinions and feelings in more details. Also, it enabled the researcher to obtain differentiated answers and understand various opinions.

3- The qualitative approach is interpretative, which enables the researcher, to use the materials gathered from interviews to generate his/her own understanding of what is going in the domain of study (Humphrey and Lee, 2004).

4- The researcher noticed that an advantage of using interviews is that it helps in creating a network of contacts, which will be of benefit for future research.

Several issues relating to the interviews needed to be addressed, such as the demographic characteristics, selection of interviewees, preparing the interview guide, and finally conducting the interviews. These issues are explained respectively:

1- Demographic characteristics

This research considered companies that have a commercial registration number (CR) and fall under the category of SMEs as defined and accredited by the IASB. The study covered different SMEs irrespective of their size and business sector. Interviewees were asked about their age, and respondents were classified into "older" and "younger": older interviewees were 45 years and above, while younger interviewees were under 45 years. Interviewees were also asked about where their highest education took place, and respondents were classified as being educated locally or in the West. For external auditors, a note was made of whether they worked for Big Four international firms or for smaller firms.

2- Selection of interviewees

The researcher used a selective sampling technique. This approach is based on theoretical consideration, which relates to the imposition of new accounting standards and the reaction of interested parties to the change (Biernacki and Waldorf, 1981). Although access to certain participants was obtained using personal contacts and snowballing methods, careful consideration was given to their addition to the study. Details about how interviewees were identified, and access to interviewees achieved, were set out in Section 7.6.

The researcher aimed to achieve a set of interviewees who "in qualitative terms, if not rigorous statistical ones, reflect what are thought to be the general characteristics of the population in question" (Biernacki and Waldorf, 1981, p.155). For example, the sample included men and women, older and younger, different educational backgrounds and nationalities. Eight types of participants were selected to answer the research questions, namely: accountants, internal auditors, external auditors, managers and CFOs, owners, bankers, regulators and officials from governmental agencies. Besides the 21 pilot interviews, a total of 35 in-depth semi-structured interviews were conducted with 2 accountants, 2 internal auditors, 12 external auditors, 4 managers and CFOs, 8 owners, 4 bankers, 1 regulator from SOCPA and 2 officials from governmental agencies. For more details about the interviewees, see the participants' profile in Appendix L.

3- Preparing the interview guide

Bryman and Bell (2007, p.483) explain that an interview guide "refers to a ... somewhat more structured list of issues to be addressed or questions to be asked in semi-structured interviewing". Before interviews took place, the researcher reviewed the available literature and relevant documents on the adoption of IFRS and IFRS for SMEs and the change in accounting standards. This process enabled the researcher to design the appropriate questions and construct the interview guide. It was mentioned in the first period of the pilot study that the prior research of Phan (2014) and Kılıç et al. (2014) was particularly relevant. Questions were extracted mainly from these two studies in addition to other studies about IFRS and IFRS for SMEs implementation.

When preparing the interview guide, the researcher developed questions ensuring integrity by not affecting the interviewee's responses. The researcher was interested in informing the interviewees about the guide questions, therefore, in some cases, a copy of the questions was sent to the interviewees' email two or three days ahead of the meeting. In other cases, where it was difficult to send a copy to the interviewee in advance, the researcher was keen to bring a hard copy to the meeting, which was handed to the interviewee before the interview. The researcher found this approach very productive, as some participants gave their feedback about the questions and helped in refining them, also it allowed the interviewees to prepare their answers.

Due to the different types of respondents involved with the SMEs' financial reports, the researcher felt that the questions should reflect these differences. This resulted in five models of questions that were based on the original questionnaire but with different emphases, with one model for each of the following groups: accountants, internal auditors, managers including financial directors and CFOs in SMEs; external auditors; owners; bankers; and officials from SOCPA and governmental agencies. The questions for each group are available in Appendix M.

4- Conducting the interviews

The first step of conducting interviews is to arrange the time and place. It is recommended that the researcher contact potential interviewees directly, especially those who work in

companies in order to facilitate the bypass, screening procedures and organisational approval. Most interviewees agreed to meet in their offices (company premises) during working hours. Almost all contacted individuals that were selected and approached during the pilot study and the main data collection participated willingly in the research. However, the researcher was not able to conduct two interviews with targeted interviewees due to time constraints. None of the potential interviewees refused to participate. This is almost certainly due to recommendations from the researcher's acquaintances to cooperate with the researcher. Interviews ranged in duration from 15 to 90 minutes. The lower duration resulted from interviewing respondents who were hesitant to speak or did not have relevant information about the questions asked.

At the beginning of each interview, and after thanking the interviewee for participating in the study, the researcher introduced the informed consent form, which is a university requirement aimed at ensuring the researchers' ethical behaviour vis-à-vis interviewees (Humphrey and Lee, 2004, p.198). The interview started with demographic questions, which makes the interviewee more relaxed and comfortable at providing information. Only one interviewee was interviewed twice. A second meeting was needed to resume the interview and follow up with him. There were no withdrawal instances. Relatively, all interviewees were familiar with the experience of being interviewed by academic researchers and had a previous idea about signing a consent form.

Most interviews were conducted on a one-to-one basis, except in two cases were the researcher was interviewing two at the same time, such as the owner or CFO and the accountant. In these cases, when it is possible, triangulation was used for verification purposes, which helped the researcher to validate the gathered information. Although the latter type of interviews was longer, as there were two people taking turns in talking, they were much more interactive. Interviewees were correcting each other and expanding on previous questions and referring to each other if one of them did not know the answer. However, it was difficult to code the responses and attribute them specifically to one respondent because they were forming their views together. Overall, the experience of group interviews was fruitful, as the perspectives of two interviewees helped to reframe and open up further issues to be discussed.

It is worth emphasising the importance of being a tolerant and flexible researcher in the interview approach, especially, when finding a convenient time for the interviewees. Management of uncertainty is part of the fundamental skills of the qualitative researcher. He/she needs to tolerate the uncertainty and frustration of not controlling the data collection process. For example, in spite of efforts to schedule and coordinate interviews with individuals involved with the adoption of IFRS for SMEs, problems occurred when collecting data. One scheduled meeting was cancelled less than 24 hours before the appointed time and had to be rescheduled. The rescheduled appointment was cancelled again in less than 24 hours. In another instance, the researcher went to conduct an interview and found out that there was an error in the interviewee's agenda — the interviewee asked the researcher to wait for a while until he/she is able to allocate some time for the interview.

Biernacki and Waldorf (1981) recommend, for verification purposes, to conduct some interviews at the later stages of the study. In this research, the researcher has followed their recommendation and conducted several interviews at later stages of her research. The interview process ended once she felt that saturation had been reached and answers had become repetitive.

To minimise response bias, the researcher pushed respondents and challenged them on information if she suspected that they were telling her things that coincide with what the respondents thought that the researcher believed. Assessing responses during the interview also helped the researcher guard against other concerns:

- Guarded responses: If a respondent was being extra-careful in the selection of words, the researcher would try and rephrase the question or address his specific use of words to probe deeper.

- Checking for incorrect information: First, the researcher ensured that she had read the related documents and research on the content of IFRS for SMEs and the problems of implementation. Secondly, the researcher was careful to observe the respondent's facial expressions and gestures to detect any false information. She also made it a point to try and verify the information from other sources such as those belonging to regulatory authorities.

- Guarding against researcher bias: The researcher was conscious of the possibility of personal bias influencing interviews since the offset. Guarding against interview bias is a particularly useful skill. Experience during the pilot study ensured that the researcher avoided any leading or influential questions or statements. Also, the researcher was careful to avoid making any personal comments or notes on the responses that could affect their authenticity or impact.

As mentioned earlier, semi-structured interviews are considered the main method for gathering data. However, other supportive methods and techniques were used to increase the validity of findings, such as observations and analysing documents. In the following section, each supporting method will be explained.

7.8.2 Observations

Bryman and Bell (2007) and Creswell (2009) suggest that observing participant actions and emotions can be considered to a certain degree as part of the qualitative interviewing process. Given (2008) indicates that observations are useful methods for collecting data, where the researcher's responsibility includes gathering impressions of the phenomenon of interest using several senses, such as listening and looking. Observations are powerful means to learn about people's behaviours and perceive the actual actions of individuals in a real-life setting.

Moyles (2002) divides observations into participant and non-participant (systematic). In participant observations, the researcher acts as an insider by taking part in the daily activities "related to an area of social life in order to study an aspect of that life through the observation of events in their natural contexts" (Given, 2008, p.598). On the other hand, in non-participant observations, the role of the researcher is just to observe participants without participating or interacting directly with them (Given, 2008). According to Bryman and Bell (2007), involving as a non-participant observation means that the researcher performs as a passive observer and does not get involved in any relevant event or situation as a participant observer.

There are several limitations associated with the use of observations, such as difficulties in obtaining permission to gain access and collect data, difficulties in establishing credibility and earning the trust of those being observed, difficulties related to documenting and noting

important information while participating (Given, 2008). In addition, an observation requires a significant amount of time to be spent in the field, to enable the researcher to grasp the deep understanding. Also, it does not suit studying large groups or populations (Given, 2008, p.599). Finally, Denscombe (2014), points to the impact of having the observer present, which may change the natural setting of the studied phenomena and in turn threaten the trustworthiness and representativeness of the collected data.

In this study, opportunities were taken to observe the process of adoption. The researcher's primary purpose of using observations was to explore the level of understanding of the content of IFRS for SMEs in KSA before implementation. There was also a desire to investigate whether SMEs in KSA were preparing to implement IFRS for SMEs and whether the level of awareness related to the experiences and attitudes of people to the adoption of IFRS for SMEs. The researcher attended some training courses and seminars on IFRS and IFRS for SMEs that were aimed at preparers and auditors. Observations were accompanied by informal conversations with people who attended the courses, including professionals and officials engaged in the adoption process. The data collected through observations and informal conversations took the form of notes written in Arabic. In total, seven workshops and symposiums were attended. Table 7-3 includes details of the sessions that were attended.

Table 7-3: Workshops and symposiums attended

Period	Speaker	Workshops and symposiums
Pilot Study: Second Period		
December 2016	Sajid Shafiq – EY	Workshop on the convergence from SOCPA standards to IFRS.
December 2016	Abdulrahman Essam – SOCPA	Workshop on IFRS.
Pilot Study: Third Period		
May 2017	Raj Basi – Oliver Wyman – Global Management Consulting experts.	Symposium in KAU about Value Added Tax (VAT).
May 2017	Ayman Hasan – Talal Abu Ghazaleh and Co.	Symposium on the adoption of IFRS in KSA.
Main Research Period		
February 2018	Abdulrahman Essam – SOCPA	Workshop on IFRS for SMEs.
May 2018	Abdullah Akbar Mohammad AlQasem – KPMG	Workshop title: Deep dive into IFRS for SMEs.
May 2018	Irfan Ali – Talal Abu Ghazaleh and Co.	Awareness workshop about IFRS for SMEs conversion in KSA.

Source: Prepared by the author

The researcher took into consideration ethical issues related to gaining authorisation to observe and informing participants about the purpose of the research.

The researcher noticed that in the early stages of transition, the number of Saudi trainees was low. However, in later periods, the number of young Saudis increased dramatically. This shows the recent intention of Saudi companies to hire Saudis in the accounting and auditing profession, as part of the Saudisation of some professions. Companies' new orientation is to invest in the local workforce.

7.8.3 Document analysis

The term "documents" covers a wide range of different kinds of source that can be produced with or without the request of the researcher. This section emphasises documents, as an example of secondary data, which include information that has been produced by other people without the request of the researcher. Lee (2012, p.391) defines a document as a "durable repository for textual, visual and audio representation that may be retained and used in different times and spaces, creating the possibility that the meanings of the representations may be interpreted differently".

Although Hodder (2003, p.703) has described a document as "mute evidence", Lee (2012) argues that not all documents are "mute", as some are able to produce sound and pictures. However, they may be unheard or unseen unless the researcher makes their qualities appear. Silverman (2011, p.77) indicated that documents should be considered as "social facts". These recognitions indicate that it is vital to give documents due weight and appropriate attention.

Documents take a variety of forms. Some are official documents generated by institutions such as governmental agencies and companies. They may be produced for internal or external purposes. Examples of official documents include press releases, minutes, memos, procedure manuals, spreadsheets; policy and mission statements, monthly, quarterly and annual reports. Also, there are personal documents generated by individuals being studied. These are mainly produced for private purposes and may take a written form, such as emails, letters, correspondence, and diaries or a visual image, such as photographs. In addition, other types of documents include newspapers, magazines, books, recordings, movies, and any other products aimed at mass consumption (Scott, 1990; Bogdan and Biklen, 2007; Silverman, 2011;

Bryman, 2012; Saunders et al., 2016). In the contemporary world, internet resources, such as websites and videos are considered major resources of electronic and digital documentary materials (Silverman, 2011).

The process of analysing and interpreting documents includes a "detailed examination of documents produced across a wide range of social practices" (Harding, 2013, p.20).

There are several advantages of using documents as a source of data. Some of these advantages include that they are an effective source for collecting word data, as they capture the words of the participants, are ready for analysis, and do not require transcription as in the case of interviews (Creswell, 2009). In this matter, documents are cost, time, and effort efficient in comparison to interviews. Also, documents are often safer and easier to access than approaching interviewees. In addition, some research participants feel more comfortable and relaxed to give their answers in a written form, rather than orally. They prefer taking their own phase of thinking, while not being observed or recorded.

Although documents are very useful in providing data that is ready for use, they are generally under-utilised. Lee (2012, p.389) indicated that the explanations for the lack of using documents as a means of collecting data include that people think documents are "too readily available to be of any use". Also, some believe that documents have already answered the interesting questions. Another reason for the lack of using documents is that the number of the available documents has become so great that it became very difficult to make a sufficient statement based on them (Lee, 2012). In addition, it could be challenging sometimes to locate and obtain certain documents. Furthermore, it could be difficult to access private information that is unavailable to the public. Moreover, some documents are placed in archives that are far from the researcher and may require the researcher to travel, which involves additional time and costs (Creswell, 2009). Additionally, collecting data from documents is a non-interactive process, and the researcher does not have the possibility of asking questions to clarify ambiguous areas (Harding, 2013).

In this research, the researcher viewed and analysed various documents. Some of them were fundamental official documents that come mainly from regulatory bodies, such as the IASB and SOCPA. Others were local documents that relate to the accounting profession, including

the Saudi Companies Law, Law of Professional Companies, Law of Commercial Books, Law of Certified Public Accountants, Governance Law, Zakat Law, Income Tax Law, Value Added Tax Law and "Qawaem" system (see Appendix C for extracts of important Saudi rules and regulations related to SMEs). In addition, the examined documents included documents from official organisational or institutional websites, including company annual reports. All of the documents were publicly available and none of them was private.

As mentioned in Section 4.3.3, there were some difficulties that faced the researcher in obtaining information from some documents, as they were recently published, and some documents were updated or amended during the research period. In addition, some documents did not have an English version, which prompted the researcher to contribute in translating these documents to English. For example, most tax materials are new and recently published. In addition, there is no English version for Zakat law and some materials published by SOCPA, such as IFRS endorsement document are only available in Arabic.

In this thesis, the purpose of using documents as a source of evidence for collecting data, in addition to non-participant observation, semi-structured interviews and informal conversations that were held during interviews and observations, is represented mainly in validating and substantiating the information provided by the interviewees.

7.9 Details of interviewees

The researcher conducted 35 in-depth semi-structured interviews in total, (B3 was interviewed twice) in addition to the 21 pilot interviews that were carried out during the pilot study. To preserve anonymity, each interviewee has been identified by a code, showing the group to which he/she belongs and including a distinguishing number. Table 7-4 shows in detail eight types of participants that were selected, the number and percentage of interviews from each type.

Table 7-4: Participant types, number and percentage of interviews

Participant type	Code of type	Number of interviews	Approximate percentage
Accountants	Ac	2	5%
Internal auditors	IA	2	5%
External auditors	EA	12	34%
Managers and CFOs	M	4	11%
Owners	O	8	22%
Bankers - Lenders - Creditors	B	4	11%
Regulators (SOCPA officials)	SO	1	2%
Officials from governmental agencies	G	2	5%
Total	-	35	100%

Source: Prepared by the author

Table 7-4 shows that the dominant group of participants was external auditors, representing 34% of interviewees. The researcher expected members of this group to be more knowledgeable about the topic.

Table 7-5 analyses two demographical factors (namely age and location of highest education) among participants.

Table 7-5: Demographic information about education and age of the participants

Demographical factors		Age band		Total
		Younger (under 45)	Older (45 or more)	
Education	Western (USA, UK, Canada, Pakistan)	9	1	10
	Local (Saudi, Jordan, Egypt, Yemen, Lebanon)	17	8	25
Total		26	9	35

Source: Prepared by the author

Older respondents are almost certain to have only local education, while those with western education are almost certain to be younger. Appendix L at the end of this thesis shows the details of the interviewees including interviewee's role code, gender, location of the highest education, age band, nationality, date and duration of the meeting. Characteristics of interviewees are illustrated in Table 7-6.

Table 7-6: Interviewees' characteristics

Interviewees' characteristics		Number	Approximate percentage	
Gender	**Male**	26	74%	100%
	Female	9	26%	
Age band	**Older**	9	26%	100%
	Younger	26	74%	
Nationality	**Saudis**	23	66%	100%
	Non- Saudis	12	34%	
Location of highest education	**Local education**	25	71%	100%
	Western education	10	29%	

Source: Prepared by the author

The highest numbers of participants were males and younger participants, representing 74%. In addition, Saudis and participants with local education were also the dominant participants, representing 66% and 71% respectively.

Of the 35 interviewees, 17 of them owned or worked for companies. There were 15 companies, in all of sizes, as shown in Table 7-7.

Table 7-7: Company basic information

Type of company	Micro	Small	Medium	Large	Total
Number	3	6	2	4	15
Approximate percentage	20%	40%	13%	27%	100%

Source: Prepared by the author

The distribution of companies was determined on the basis of ease of access. The researcher was particularly interested in companies at the lower end of the size distribution, because the pilot study revealed that smaller companies were more likely to have problems with implementing new complex accounting systems. Also, the researcher covered large and medium companies, in order to contrast and diversify the sample.

Twelve of the interviewees were external auditors, working in the types of auditing firms shown in Table 7-8.

Table 7-8: Type of auditing firms

Type of auditing firm	Big Four	Local	Total
Number	9	3	12
Percentage	75%	25%	100%

Source: Prepared by the author

The researcher concentrated on interviewing auditors from the Big Four auditing firms because they were more engaged with and aware of the adoption IFRS and IFRS for SMEs in KSA. It is logical that Big Four auditing firms acquire and gain more exposure and experience about the international accounting standards from communicating with auditing firms from other countries.

7.10 Data analysis

For this study, data was collected from different sources and techniques (as mentioned in Section 7.8) to ensure that rich data was acquired. However, Miles (1979) pointed out this richness makes data analysis a difficult endeavour. In qualitative research, the researcher is primarily responsible for analysing the collected data in a reliable and creative way, although this remains challenging (Humphrey and Lee, 2004). Babbie (2012) and Bryman and Bell (2007) indicated that analysing qualitative data does not follow a single clear and best set of guidelines for this process. Multi-methods were used to analyse the texts and data that were gathered from the qualitative approach as a way of triangulation.

Methods used for analysis include the researcher's own understanding and creation of meanings in addition to the usage of NVivo software version 11 (a quantitative analysis program). This program facilitated the process of organising and dealing with a considerable amount of qualitative data. However, it should be noted that the use of NVivo requires manual handling of data at several points (Jones and Diment, 2010). NVivo program was used as a tool to get a better inventory and add new insights. It is also systematic and objective in a way, as it excludes the intervention of the researcher in the analysis process. The usage of NVivo program can be considered as a robustness check, after running the program and receiving similar results.

7.10.1 Recording, transcribing, and translating the interview materials

1- Recording

Before taking the decision whether to use a recorder or not when gathering data from interview materials, the researcher assessed the advantages and disadvantages of audio-recording versus manual recording. It is undeniable that using an audio-recorder guarantees to keep a full, unedited record of the interview available to replay it afterwards by the researcher. However, the downside of it is the immense amount of data to be transcribed and edited after the interview for analysis. The transcription process requires a considerable amount of time and effort if the researcher has to do it him/herself, and costly if delegated to an agent (Humphrey and Lee, 2004). Robson (1993) demonstrates that one hour of recording may take up to ten hours of transcribing. In addition, although the accuracy of the interview report is higher when recording an interview, rather than writing out notes, there is a risk of the recorder malfunctioning (Opdenakker, 2006).

In contrast, the manual method of recording data makes an edited record available immediately after the interview. It does not require extensive time or money spent on transcribing and editing interview materials. In addition, it is easier to handle the lesser amount of data. After completing the interview, the researcher reads through the notes to clarify any deficiencies. Then the data is ready for analysis. This approach saves time and helps in shortening the overall research process. Therefore, it is suitable for research projects that have to be completed within a fixed timeframe (Humphrey and Lee, 2004).

After comparing the two approaches, the researcher chose the audio-recording route, in addition to taking notes while recording. As a novice researcher, the researcher believes that audio-recording works better for her, as she would like to use the gathered information in more than one research project. Therefore, it is worth having a complete transcription of the interviews. Ethical issues related to recording were taken into consideration, as mentioned in Section 7.4. All interviewees were informed about the use of a digital recorder, briefed about the intentions of the research and promised anonymity when managing data from the interview.

Some experienced qualitative researchers, such as Humphrey and Lee (2004) and Bryman and Bell (2007) claim that using a recorder might prevent interviewees from disclosing some data. Often times, near the end of the interview, when the researcher turns the recorder off, most interviewees speak freely and continue to provide significant information. This note was taken into account, as the researcher was keen to notify interviewees about the beginning and the end of the audio recording. This allowed interviewees to express themselves openly before and after the recording. The researcher remained focused on the respondents when the recorder was turned off and immediately took some time to self-reflect and write rapid notes and critical details once she was outside of the company's premises. The recorded materials were saved in multiple personal digital storage devices for safety and security considerations.

The researcher considers her experience in recording interviews successful. Although, there were some difficulties encountered, such as the time for transcribing the huge amount of gathered information, which delayed the analysis of the gathered data. In this study, the researcher conducted more than 25 hours of interviewing during the actual data collection, other than interviews conducted during the pilot study. Transcribing consumed a long time in addition to the process of typing the interviews, as the researcher is not trained to type in good speed. Then, the researcher needed to review and edit the transcripts more than once to ensure the accuracy of the transcribed material. To resolve this problem, the researcher suggests keeping a diary during each interview and making notes about the interesting points and the time that it has been recorded. This way, the researcher can refer to specific sections and concentrate on the important points in each interview, rather than listening to the entire conversation.

The use of a recorder was not possible in some instances. In one instance, the researcher noticed at the beginning of one of the interviews that the recorder was out of batteries. Therefore, the researcher was not able to audio-record the entire discussion and needed to rely on the notes taken during the interview to write a detailed recollection of the interview. However, she contacted that person by phone to make sure and clarify some points. In two further instances with top managers from two big auditing firms, respondents refused to record the interview. One of them justified this by having a confidentiality contract with his/her employer while the other declared that he/she had a previous incident where the

interview conversation was published to the public, and he/she decided not to be recorded again.

Although most interviewees spoke both Arabic and English, interviews were conducted in the Arabic language. The reason for this decision is that few interviewees spoke fluent English. Also, it was expected that using the Arabic language will help interviewees convey their thoughts. It will also yield a better interaction and quality of return in comparison to the situation where English is used. This approach was similarly taken by other researchers in KSA, such as Aljedaibi (2014, p.139).

2- Transcribing, translating and storing the interview materials

Once interviews were recorded, the process of transcribing and translating took place. Bryman and Bell (2007) highlighted the importance of transcribing audio data and its relation to research outcomes. Any transcribing error may lead to additions or omissions of important theoretical constructs (Silverman, 2009). Therefore, the researcher paid great attention to the transcribing process. Although the process of transcribing was unavoidably tiring and time-consuming, the researcher found it valuable in a way, as it forced the researcher to think about the data and enabled her to analyse while transcribing is taking place. The interpretation of data began during the transcribing process itself. It also gave the researcher a better feeling and insights about the data as the analysis progresses. This is consistent with Humphrey and Lee (2004).

As mentioned earlier, most of the interviews were undertaken in Arabic. That is why this language was used for transcription, and subsequently translated into English. The researcher transcribed over half of the recorded interviews herself and sought assistance from an agency to help in transcribing the remainder in the Arabic language. The researcher informed the agency to maintain the confidentiality of the transcribed information for academic purposes. However, the researcher translated the relevant quotations of transcribed materials for all interviews into the English language. This produced over 100 pages of transcribed evidence in English. The only interview that was conducted in English did not require any translation or linguistic processing, as data was captured directly in the research language.

Although the researcher has been introduced to Dragon, which is a computer-assisted software that transcribes qualitative data and respects voices, she did not use it for two reasons. Firstly, it does not offer to transcribe the Arabic language and most of the researcher's interviews were conducted in the Arabic language. Secondly, the quality of transcribing English interviews was not accurate, and the researcher had to go through the whole interview again.

It is desirable to transcribe each interview immediately after conducting it, but the researcher found doing this difficult in practice. The researcher did not expect that transcribing and translating interviews consume a lot of time. Sometimes, she was forced to start a new interview, while she was not finished from transcribing and translating the previous one. In this matter, transcribing did not follow the same order that the interviews have taken. The researcher thinks that every interviewer faces this problem. Scheduling of interviews has to take priority, so transcription has to be fitted around the actual interviews. As long as the time lag is not too long, there should not be a problem.

Sechrest, Fay and Zaidi (1972) indicated that in cross-cultural research there is a high risk of misinterpretation and loss of meanings due to translation problems. The authors proposed back-translations and de-centring to control these risks. In this study, most interviewees speak both languages. Therefore, the researcher tried to use cross-language validation during interviews to avoid wrong interpretation. In the private sector of KSA, the use of technical or general English terms in business discussions is common. In this matter, the researcher was observant of interviewees' exchanged use of words, and where applicable, asked interviewees to re-confirm a term using the other language. This technique was inspired by Aljedaibi (2014, p.140), however, it was not used with non-English speakers. The researcher had to go through double-checking the translations to ensure that they reflected the participant's own words and meanings. The researcher did not encounter any difficulties with the translations and is confident that they are faithful to the Arabic transcriptions.

7.10.2 Thematic analysis

As mentioned earlier, interviews are considered the main source of evidence in this thesis. Therefore, only interview data was used to develop themes. Data collected through other techniques, such as non-participant observations, informal conversations, and document

analysis were used merely to substantiate, support and reinforce the developed themes. Once interviews were transcribed, the analysis took place. The researcher used the thematic analysis method to help in analysing the collected data. This method was used as a preparatory measure for constructing the discussion of the research question(s). Thematic analysis is described as "a method for identifying, analysing, and reporting patterns (themes) within data" (Braun and Clarke, 2006, p.79). Part of the analyses includes "coding" the transcript evidence, which has been described as a process of "reading through interviews, field notes, and transcripts and assigning to sentences or paragraphs of text numerical or alphabetic codes representing concepts, categories, or themes" (LeCompte and Schensul, 1999, p.45).

As a counter argument for describing qualitative data analysis as not having any guidelines, Braun and Clarke (2006) attempted to offer a flexible guide for performing thematic analysis. Table 7-9 presents six phases of thematic analysis, as identified by Braun and Clarke (2006), and used in this study.

Table 7-9: Phases of thematic analysis

Phase	Description of the process
1.Familiarising yourself with your data	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
2.Generating initial codes	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
3.Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme.
4.Reviewing themes	Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic "map" of the analysis.
5.Defining and naming themes	Ongoing analysis to refine the specifics of each theme and the overall story the analysis tells, generating clear definitions and names for each theme.
6.Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis.

Source: Braun and Clarke (2006, p.87)

The researcher read the transcripts several times in order to gain familiarity with the breadth and depth of their content, enhance data sensitivity, evaluate the main findings, derive the themes, develop codes and identify patterns within the text. During the process of becoming familiar with the data, interesting features were identified and codes were assigned to facilitate subsequent analysis. Then, the researcher organised the data into meaningful thematic clusters (Bryman and Bell, 2007). Several key terms indicated the presence of sub-themes and then determined actual themes. After that, the transcripts were coded manually and systematically, noting that each interview was assigned equal importance.

The NVivo program played a significant role in facilitating the process of indicating the codes across the whole interview material. It helped to reduce bias and minimise the researcher interfere with the analysis, by doing automated coding. Coding is the central activity underpinning the use of the program. It requires interviews to be transcribed and saved as text files. These text files are then processed by the program to identify certain codes that are repeated throughout the document. When using this program, the generation of the codes is entirely the work of the researchers and the coding is done by the researchers.

Many of the research method books that the researcher reviewed referred to NVivo when analysing qualitative data. It is considered a standard practice (Ryan and Bernard, 2000). However, there might be a danger that it might over-quantify the analysis or detach the researcher from the data (Humphrey and Lee, 2004, p.395). Nevertheless, it should be highlighted that NVivo is merely a tool designed to assist analysis. The individual researcher is the one that does the thinking, formulating conclusions, storing and interpreting many of the contextual factors that will influence inferences drawn from the analysis. Data management, analysis and coding can be addressed through the usage of the NVivo program.

The data extracts associated with each code were identified, then collated separately. Within each code, the data extracts related to each potential main theme were then collated together. Within each main theme, several sub-themes were also identified. Table 7-10 shows the themes and sub-themes, together with key terms associated with the themes and sub-themes.

Table 7-10: The identified themes, sub-themes and key terms

Themes	Sub-themes	Key terms
Isomorphism	Coercive	• a kind of pressure • a must • mandated • a requirement • not optional • obliged legally • forced • cannot refuse it • it is mandatory • a binding decision • no choice • cannot resist it • legally we should apply it
	Mimetic	• copying neighbouring countries • the majority of countries have adopted the IFRS • to have a mature market similar to other developed countries • other countries applied VAT, then we implemented it • imitating developed countries • unified with other countries • first, the GCC countries applied it, then KSA implemented it
	Normative	• international product • modernisation • transparency • best global practices • acceptable accounting standards • very flexible and applicable to be applied in all countries • universal language and framework • understandable by others
Attitude	Supporters	• I am with the change • supporter • better • welcoming • it will add value more than the cost • beneficial • great idea • this opportunity • absolutely necessary • advantage • I feel positive

Themes	Sub-themes	Key terms
		• it is useful • it will help • it is important • it is something that should happen • I am happy and excited about it • it will make life easier
	Neutrals	• it does not make any difference • I do not care
	Sceptics	• fearsome • worrisome • it is too early • we were supposed to wait • it was a quick step • have fear
	Opponents	• stupid • unwise • bother • annoy • nobody is ready • it is not meaningful
Ignorance	Level of awareness/ understanding the content	• I do not have any knowledge about it • I am not familiar with • I did not have a chance to look at it • I do not have any idea
Preparedness	Readiness	• until now, there is no real preparation • I did not read it • we did not yet discuss with the external audit • we did not yet prepare for the IFRS for SMEs • we did not take any action • we need a period to learn and prepare ourselves • we need to read the standard first • we did not do anything yet • no reaction has been taken • our company started preparing • we have started • companies that took action and prepared

Source: Prepared by the author

This process helped the researcher to categorise and label the data with codes to distinguish similarities and differences in data material. Then the researcher classified the coded statements into several themes that are connected to the experiences of the participants.

Throughout each interview, certain themes were evident and consistent. These themes were also related to specific areas addressed in the interview guide questions.

7.11 Summary

This chapter has presented an overview of the research methodology. It introduced the two main approaches to methodology – quantitative and qualitative – approaches and highlighted the qualitative approach used in this study. Also, it discussed the research design and the ethical issues involved in the study. A review of the pilot study undertaken for this research is included in this chapter. A careful review of how access was gained, particularly through the snowball sampling approach, was provided. The actual data collection approach has also been discussed.

The section on research methods presented an overview of the three research methods used in this study: interviews, observation and document analysis. Characteristics of the interviewees were analysed. The final section provided a detailed overview of the data analysis, including recording, transcribing, and translating the interview materials, and the thematic analysis undertaken to interpret the interviews and other data sources.

The empirical findings relating to the decision to adopt IFRS for SMEs at the national level are set out in Chapter 8, and findings relating to the implementation of IFRS for SMEs at the organisational level are presented in Chapter 9. The discussion of overall results will be presented in Chapter 10.

Chapter 8 Adoption of IFRS and IFRS for SMEs in the Kingdom of Saudi Arabia

8.1 Introduction

This chapter explains the collected data and presents findings related to the adoption of IFRS and IFRS for SMEs in KSA, and is structured in six sections: (8.2) analyses reasons for adopting IFRS in KSA; (8.3) focuses on reasons for adopting IFRS for SMEs in KSA; (8.4) explains the purposes of financial reports by SMEs and whether it meets the needs of its users; (8.5) addresses arguments in favour of and against the adoption of IFRS for SMEs in KSA; and (8.6) is a summary.

Many respondents commented on the adoption of full IFRS in general and considered adoption of IFRS for SMEs as only a secondary issue, while other respondents appeared to generalise from their own experience of IFRS for SMEs and made broader statements relating to the overall approach to adoption. Four linked research questions explore this:

1-1. Why did KSA adopt IFRS?

1-2. Why did KSA adopt IFRS for SMEs?

1-3. What are considered to be the purposes of financial reporting by SMEs in KSA, and to what extent is adopting IFRS for SMEs considered to meet those purposes?

1-4. What arguments were proposed by owners, managers, employees and advisors of SMEs in KSA in favour of and against the adoption of IFRS for SMEs?

8.2 Why did KSA adopt IFRS?

This question relates to the adoption of full IFRS, rather than IFRS for SMEs, because the reasons for adopting IFRS by KSA may not be the same as in other countries. Also, it does not seem to make sense for a country to adopt IFRS for SMEs unless it has decided to adopt full IFRS for at least public interest companies. No country has done so, although the opposite has happened. That is, it is possible to adopt full IFRS for public interest companies but not to adopt IFRS for SMEs for other companies – either full IFRS for everyone, or something different for SMEs. For example, in France, Germany and India, national standards (GAAPs) are considered to fit the purpose of entities that do not have public accountability. So, the

question of why adopt IFRS is logically a precondition of the question of why adopt IFRS for SMEs.

This leads us to another question: Why does this study use the term “adoption” to reflect the case of KSA? By referring to Zeff and Nobes (2010), regarding the different terms that are related to the process of change in accounting standards, it is evident that the most appropriate term to be used in KSA is adaptation or convergence. In Section 2.2, a distinction between the concept of adaptation and adoption was discussed.

Zeff and Nobes (2010) argue that a country can be considered to have adopted IFRS even if it adopted a translated version. In some cases, the translation process takes several months, which means that the translated standards are only available for use after the date of issue by the IASB. Also, there might be some translation errors, which may complicate the application of the standard.

Zeff and Nobes (2010) indicate the ambiguous usage of the word “adopt” by using the case of Australia. Australia had adopted IFRS in general. However, it involves changing the designation of the standards by making various textual changes, such as adding references, inserting departures, adding a few disclosure requirements or deletion of a number of options from IFRS. It initially removed early adoption and deleted options. Although, the resulting standards are clearly different documents from the originals issued by the IASB, Australia is considered a country that has “adopted” IFRS.

However, in the case of Australia, Zeff and Nobes (2010, p.182) argue that it is misleading to use the term “adoption of IFRS” when referring to the Australian implementation. Although it is difficult to find an appropriate term, they suggested the use of “fully converging”, “light screening” or “standards that incorporate IFRS”. They also suggest the use of “as adapted” rather than “as adopted” when describing the EU’s version of IFRS.

By referring to the case of KSA, the researcher observed that the IFRS Foundation stated in KSA’s jurisdictional profile that “IFRS standards are required” (IFRS, 2018b), but this is misleading because the Saudi version of IFRS contains many changes from IFRS as issued by the IASB. It is stated on the IFRS website: “IFRS Standards are required for all listed companies, banks, and insurance companies”. This is true for banks and insurance companies, as they

adopted IFRS as issued by the IASB. However, listed companies adopted IFRS as modified by SOCPA.

After comparing the KSA approach of implementing IFRS and IFRS for SMEs with that of other countries, as clarified in Table 2-2, we can say that the case of KSA may be considered similar to the implementation of IFRS in Australia. Saudi IFRS (IFRS as modified by SOCPA) falls in the same category to that of Australia. They are basically fully converged with IFRS, but there are few subtle differences in the wording. Therefore, companies that follow Saudi IFRS also comply with IFRS. It is just that these standards require more disclosure in some cases than in IFRS. In other cases, there might be minor differences or options that are not allowed. The differences are not substantive, as they do not affect accounting but affect the wording of the standard. However, there is no deviation from the actual accounting requirements. For example, some examples that are considered Haram (contradicts Islamic law) were replaced by examples that are considered Halal (permissible under Islamic law).

Following Saudi IFRS (IFRS as modified by SOCPA), it is still possible to produce accounts that comply with IFRS as issued by the IASB. Some interviewees clarified that the modifications and adjustment done by SOCPA are not substantial and mainly to reflect Sharia requirement:

> *The adjustments are very little. They do not exceed 1-2% maximum and will not have a substantial or a significant impact on the application of IFRS. The adjustments do not change the accounting treatments, they only add disclosures and delay the fair value option. (Interviewee M3)*
>
> *SOCPA's modifications do not include change in treatments, they include only additional disclosures. (Interviewee G2)*

There were several different responses to the question about why KSA adopted IFRS. Some of the explanations are dominant explanations, while others are secondary. The majority of participants linked the adoption of these standards to external forces.

The first and common point of reference was KSA's membership of the Group of 20 (G20), which is an international economic forum consisting of heads of governments and central bank governors from the world's leading economies. Although the G20 includes several countries that do not apply IFRS for their own domestic companies (including the USA), IFRS has been adopted by most G20 countries, including Australia, Brazil, Canada and members of

the European Union. A recent study by Ansari and Tabrazi (2018, p.68-69) indicated that being part of the G20 made KSA politically inclined to support IFRS.

However, interviewees differed in how they explained the role of the G20. A senior partner of a local Saudi auditing firm (EA7) thinks that external bodies such as the G20 put pressure on KSA to adopt IFRS, even though the G20 may not have any coercive power:

> *I think the reason that led KSA to take the decision to adopt IFRS [in general] and IFRS for SMEs is the exerted pressure on the Kingdom as a member of the G20. It was a kind of pressure and an inevitable thing.*

Other respondents, such as (B4) who is an investment banker in one of the biggest local banks with a PhD qualification in accounting provided a more nuanced discussion of the G20 connection:

> *Another reason for adopting IFRS is the agreement with G20 that took place in 2008. One of the G20 requirements is that all members of the Group must comply with acceptable accounting standards.*

Interviewee (EA4) indicated that KSA could be copying G20 countries:

> *I feel the reason is that we will be unified with other countries especially G20.*

Another external force was mentioned by interviewee (B4), who recognised the role of being part of the World Trade Organisation (WTO), highlighting the advantages of using international standards:

> *Since 2005, when KSA joined the World Trade Organisation, the aim was to help KSA reach the level of inter-country trade and ease doing trade with other countries at a good level. Therefore, it is necessary that KSA uses a universal set of accounting standards that are understandable by others.*

In addition, the global financial crisis of 2008 was identified as an influential factor. Interviewee (B4) believed that it raised awareness about the importance of reforming accounting practices around the world and encouraged countries to require banks and other financial institutions to adopt the international set of accounting standards.

However, (O6) excludes the possibility that the introduction of IFRS and IFRS for SMEs by her company would have been necessary as a result of external international pressure:

> *I do not think it is an international requirement because, in all previous years, none of our international suppliers asked us to prepare our financial statements in conformity with IFRS.*

Other respondents linked the adoption of IFRS in KSA to the influence that comes from KSA's trade partners and countries that are geographically and culturally close to it, in particular, the countries of the Gulf Cooperation Council (GCC). Interviewee (EA12) clarified that "KSA is influenced by the neighbouring GCC countries and their decision towards international standards". KSA has a long-standing friendship with GCC countries that was formalised in 1981. These countries have strong economic and political ties. They also agreed to create a free trade zone between the GCC member states to strengthen their trading links (The Cooperation Council for the Arab States of the Gulf, 2018). Abdulmalik (2012) suggests that in the case of KSA, the emulation effect from GCC countries that share similar cultural and administrative characteristics, such as being neighbours, having a common culture, religion and language in addition to similarities in legal systems have a great effect on the decisions that KSA takes.

Table 8-1 shows the position in the six GCC countries towards the adoption of IFRS and IFRS for SMEs. As may be seen, the other five GCC countries ran ahead of KSA in adopting full IFRS for listed companies.

Table 8-1: The position of GCC countries towards the adoption of IFRS and IFRS for SMEs

Gulf Cooperation Council countries	Accounting standards for listed companies	Accounting standards for SMEs
Bahrain	Full IFRS as issued by the IASB is required since 2001.	All SMEs are permitted to use full IFRS or IFRS for SMEs.
Kuwait	Full IFRS as issued by the IASB is required since 1990.	IFRS for SMEs is not required or permitted. However, SMEs that fall under the purview of the Kuwait Commercial Companies Law and some other institutions are required to use full IFRS.
Oman	Full IFRS as issued by the IASB is required since 1986.	IFRS for SMEs is not required or permitted. However, it is under consideration. Some SMEs use full IFRS.
Qatar	Full IFRS as issued by the IASB is required since 2002.	Although IFRS for SMEs is not required or permitted, some SMEs use full IFRS or IFRS for SMEs.

Gulf Cooperation Council countries	Accounting standards for listed companies	Accounting standards for SMEs
Saudi Arabia	Full IFRS as endorsed by SOCPA is required since 2017.	All SMEs are permitted to use full IFRS or IFRS for SMEs as endorsed by SOCPA from 2018.
United Arab Emirates	Full IFRS as issued by the IASB is required since 2015.	All SMEs are permitted to use full IFRS or IFRS for SMEs.

Source: Prepared by the author from several sources, including IFRS (2018b), Al-Shammari, Brown and Tarca (2008), Hussain et al. (2002)

The argument that the adoption of IFRS in KSA was influenced by earlier adoption in other GCC countries is consistent with the "**network effects**" argument of Ramanna and Sletten (2014) already referred to. An owner of two small businesses (O7), who has been dealing with the new requirements for accounting and Value Added Tax (VAT) in KSA, remarked:

> *The decision to adopt IFRS and IFRS for SMEs definitely has something to do with an agreement with GCC countries, because all five other members had adopted IFRS before KSA. It may be that KSA is copying these neighbouring countries.*

On this basis, KSA's adoption of IFRS is mainly driven by a desire to imitate practices found in neighbouring and developed countries to which KSA wishes to be compared. The motivation for such copying of accounting practice in other countries was seen by some respondents as a process of catching up. Interviewee (EA11) observed the market power, but indicated that KSA delayed in the adoption of IFRS, as it is the last country in the GCC to adopt:

> *Because KSA wants its market to grow and become a mature market similarly to markets in developed countries, it is following their steps. Also, KSA is considered the last country in the GCC to adopt these standards. All GCC countries have already adopted the international accounting standards way before KSA. We are the last to adopt it. The same concept applies to VAT. First, the GCC countries applied it, then KSA implemented it.*

Table 8-1 suggests that, in regard to full IFRS, the network effect is able to justify the adoption of full IFRS in KSA. However, the network effect does not fully explain the reason for adopting IFRS for SMEs, as only the United Arab Emirates and Bahrain, permitted this. Although SMEs in Bahrain and UAE are permitted to use either full IFRS or IFRS for SMEs, interviewee (EA7) indicated that in practice, SMEs in these countries prefer to apply full IFRS:

> *I think that KSA will be the first country in the Middle East that adopted the standard of IFRS for SMEs. Even Jordan did not adopt this standard. Countries in the Gulf region have adopted only the full version of IFRS.*

Other respondents regarded the adoption of IFRS as mainly driven by internal reasons, such as the insufficiency of the local accounting standards. The rapid developments made SOCPA unable to keep pace in updating the local standards to make them equivalent with either US GAAP or international standards. Interviewee (EA8) highlights several reasons for adopting the international standards:

> *Firstly, the absence of local capabilities to issue or develop accounting standards, as academics at universities are busy in teaching and professionals are engaged in their professional services. Secondly, issuing standards involves costs. Meanwhile, there are international standards that are well prepared and ready for use. Also, the IASB persuaded SOCPA by granting SOCPA a membership in its committees, if KSA adopted the IFRS. In addition, the existence of explanations and application guidelines in IFRS, which are not available in SOCPA's standards.*

In 2016, there were 22 Saudi Accounting Standards (SAS) versus 41 existing International Standards. Only 18 IFRSs had direct corresponding equivalents in SAS, and 6 more IFRSs were partially covered in SAS (SOCPA, 2012). This shows that IFRS is more comprehensive than Saudi GAAP and that there has been a gap in the sense that SAS were not broad enough to cover the full range of issues. The regulator in KSA noticed that SAS were out of date and did not meet the needs of modern developments. Therefore, SOCPA stated that:

> In the absence of SOCPA's standards or a professional opinion on a particular accounting matter, a relevant standard issued by IASB should be considered (SOCPA, 2012).

The reason for lateness and delay in taking the decision to adopt IFRS may be related to the general belief that the Saudi environment is different from other environments. However, after deliberate thinking, it was evident that, except for the Zakat standard, none of SOCPA's standards had any unique features or environment-specific requirements (Alrazeen, 2013).

Interviewee (M3) clarified that:

> *The only thing in accounting that has a conflict with Sharia is the interest. However, interest did exist even during SOCPA's standards, we recognise it and record it. In other countries, it is called bonds, but here it is called legal instruments. The other thing is that there is no standard for Zakat in IFRS. We added a standard for it, as a legislative requirement.*

The endorsement of IFRS in KSA includes "other standards and pronouncements", which includes those standards and technical releases for subjects not covered by IFRS such as the subject of Zakat. To resolve the issue of not having a corresponding standard for Zakat, under IFRS, the Saudi regulator issued a separate revised standard for accounting for Zakat in 2018.

The technical superiority of international standards was a particular view of auditors, whether they worked for international or local firms:

> *I consider these standards as best practices around the world. They do not have a chance of mistake. People have been working to develop and update these standards for so long, it is compatible with the fast change in the business world. Instead of reinventing the wheel, why not adopt it. (EA10 – employed in an international firm)*
>
> *I believe this decision [adopting IFRS and IFRS for SMEs] will give KSA a better picture and cover the shortfall that was in SOCPA's standards, as they did not meet the needs of users. International standards indicate best practices and reflect the experience of several countries, not just a specific country or environment. (EA8 – employed in a local firm)*

Those proposing the adoption of IFRS, and IFRS for SMEs, as constituting "best practice" regard the international standards as norms to be emulated.

Secondly, another internal matter that relates specifically to KSA is *Vision 2030*. This governmental project was introduced a few years ago to lead the country into its future. It is concerned with reducing the dependence on oil and diversifying the income sources. It is also concerned with enticing local and overseas investments. The strategic goals of the initiative vision give a bigger role for adopting IFRS, as it helps the project to happen. This vision is considered to play an integral role in reforming the Saudi economy, society and accounting profession. *Vision 2030* is certainly consistent with more general trends that reflect the aim of opening up KSA to international trade and investment. Although this is consistent with the aims of G20 and WTO, the aims of these bodies are unlikely to be a significant driver of *Vision 2030*. An external auditor in one of the Big Four auditing firms (EA6) links the reason for the change in accounting standards to become in line with and match the new vision initiatives. He stated that:

> *The orientation towards adopting IFRS is part of the recent change that aims for economic reforms. It will improve financial information and make them expressive, which will enable foreigner investors to make decisions and encourage them to invest in KSA. This decision serves the economic vision, as it helps in opening KSA to the world and gives credibility to the Saudi economy and its financial market.*
>
> *Examples related to the recent reforms include enhancing the role of the regularities, monitoring, changing the accounting standards, corporate governance, the intervention of CMA. Also, the introduction of VAT and "Qawaem", which is a new system that aims to monitor financial statements prepare by companies, so there is only one version that is submitted to all different parties, such as the GAZT, the Ministry of Commerce, banks, CMA, etc.*

Interviewee (O3) highlighted the benefit of preparing financial statements on the same basis in multi-national companies, as this will make life easier to deal with a unified set of accounting standards:

> *This decision was inevitable, because our vision says that we need to export and open our economy, and we need, and we need. For a person who was trying to balance between two multi-national companies [one located in KSA and the other in Lebanon], it was very difficult not to have a synchronised system for preparing financial statements. It [adopting IFRS] will make life easier.*

Also, manager (M4) discussed *Vision 2030* at length, arguing that it was better to make a range of changes in regulations at the same time rather than waiting for a period of stability to enact changes. He noted:

> *I am with the changes that are happening in a short time because we do not want to repair over a period of 20 years. That is enough, we need to put some standards and work on certain things and apply them. KSA is very much ready for this change. There is no better timing than now. Today, people are welcoming all changes. When the country took the initiative to develop, people were accepting and ready for different changes in regulations. It is better to make all changes in the same period, rather than making changes after stability.*

Similarly, owner (O2) talking about his own business, supports the Big-bang theory, which calls for imposing all rules and regulation at the same time:

> *I do not see any problem in making all changes in the same year. Since I am going to change because of the VAT, it is better to change for IFRS at the same time, rather than having a change every now and then.*

Interviewee (O2) clarifies that corporate financial reports can be considered as tools that are used by the government to manage the economy. Following IFRS is seen as providing more useful information to the KSA government to aid in more effective economic planning:

> *All of this [recent reforms] will help the government to know its financial position and status clearly. The truthiness in the financial position (how much money is in the country? how much money that is going out of the country?). These new regulations will make companies work without covering up, by requiring companies to give real and accurate data that is compatible for international comparisons and will help in giving a clearer financial vision of the country as a whole.*

An external auditor in one of the Big Four auditing firms (EA6) stressed that the main internal reason for adopting IFRS and IFRS for SMEs in KSA is the desire to attract foreign direct investments (FDI) and to serve the needs of investors, international companies and institutions:

The financial statements will become readable and more understandable by foreign investors. There will be no big differences if they used similar processes.

*S*imilarly, (B4) emphasised the connection between *Vision 2030* goals and the increase in foreign investment. He indicated that:

The recent strategic goals of the Vision 2030, that KSA has announced and declared, aims to have a diversified income. This vision is making a direct catalyst and pressure to increase the share of foreign investment.

The desire to be represented as a well-regulated place to do business and attract new foreigner investors was seen by some respondents as an influential factor. Interviewee (B4) saw the adoption of IFRS important for facilitating the entry of foreign investors into the Saudi market:

The vision aims to bring techniques, experiences, and allow foreign investors to own and sell ventures in Saudi companies. Therefore, we must adopt IFRS, which is a language they understand.

Other respondents linked achieving the vision's goals to the reforms and developments that happened in KSA. An external auditor (EA10) remarked:

To transform our economy from depending on oil to non-oil, we need to have a support system in all aspects. If we want to deal with the world and attract foreign investments, we have to do all of this change.

Another reason is that the adoption of IFRS represents a symbol or a benchmark of modernisation. A manager in a large SME (M2) commented:

I see the decision to adopt IFRS as part of the whole message of modernising the Kingdom of Saudi Arabia. I see the change to IFRS as part of Vision 2030 and in line with it.

Some interviewees mentioned that this decision is part of a modernisation campaign that KSA is working on. A project director in a medium SME (M4) remarked:

During the last ten years, so many things have changed. The government has noticed that there is a gap between its way and the way that is being practised in developed countries. Therefore, to stay in the first lines economically and politically we cannot stick to our local standards, as the world has changed dramatically.

However, interviewee (EA9) opposes the idea that adopting these standards is a sign of modernisation. He believes that these standards are part of a developmental programme:

There is no doubt that these changes have a governmental direction. However, I do not think it relates to modernisation but rather to development. Modernisation relates to entertainment, quality of life and allowing women to drive, while legal systems and adopting international

> *standards is part of being developed not modernised. But the question is, will these changes lead us to real development or not?*

Perhaps this illustrates a fear on the part of some respondents that "modernisation" is a threat to traditional Saudi cultural values, whereas "development" can be seen as a logical extension of these values.

An owner of two small businesses (O7), commented:

> *The government aims to make the KSA in the rank of developed countries in all respects. If we want to have a better future, we have to comply with the new regulations that the government is imposing on its citizens.*

Several respondents referred to the government's new *Vision* of 2030, and how it set a track for converging KSA to more of a Western type of economy. It is considered as part of a broader process of reforming and modernising the Saudi economy, to more of a Westernised type. Other respondents saw the changes in regulation that happened during the last two years in KSA (such as Saudisation of jobs, orientation to attract tourism, the introduction of the Value Added Tax, and the adoption of IFRS and IFRS for SMEs) as part of an overall modernisation process.

Then some people saw consistency with other countries as being important, as it helps KSA in standing out in comparison to other countries. The importance of being part of the global economy or community was identified by several respondents as a crucial reason for adopting IFRS. A partner in a small SME (O2) explained that:

> *Adopting IFRS will help Saudi companies to be more aligned with the international markets and the global economy, which is a good thing. These standards are globally accepted and will help and ease gaining international investors and loaners.*

Also, the country's desire for the globalisation of business and markets was considered as an influential factor. A partner in a local auditing firm (EA7) mentioned:

> *The country wants to balance between its high financial level and its low economic power. Also, I believe that when KSA opens its joint market and incorporate its big listed companies in the international markets, such as Aramco, it is important for foreign investors to understand the financial statements.*

An internal auditor in a small SME (IA2) links the adoption of IFRS to global standardisation initiatives. His general feeling was that the adoption of IFRS is part of a trend towards greater

participation in the global economic unity. He saw KSA very enthusiastic towards internationalisation:

> *I believe it is linked to globalisation reasons, and to be open internationally, as international standardisation will ease comparisons.*

(B4) indicated that there are political and non-political pressures. Even if IFRS is not used, accountants need to know about IFRS, because it has become the dominant international system. He stated:

> *There are political reasons and pressures, even the USA is exposed to these pressures. Now, IFRS knowledge is tested and included in the CPA tests. Also, international companies that are listed in the US markets, should prepare their financial statements in accordance with IFRS. Therefore, it is necessary for people with the American CPA qualification to understand IFRS. Despite the fact that the USA does not like IFRS and believe that the US GAAP is more developed and has more rules. In addition, there are non-political reasons, that relate to the perceived benefits on the economy, which is managed by the economic group who are responsible for the rules and regulations related to the development of trade, economy and planning.*

Interviewee (EA8) highlights a feature in IFRS is that it does not indicate a control or dominance of a particular country over another:

> *The trend towards the international standards is logical. It makes no sense to adopt the American accounting standards, as it has the meaning of hegemony and may be considered dominance. However, adopting an international set is much acceptable and does not give the impression of the hegemony of a particular country.*

Moreover, this move comes in line with KSA's government strategy to boost transparency. The demand for transparency comes from the government's desire to increase control and eliminate corruption. This strategy addresses all types and sizes of entities, including listed companies and SMEs. Interviewee (O1) explained:

> *I noticed that there is an interest in accounting matters and improving accounting capabilities due to the lack of [external] monitoring in private entities in the past. There has been a motivation to monitor businesses by improving numbers and transparency. . . . It could help the government measure and calculate the national income.*

Interviewee (M2) remarks are similar to the claim made by the IASB in its mission statement:

> *The message that the government wants to deliver to everybody is that Saudi Arabia is a modernised, transparent and accountable country. . . . because IFRS is more transparent than SOCPA's standards and has much more disclosures.*

Some people thought that adopting IFRS will provide a high quality of financial and accounting information. This will help the government in controlling the economy by giving fair and

transparent accounting information about entities' activities in the "Qawaem" system, and a fairer estimate of the wealth of people in KSA. Interviewee (O8) stated that:

> *It is useful for the government, especially after the decision to impose taxes on white [undeveloped] lands. It will add transparency and clarity by disclosing how properties and wealth are measured.*

Interviewee (EA3) echoed the rhetoric of IASB about how IFRS should enhance transparent reporting, stating that:

> *Applying IFRS on the general level, with its additional transparent accounting is beneficial and provide more comparability because KSA has plenty of transactions with other companies that exist around the world. Practically, it will give investors, shareholders, bankers and lenders a better chance to look into the financial statements in a better way.*

Other secondary matters relate to IFRS features and were mentioned by several respondents. For example, a supervisor in one of the Saudi local auditing firms (EA8) mentioned that one of the qualities of IFRS is the possibility that different countries can be involved in the setting of IFRS and its due process mechanism, possibly through regional bodies that lobby IFRS, or in other ways:

> *IFRS is an international product. It is permissible for any country to contribute in its preparation. The IASB receives contributions from different countries to produce an international product. That is how countries benefit from the experiences of other countries.*

Furthermore, interviewee (M3) highlighted the advantage of having continuous updates and reviews in IFRS:

> *One of the great benefits in IFRS is that it is subject to continuous reviews and updates that are in line with the development of the economy. This feature is not available in SOCPA's standards.*

In addition, interviewee (B3) explains a general issue by stressing another benefit for adopting IFRS is that it increases the accountant's analytical knowledge and qualification:

> *A very important fact is that IFRS is a financial language, not just an accounting one. . . . IFRS standards give the accountant ways to evaluate and use the fair value, such as the earning per share, which is used as an indicator for the success of the business or its failure. Also, impairment tests are part of finance, as they relate to the business plan and its performance whether it is improving or deteriorating.*

Overall, the evidence presented above shows that respondents suggested a range of reasons for adopting IFRS in KSA. For example, some respondents thought that KSA was being forced by international pressures to adopt IFRS. Others thought that KSA was copying other countries. Some saw the adoption in terms of using best practice. Other proposed reasons for

adopting IFRS in KSA include, weaknesses in local accounting standards, government's new modernisation programme, being part of the global economy, and providing transparent, credible and comparable information.

8.3 Why did KSA adopt IFRS for SMEs?

Respondents suggested several factors that may influence the decision to adopt IFRS for SMEs in KSA. These factors include the technical superiority of international standards in general and IFRS for SMEs in particular. Respondents also noted that IFRS for SMEs is produced by an authoritative international body. Some respondents saw IFRS for SMEs as more straightforward to apply than the previous Saudi Accounting Standards that were based on US GAAP. Comparisons were sometimes drawn between IFRS for SMEs and the previous local Saudi accounting standards, developed by SOCPA. A corporate manager (M3), who is also involved in providing training in IFRS for SOCPA noted that "IFRS for SMEs is much more flexible, easier and simpler than Saudi accounting standards."

(IA1) thinks that the additional IFRS for SMEs requirements compared to the national accounting standards (for example, more disclosures) would be beneficial for the users:

> *In SOCPA, notes are very general and simple, while IFRS gives detailed notes and full explanations that help readers of financial statements to understand the numbers. I don't look at the plain numbers alone, I also look and read all of the notes.*

Some respondents suggested that adopting international accounting standards improves the quality of financial reports. An owner of a small business (O4) doubted the ability of Saudi accountants to develop their own standards:

> *The quality of international accounting standards is better than local accounting standards. I do not think we have the capabilities to construct our own.*

KSA decided to adopt IFRS for SMEs to maintain matching convergent frameworks, as the country had already decided to adopt full IFRS for listed companies. Therefore, it is much easier to adopt IFRS for SMEs for private and unlisted companies, rather than having two different accounting systems (full IFRS for listed companies and local accounting system for SMEs).

The way of adopting IFRS for SMEs in KSA was considered appropriate by people who have the power of making decisions in KSA, such as SOCPA and the Saudi government. A senior official in SOCPA (SO1), indicated that IFRS for SMEs is of high quality and is consistent with full IFRS:

> *IFRS for SMEs provides an integrated framework for the requirements of preparing financial reports and incorporates best global practices, while at the same time is consistent with the move towards full IFRS.*

Interviewee (M3) expressed support for the adoption of both IFRS and IFRS for SMEs, arguing that:

> *These two frameworks match each other. They have compatible treatments and disclosures. It is illogical to adopt full IFRS and leave IFRS for SMEs. There are minor differences between them.*

He thought that the combination of full IFRS for listed companies and the existing local Saudi standards for SMEs was inappropriate:

> *This will make life difficult for accountants, auditors, etc. They will need to update themselves in both Saudi standards and IFRS. One framework only should be applied.*

A similar justification was stated by interviewee (EA4):

> *There will be no more confusion in the work of auditing firms, as we were used to doing auditing for some companies according to SOCPA's standards and in the same time, there were other clients that request their financial statements to be audited according to IFRS. Now, auditors can concentrate on IFRS only and catch up with its updates.*

When interviewees were questioned about the specific adoption of IFRS for SMEs, they often saw this as providing benefits in relation to full IFRS, such as lower disclosure requirements and less volume of regulation. A banker, who is a member of SOCPA and involved in the process of translating IFRS into Arabic (G2), emphasised the burden that would be imposed on most businesses if they were required to use full IFRS:

> *Officials thought that only big and listed companies can tolerate the burden of adopting the full version of IFRS, but for SMEs, they did not want to overload them by obligating them to adopt full IFRS. Therefore, they decided to mitigate them by imposing IFRS for SMEs. Also, there are not enough trained accountants and auditors who know how to deal with 3,000 pages of sophisticated standards, but IFRS for SMEs consists of only 240 pages.*

Furthermore, other reasons were also mentioned, but by few respondents including the belief that these standards facilitate comparability, such as interviewee (M3), who indicated that:

> *In KSA, it is not only big companies that do acquisitions, mergers and partnerships. Also, some small and medium-size companies do acquisitions, mergers and partnerships. In this case, if SMEs financial statements were prepared in accordance to international standards, then it will be possible to compare their financial statements and performance with companies in other countries, such as in France and the UK. It will be possible to evaluate the company in the light of information and data built on the same basis (one language we all understand).*

Interviewee (EA4) referred to the desirability of harmonising SMEs accounting activities, mentioning the importance of competitiveness and comparability. He stated that:

> *Adopting IFRS for SMEs will make it possible for SMEs to compare their performance with other companies in other countries. Another benefit is that stakeholders from other countries will understand the financial statements easily.*

Interviewee (EA11) highlighted that using international standards helps foreigner users of SMEs financial statements to understand the financial information, which may enable SMEs to get access to financing, improve their visibility, and develop their business opportunities:

> *As some SMEs invest in other countries, they should follow the international standards. The existence of subtle differences between SOCPA's standards and IFRS for SMEs makes it difficult for foreign investors to understand financial statements prepared in accordance to SOCPA's standards. In the past, international investors had to hire a consultant in order to understand the numbers. But now, IFRS for SMEs is so specific and provides clear and transparent information, which will help users to understand the financial statements easily.*

The evidence presented above shows that respondents suggested a range of reasons for adopting IFRS for SMEs in KSA. For example, some respondents thought that IFRS for SMEs is a complete set of high-quality accounting standards, known as best global practices, that is superior to the local standards that has additional disclosures. In addition, the inability to construct local accounting standards with high quality. Others thought that the reason relates to the desire to maintain a matching framework to that of full IFRS. Also, the advantageous qualities in IFRS for SMEs, such as (easier and cheaper) its lower regulations and disclosers, in comparison to full IFRS prompted its adoption. Other interviewees believe that it facilitates comparability, offers harmonisation, competitiveness, access to financing, improves SMEs visibility and develops business opportunities.

Having now discussed some issues related to the introduction of IFRS for SMEs in KSA, we can turn to the two specific research questions outlined at the beginning of this section.

8.4 What are considered to be the purposes of financial reporting by SMEs in KSA, and to what extent is adopting IFRS for SMEs considered to meet those purposes?

Respondents were asked to identify who they saw as the most important users of SMEs' financial statements and the main uses and purposes of SMEs financial statements. Table 8-2 shows the different internal and external users that were identified.

Table 8-2: The main users of SMEs financial statements according to the interviewees who responded on this issue

Interviewee	Governmental agencies (Zakat & Tax & Ministry of Commerce)	Banks and other lenders	Owners, partners & shareholders	Management & board	Business contacts and competitors	Analysts	Potential investors	External auditors	Suppliers	Advisors
EA4	√	√								
EA6	√	√	√				√			
IA1	√	√		√					√	√
M1	√	√	√	√				√		
EA2	√	√	√		√					
O8	√		√		√					
O6 + AC1	√		√		√					
O3	√			√	√					
O7	√									
O2	√	√					√	√		
M2	√	√				√				
B3	√	√	√			√	√			
EA7	√	√								
M3	√	√			√					
EA8	√	√	√	√		√				
EA9	√		√	√						
Total	16	11	8	5	5	3	3	2	1	1

Source: Prepared by the author

From Table 8-2 it is clear that governmental agencies, including the General Authority of Zakat and Tax, and the Ministry of Commerce are considered to be the main users of SMEs financial statements in KSA, while external auditors, suppliers and advisors were least mentioned. In the following, the main users of SMEs' financial statements and the uses to which the statements are put are explained respectively.

1- Governmental agencies

Most respondents mentioned the General Authority of Zakat and Tax (GAZT) as the most prominent governmental agency that uses SMEs' financial statements followed by the Ministry of Commerce. However, they gave different emphasis. Some respondents provided a list of different potential users. Zakat and tax were highly prominent and were mentioned the first on their list. However, others tend to put Zakat and tax in a less significant position, as part of the list of users. Interviewee (EA4) highlighted that Zakat and tax authorities are the prominent users of SMEs financial information, followed by banks:

> *From my experience, generally, small entities prepare their financial statements to meet the requirements of the government which is Zakat, also recently tax. In addition, some SMEs prepare their financial statements in order to apply for loans from banks.*

For some respondents, providing information about Zakat and tax to the government was the only purpose of SMEs' financial statements. For example, (IA2) an internal auditor in a small SME indicated that financial statements are mainly prepared to meet the requirements of GAZT. Although, interviewee (O7), who is an owner of two small businesses thought that there was no real need for some SMEs to report or prepare financial statements, she identified GAZT as the only purpose for preparing financial statements in her business:

> *I do not have any financial statements, but if I had, it will be for taxation and regulatory purposes.*

Interestingly, there were different nuances in the responses of some interviewees regarding the effect of adopting IFRS and IFRS for SMEs on the calculation of Zakat. Some respondents did not think that the adoption of IFRS for SMEs would have an impact on the calculation of Zakat:

I do not see big differences between IFRS for SMEs and SOCPA. Adopting IFRS will not affect the calculation of Zakat, as it is based on an equation that takes into its account assets, liabilities and revenue (Interviewee EA7).

The application of different accounting standards when recording accounting transactions does not have a negative nor a positive effect on the value of Zakat. Using different accounting standards does not matter and has no effect. The change is only in the presentation, not in the way how it is calculated. None of them [SOCPA nor IFRS for SMEs] is more appropriate for Zakat calculation and presentation (Interviewee EA2).

Preparing financial statements according to any type of accounting standards does not affect the calculation of Zakat. GAZT has its own rules for calculating Zakat (Interviewee G2).

Whereas, others thought that applying IFRS will help in giving a more precise value for the calculation of the amount subject to Zakat:

The move from SOCPA's standards to IFRS might improve the evaluation of the amount subject to Zakat, because IFRS requires additional disclosures. While SOCPA's standards have limited and fewer disclosures, which required GAZT to do field surveys. IFRS additional disclosures will help the GAZT to detect whether anyways were taken to reduce the amount subject to Zakat (Interviewee EA8).

I cannot say that the Zakat container (using SAS) was previously calculated in a legitimate way. There were some items that were supposed to be included while others were not (Interviewee SO1).

Some interviewees referred to the recent introduction of Value Added Tax (VAT) as an important purpose for producing financial reports in KSA. They pointed out that VAT is based on government regulations and is independent from the accounting system. Interviewee (EA8) commented that the law regulates VAT, which has a higher authority than the accounting standards if there was any conflict between them:

What determines VAT is the law, not the accounting standard. So, in cases where conflict happens between what is stated in the standard and the law, the preference is to take what the law states because it is from a higher authority.

Interviewee (M3) sees a link between the decision to adopt IFRS for SMEs and the imposition of tax regulations. He stated:

The decision to adopt IFRS for SMEs might have a link with the tax regulations of a country. Because, mainly, SMEs prepare their financial statements for the purpose of tax, not for any other reason. In Dubai for example, people who work in the free zone are not required to submit any financial statements.

Interviewee (M2) does not see a direct link between the introduction of VAT and the adoption of IFRS, however he sees a link between the introduction of VAT and attention to accounting matters and enhancing the clarity and the quality of SMEs accounts:

VAT can be considered as a pressure to pay more attention and care about accounting in companies that prepare their accounts in a random way. Otherwise, companies will not be able to cope with VAT claims and might fall in penalties and problems. If the company's system was not supportive enough to capture all the VAT in and the VAT out requirements and did not distinguish between the claimable and reclaimable items, the company will fall in problems.

The introduction of the VAT may improve companies' accounts. This has nothing to do with the adoption of IFRS, as it could happen under SOCPA's standards. The VAT threatening stick could easily force people to implement SOCPA's standards with additional requirements and disclosers. It is not IFRS.

Some interviewees saw that the introduction of VAT will not require entities to change their internal accounts, such as (EA7) who stated that:

The only effect of VAT is the issuance of either a credit or a debit account (as an asset or a liability) in the budget. It is not linked to the financial position.

Similarly, (M3), who works in a medium-sized company, indicated that the introduction of VAT did not require any substantive changes in the company's internal accounts. However, the case may be different in companies that did not keep proper accounting records. He clarifies that:

We only added some accounts so that we can process the VAT and control it. It did not cause any change in the internal accounts. But maybe for companies that did not have any accounting books, the introduction of VAT will have a great impact on them, as it will force them to hold proper accounting books.

Interviewee (O8), who is an owner of a small company noticed an effect on her company. She stated that the introduction of VAT forced her to update the company's accounting system and issue a new type of invoices.

2- Banks and other lenders

Some interviewees identified banks and other lenders as the main users of SMEs financial reports:

Mostly banks to calculate some ratios, plus the mandatory regulatory requirements from the Ministry of Commerce (interviewee M2)

Users of financial statements are banks, GAZT and governmental agencies, such as the Ministry of Commerce (interviewee EA7)

Banks, companies that offer tenders and regulatory bodies, such as GAZT (interviewee M3)

Banks and other lenders use SMEs reports to calculate some ratios. These indicators help bankers make decisions related to granting loans or facilities to companies. A banker (B2) highlighted the important role that analysing financial statements can play:

> *Bankers are interested in the financial analysis of financial statements. Before bankers make a decision of granting a loan to a company, we rely 40% on analysts' outcomes. However, financial statements sometimes fool, therefore, what we care about the most in SMEs is the customer's or companies name and reputation. We need to make a full analysis.*

3- Owners, partners and shareholders

Several interviewees, such as (M1), (B3), (EA2) and (EA6) identified owners, partners and shareholders as important users of SMEs financial reports. Interviewee (B3) clarified some of the purposes of using SMEs financial reports by owners:

> *Owners, to know their performance, the profit of their performance and to make decisions.*

Some owners explained the different uses of the financial statements produced by their companies:

> *To know the financial position of the company and distribute the profit between partners (Interviewee O8).*

> *We prepare financial statements to know the company's financial position, to discuss at the shareholders meeting what the company is doing and to reassure the owners about the distributed profit (Interviewee O6).*

Several interviewees mentioned the importance of accounting standards for the purpose of measuring profit in the context of calculating distributable profits, in particular as dividends. For example, (EA9) clarified that:

> *There is a direct relationship with dividends, because profit and the distribution of profits will change according to the standards that are used.*

Some respondents mentioned the relationship between the accounting system and calculating dividends. Interviewee (EA8) clarified that using IFRS for SMEs helps in determining dividends:

> *IFRS for SMEs might help in regulating dividends (the way of calculating and distributing profits). I recall an incident, were partners disagreed after many years of partnership because they were not applying any standards that organise the distribution of earnings in cases where one of the partners have obtained a debt from the company. Cases like this affect the trust between partners and the continuity of the company. On the other hand, applying standards*

with detailed disclosures may help in the stability of the company and regulate the mechanism of dividend distribution.

4- Management and board

Some interviewees mentioned management at the top of their users list:

> *Management, bank, advisor, Zakat, tax and suppliers (interviewee IA1)*
>
> *Top management, external auditor, bank for providing facilities, owners, dividends, partners, Zakat and tax (interviewee M1)*

Some respondents identified areas where financial reports and the adoption of international accounting standards could be of help for the management of the company, although these respondents tended to be external auditors rather than managers themselves. In this context, respondents tended to refer to full IFRS rather than IFRS for SMEs. For example, respondent (EA9) clarified that management is the biggest beneficiary, when a company applies the international standards:

> *IFRS additional disclosures are better and easier for the management. However, we have to consider that the management is qualified in order to use and understand the available data correctly. If the management was qualified, it will be the biggest beneficiary. I see the management as the main party that will possibly benefit from the transformation to the international standards. Applying IFRS will give managers more comfort. They will have more options to present their company in a better way.*

5- Business contacts and competitors

Some interviewees, such as (O3), (O8) and (M3) considered their desire to participate in governmental projects, tenders, bids, contracts and competitions as an influential reason for preparing financial statements. Interviewee (O6) highlighted the importance of keeping well organised and standardised financial statements as a condition for being selected for governmental and big companies' bids and tenders. These parties require providing financial information that is available in audited financial statements. She clarified that:

> *Mainly, we prepare financial statements to apply for governmental tenders. Usually, they ask for financial statements for the previous 2 or 3 years. . . . Our main goal is to expand and to be able to enter bids and tenders. To be distinct and to win in competitions, we like to prepare proper accounting information, and that what makes us different from our competitors. I know plenty of my friends who work in the same field and own similar size or a little bit smaller than our company but cannot participate in these governmental tenders and bids. In my opinion, what is stopping them is the absence of audited financial statements.*

6- Analysts

Some respondents identified analysts as important users of financial statements, although they did not distinguish between larger companies preparing their financial statements using IFRS and smaller companies using IFRS for SMEs. For example, interviewee (EA8) stated:

> *An advantage in IFRS over the Saudi standards is that it is necessary to declare every option or policy the company choses, by providing justifications, explanations and disclosures for the users of financial statements.*

On the other hand, (M2) highlighted that analysts use numbers and analyse companies in their own way. It does not matter with them which standards have been followed:

> *Usually, investment funds invest in private companies to transform them into listed companies. These private equity funds don't mind the use of SOCPA, GAAP or IFRS standards, as they already have expertise to analyze companies in their own way.*

Noting that some parts of IFRS were specifically created to help financial analysts. Interviewee (B3) drew attention to a feature in IFRS that did not exist in local accounting standards:

> *IFRS makes the accountant enter the financial world and learn more about finance, which is different from accounting but now it is part of what accountants do.*

7- Potential investors

Preparing and providing financial statements to attract potential investors was only mentioned by very few respondents. Interviewee (O2) stated that this was likely to arise in SMEs:

> *In very rare situations, where investors are interested in the company.*

However, several interviewees doubt the usefulness of adopting IFRS for SMEs to attract or motivate international or foreigner investors in Saudi SMEs:

> *To attract particularly international investors, adopting IFRS for SMEs will not help. Investors do not care whether you apply these international standards or not. They care about different things, such as the market, the business, the potential of the company, the sold products, company's income, and reputation. I do not think that adopting these standards will, by any mean, attract foreign investment. If an investor had the desire to invest in a company, the non-adoption of IFRS will not stop him/her from taking that decision. He/she can hire a consultant or an accountant to convert the financial statements according to IFRS or IFRS for SMEs (Interviewee O1).*

> *I believe that SMEs do not attract external investors. My understanding is that the big goal for full IFRS is to attract foreign investment and make the Saudi market more transparent and*

comparable with international standards. This goal is very clear in listed companies, and IFRS becomes much beneficial than the case in SMEs where most of them are family businesses. Usually, foreign investors invest in companies listed in the stock exchange, not in privately owned companies (Interviewee M2).

This view that adoption of IFRS for SMEs would be of little relevance to potential investors was endorsed by interviewees EA10, O8 and G2.

The evidence presented above shows that respondents suggested a range of users of SMEs financial statements in KSA. Ten user groups were identified in Table 8-2. Governmental agencies, such as the General Authority of Zakat and Tax and the Ministry of Commerce were considered to be the dominant users. They were followed by banks and other lenders who occupy the second place. Then come the owners, partners and shareholders. In addition, several other users were identified and come subsequently after that, which are management and board business, contacts and competitors, analysts, potential investors, external auditors, suppliers and advisors. Interviewees put varying emphasis on these users.

Although, some interviewees thought that there was no real need for some SMEs to report or prepare financial statements, others stated different uses and purposes of financial reporting by SMEs in KSA. These include providing information to the government to calculate Zakat, tax and VAT; helping bankers and other users in making lending decisions; helping companies apply for loans; helping owners, partners and shareholders to know the financial position and performance of their company; measuring profit and distributable profit; applying for governmental tenders; and assisting analysts in producing more accurate forecasts. Finally, the majority of respondents did not believe that foreign investors use SMEs' financial reports, as these companies are not their target.

8.5 What arguments were proposed by owners, managers, employees and advisors of SMEs in KSA in favour of and against the adoption of IFRS for SMEs?

The researcher conducted semi-structured interviews with 35 respondents (B3 was interviewed twice). The various respondents fell into different groups. Respondents were classified into supporters, neutrals, sceptics and opponents, depending on the views they

expressed. Opponents were further classified into four sub-groups, depending on what alternative position they took regarding the regulation of SMEs' financial statements:

1. Preferred the local accounting standards.

2. All entities should adopt full IFRS, maintaining one framework.

3. IFRS for SMEs should genuinely be for small and medium entities, while larger entities should apply full IFRS.

4. Micro and small entities should not be required to adopt any accounting standards/or retain to use local accounting standards, whereas medium and large entities should adopt IFRS for SMEs.

Respondents were not always consistent in their views across time, with some respondents (B3, EA12 and M2) expressing different views in follow-up interviews conducted after the first full year of IFRS for SMEs in KSA.

Table 8-3 shows the views of different interviewees towards IFRS for SMEs as expressed in the main data collection period, and noting those respondents who took part in follow-up interviews. Table 8-4 analyses the attitudes of different types of participant. Table 8-5 shows the connection between the attitude towards the adoption of IFRS for SMEs and three personal factors, namely: the location of the most recent education, age and type of auditing firm.

Table 8-3: Participants' attitudes towards the adoption of IFRS for SMEs

Attitudes						
Supporters	Neutrals	Sceptics	Opponents			
Supported the adoption of IFRS for SMEs	It does not make any difference to them. They do not care	Have doubts about IFRS for SMEs. They advocated a longer gap between the adoption of full IFRS and IFRS for SMEs	Preferred the local accounting standards	All entities should adopt full IFRS, maintaining one framework	IFRS for SMEs should genuinely be for small and medium entities, while larger entities should apply full IFRS	Micro and small entities should not be required to adopt any accounting standards/or retain to use local accounting standards, whereas medium and large entities should adopt IFRS for SMEs
(SO1) - (M1) (IA1) - (EA1) (M2)* - (EA4) (IA2) - (O2) (EA5) - (EA8)* (EA10) - (O3) (O4) - (EA11) (G2) - (M3) (O6)* - (Ac1) (B4) (M4) but opposes allowing SMEs to choose between full IFRS and IFRS for SMEs.	(B1) (G1)* (O5)*	(B2) (EA7)	(Ac2) (EA9)	(EA2) (EA3) (B3)*	(EA6)	(O1) (EA12)* (O7) only financing, car and listed companies need international standards (O8)
20	3	2	2	3	1	4
20	3	2	10			
35 (interviewee B3 was interviewed twice)						

Source: Prepared by the author. (Note: * conducted follow up-interviews with these interviewees.)

Table 8-4: The number of participants expressing particular attitudes

Participants	Supporters	Neutrals	Sceptics	Opponents
Accountants	1	0	0	1
Internal auditors	2	0	0	0
External auditors	6	0	1	5
Managers and CFOs	4	0	0	0
Owners	4	1	0	3
Bankers	1	1	1	1
Regulators (SOCPA officials)	1	0	0	0
Officials from governmental agencies	1	1	0	0
Total (35)	20	3	2	10
Percentage	57%	8.5%	5.5%	29%

Source: Prepared by the author

Table 8-4 shows that the majority of the respondents were supporters, representing 57% of the total sample.

Table 8-5: Attitude versus education, age and type of auditing firm

Attitude	Education		Age		Auditing firm	
	Local	Western	Younger	Older	Local	Big Four
Supporters	14	6	17	3	1	5
Neutrals	2	1	2	1	0	0
Sceptics	2	0	0	2	1	0
Opponents	7	3	7	3	1	4
Total	**25**	**10**	**26**	**9**	**3**	**9**

Source: Prepared by the author

Table 8-5 suggests that younger respondents are more likely to welcome the change: about two thirds of the younger respondents were supporters, whereas only one third of the older respondents were supporters. It is interesting to observe that a significant minority of

auditors working for Big Four international firms expressed opposition to the adoption of IFRS for SMEs as it took place in KSA, although their preferred alternatives covered all four categories of opposition. The arguments proposed by supporters, neutrals, sceptics and opponents will now be reviewed.

1- Supporters

There were those who supported the adoption of IFRS for SMEs, such as (EA8), who is a supervisor in one of the local auditing firms. He stated that IFRS for SMEs is a better option for SMEs, in comparison to SOCPA's accounting standards:

> *I am a supporter of this decision. Because we were facing problematic issues with the Saudi accounting standards. They were supposed to be applied to all companies (large and small), in the sense that they did not differentiate between the requirements, which was exhausting to small and medium enterprises.*

Interviewee (M3), who is a financial advisor in a medium SME and a specialist in the area of IFRS for SMEs who gives seminars and workshops about convergence to help companies converge supports the idea of obligating SMEs to adopt IFRS for SMEs and believes that IFRS for SMEs is a simpler and cheaper option for SMEs, in comparison to full IFRS. He stated that:

> *It does not make sense to apply the full version of IFRS in companies that have the conditions of applying IFRS for SMEs. It will be very costly to audit financial statements prepared in accordance to full IFRS, no less than SR300.000 – SR400.000. No ordinary auditing firm can do this job, they will need to hire one of the Big Four, that has high experience. Also, how much will the company pay the accounting staff for preparing the reports according to full IFRS? It requires experienced accounting staff in IFRS and very skilful financial managers. It is impossible for small and medium companies to apply the full version.*

Interviewee (O6), who is a partner in a small SME that deals with constructions, interior and exterior design, sees it as a step for expanding in the future:

> *It might be a step for the future. For example, if we grew more and wanted to work in the Middle East, or in the Gulf region, it might be a requirement, in this case, we will be ready, and it will be beneficial.*

However, noting that this particular company is a subsidiary of a large family-owned business. (O6) mentioned that being a subsidiary of a large family-owned business gave her company privilege and advantages in easing the transition and getting support from the availability of senior and professional people in the parent company.

An external auditor in one of the Big Four auditing firms (EA4) is positive about change and does not see that the transition can cause any harm to small and micro entities:

> *It will not be a big headache for SMEs to adopt IFRS or IFRS for SMEs. There are no big differences that will shake or harm small and micro entities. The impact of the transition to IFRS will be minimal.*

However, the availability of a choice between full IFRS and IFRS for SMEs was a matter of concern for respondent (M4), a manager in industry, who was also worried about the comparability of financial statements when SMEs are given a chance to choose between full IFRS and IFRS for SMEs:

> *I believe that giving SMEs the option to choose between full IFRS and IFRS for SMEs will give companies a chance to choose the option that polishes their picture and presents their financial statements with attractive numbers, as companies will compare the different options provided in each system and select the one that matches their interest. I consider this as playing with standards. . . . I am not saying that IFRS or IFRS for SMEs does not give a fair representation and value of companies, what I mean is that allowing SMEs to use different standards flags the issue of allowing companies to use different treatments which result in different calculations. This does not provide fairness when comparing the return on investment in one company and another.*

Although interviewee (O3) supports the adoption of IFRS for SMEs, she mentioned that implementation might be a problem. She believed that it would be desirable to have a phased and gradual transition and implementation plan:

> *We should also have a transition plan, nothing can happen suddenly, everything needs time. Decisions cannot be implemented immediately after they are issued, people must be prepared.*

On the other hand, interviewees such as (O2), (O6) and (M4) supported a "big-bang" approach. They indicated that the timescale for adoption did not need to be long and that adoption should be not phased. This approach involves eliminating the existing system and transferring to the new system at a specific point in time rather than having a transitional period or some form of phased adoption where different types of SME are given different dates for adopting IFRS for SMEs. These interviewees rejected the suggestion that there should be a trial or transitional period after which the impact of adopting IFRS for SMEs should be reviewed. They also rejected suggestions that KSA should wait for a period of stability before introducing IFRS for SMEs.

Interviewees who commented on the short period of one year between the introduction of full IFRS and IFRS for SMEs explained this in several ways. One possibility relating to practice

is that it becomes difficult for accountants, whether they are auditing or advising firms, to have to deal with two different accounting systems (IFRS and existing SOCPA standards) at the same time. In addition, applying two different sets of accounting standards to different cases makes mistakes and misinterpretation more likely. Therefore, by bringing in full IFRS and then IFRS for SMEs, one year after, it is less likely that people will have difficulties in applying two sets of inconsistent accounting standards. Also, there might be issues of costs. For example, if companies had a one-year gap, they are more likely to benefit, as they have recently gained knowledge of full IFRS. Whereas if they had a five-year gap then they would not get the benefit and would have to treat the adoption of IFRS for SMEs as an entirely separate project. Furthermore, it might be easier to roll out educational courses in IFRS for SMEs as part of the general education in full IFRS, so training and learning about full IFRS would also involve learning about IFRS for SMEs. It makes more sense that people who are training to adopt IFRS for SMEs learn about full IFRS so that they will know what IFRS for SMEs does not include.

Whatever the views of managers and their advisers, a senior official in SOCPA (SO1) declared that the decision to implement IFRS for SMEs only one year after the commencement of IFRS was irreversible:

> *The transformation decision was made since 2012, and the transition date was set to 1/1/2018, meaning that companies were given enough time to prepare for the transition to international standards. There is no discussion at all, to change the date of transformation.*

2- Neutrals

This category includes people who are ambivalent about change in accounting standards. It does not make any difference with them. For example, interviewee (O5), the owner of a small business, who is not specialised nor interested in accounting matters, when asked about the version she planned to adopt in her company (full version of IFRS or IFRS for SMEs) said:

> *I do not know them [neither full IFRS nor IFRS for SMEs]. It does not matter with me. I do not care for them.*

Similarly, interviewee (G1) who works as a director in the General Authority of Small and Medium Enterprises, stated:

> *It does not make any difference.*

This opinion may be because he is not affected by these new accounting standards and sees other things are more important, such as helping entrepreneurs establish their business and gaining finance.

3- Sceptics who called for delay or caution

This category includes people who are doubtful about change and the application of IFRS for SMEs. They have mixed views about this standard. They wanted to wait and see what happens after the adoption of full IFRS, before rushing to adopt IFRS for SMEs 12 months later. SOCPA and the Saudi government thought that giving SMEs an extra year for transition was enough. On the other hand, sceptics felt that a longer gap between the adoption of full IFRS and IFRS for SMEs would have allowed SMEs to observe the outcomes of full IFRS and overcome the implementation issues that larger companies were facing. Interviewee (B2) suggested giving a longer than one-year grace period:

> *I think SMEs should be given more time, a period of three to five years, to note the results of implementing full IFRS in listed companies. Then decide whether to adopt IFRS for SMEs or not. The problem is that in the one-year period, everybody is under pressure, busy and cannot help, even auditing firms are facing great pressure, they give priority to help companies that have high revenues and afford paying them high fees.*

(EA7) believes it would be useful if a greater gap was given to think more about the case of SMEs by observing and allowing the results of adopting full IFRS to appear. This space would allow regulators and SMEs to learn from the experience of the transition process of listed companies when they adopted full IFRS then decide whether to adopt full IFRS for SMEs as well or make SMEs adopt IFRS for SMEs:

> *I think it was too early to take the decision to adopt IFRS for SMEs. We were supposed to wait three years, at least, and see how the experience of adopting full IFRS goes, then take the decision, whether to go towards the second step which is adopting IFRS for SMEs or not. I think it would be better if the decision was delayed, in order to allow enough time and give a chance to choose the better choice that fits and matches the local requirements in KSA.*

Sceptics thought that the adoption of IFRS for SMEs was too quick and advocated for a longer transition period. They argued that giving SMEs only one extra year was not enough. It is more likely that smaller entities are audited and advised by local accountants, who are not familiar themselves with IFRS and IFRS for SMEs. Therefore, they might need a longer time to adjust.

4- Opponents

This category includes a range of people who are negative about the adoption of IFRS for SMEs in KSA and are classified into four different groups:

(1) The first group of opponents have fundamental objections. They oppose the adoption of IFRS and IFRS for SMEs altogether, and think that adoption has been imposed by external forces. Strong opposition was expressed particularly by a partner in a local auditing firm (EA9), who was worried and hostile about change. This interviewee thought that it would have been better to retain local Saudi accounting standards and introduce a plan for optional use of IFRS for SMEs over a period of ten years.

> *I believe that the topic of adopting international standards is one of the most stupid decisions that came from SOCPA. In my opinion, it is an unwise decision. It harms the profession, hurts auditing firms, and hurts all accountants. The transition to IFRS and IFRS for SMEs was not supposed to happen!!! In my opinion, none of them should be adopted in KSA. It was better if KSA retain using the local standards and developed it gradually and put a plan for optional adoption of IFRS for SMEs, not full IFRS, over a period of 10 years.*

(EA9) explains the reason for his opposition to the adoption is because the environment is not ready:

> *The system, nor the society or accounting environment is ready. Imagine, they decided that all financial statements should be prepared in the French language and the community does not speak, read or understand French. . . . We are wasting our efforts, even if we succeed in implementing it correctly, financial reports will still be not useful for their readers. The benefit will not happen because the community itself is not ready yet.*

Another interviewee (Ac2) has a religious objection to the adoption of IFRS and IFRS for SMEs. He opposes the adoption of IFRS and IFRS for SMEs from a religious perspective. He perceives international standards as inconsistent or conflicting with Sharia, as it involves interest, which is prohibited in Islam:

> *I can explain the adoption of IFRS as an exposed plan to include (usury) in everything. It is not true that IFRS will help in unifying financial statements for the reason of globalisation. Westerns want us to follow what suits their favour.*

In this matter, (SO1), a senior official in SOCPA clarifies that adopting IFRS does not in itself contradicts Sharia, as it is only meant for reporting purposes:

> *Even though IFRS is only meant for reporting purposes and does not in itself determine the form of specific transactions, SOCPA would not allow the application of any accounting standard that is contrary to Sharia.*

Other interviewees object to the application of IFRS for SMEs for different reasons, such as cost, language barrier, resistance to change, difficulty especially for smaller companies, and the small number of accountants and auditors in KSA that does not cover the need of a great number of entities (the demand is higher than the supply).

(2) The second group of opponents reject the adoption of IFRS for SMEs and support the adoption of full IFRS by all entities, including SMEs. They suggest that it would be better if the whole Saudi market adopted one framework, which is full IFRS:

> *I prefer the usage of full IFRS for all entities, because in full IFRS some standards have more flexibility than in IFRS for SMEs where there is only one choice. The standard is restricted in one option (Interviewee EA2).*
>
> *I prefer one framework to be applied to all companies, to have a comparable benchmark, unless there was very clear guidance. . . If I have different accounting frameworks (and based on my knowledge that IFRS for SMEs has much lower requirements for disclosures and options) then financial statements will not be comparable, because the level of disclosers is not the same (Interviewee EA3).*
>
> *I believe that adopting one framework (full IFRS) in the Saudi market is better (Interviewee B3).*

Interviewee (B3), a banker who deals with a large number of companies with different sizes in addition to his involvement in SOCPA's transition and translation plans, highlights that there are different treatments and disclosure requirements under full IFRS and IFRS for SMEs, such as disclosing information about earnings per share, treatment of goodwill, amortisation and capitalising or expensing the loan interest. Therefore, it is difficult to compare companies belonging to the same business but at the same time apply different frameworks.

Although the IASB thought that IFRS for SMEs is not subject for continued reviews (giving SMEs a period of three years with no updates for stability) as an advantage and a feature for SMEs, some interviewees saw this as a disadvantage, such as interviewee (B3):

> *Another point is that IFRS for SMEs is not served significantly, as it is not subject to continuous reviews and updates. . . . In my opinion, it is not considered a burden on SMEs to follow up with annual updates. It seems like the standard of IFRS for SMEs is oriented towards micro and very small companies. However, the SME sector in KSA includes companies that are big enough to tolerate annual updates. Even if micro companies adopted full IFRS, the nature of their business is simple, and they will not be using all the standards. It will not be tiring.*

Also, interviewee (B3) suggests that requiring SMEs to apply full IFRS is a shortcut, as many SMEs aspire to become listed eventually:

> *I consider IFRS for SMEs as an unnecessary additional step. Many SMEs aspire to be listed someday. Therefore, they will need to change their framework from IFRS for SMEs to full IFRS. Why don't we ask them from the beginning to apply full IFRS, which will make their transition in the future easier!!*

Interviewee (B3) raises the issue of the impact of adopting IFRS for SMEs on SMEs accounts and the effect of some treatments. In some cases, there will be more advantages for SMEs and particularly for their managers to apply full IFRS, as in KSA, it is permissible for SMEs to select either full IFRS or IFRS for SMEs. For example, the treatment of borrowing expenses is different under each approach. The choice depends on the company's preference to record borrowing expenses as an asset or an expense. Interviewee (B3) explains:

> *Managers might be more willing to adopt full IFRS, although full IFRS requires more details and declarations from the side of the accountant, the management does not care about the extra work and load that it may cause to the accountant if it results in an increase in the profits or decrease in expenses. The management may prefer to capitalise in order to increase the value of assets.*

By the time of the follow-up interviews, (B3) had changed his views, supporting rather than opposing the adoption of IFRS for SMEs.

(3) The third group of opponents is represented by one respondent who thought that the definition of SMEs was problematic. He promoted that IFRS for SMEs should genuinely be for small and medium enterprises, while larger enterprises should apply full IFRS. Interviewee (EA6) draws attention to the fact that in KSA there are some companies, which are considered SMEs and family businesses, but their size is too big. The size of their operation is in Billions, which makes them even bigger than some listed companies. Despite not being listed, they can adopt IFRS for SMEs. He explains:

> *There should be a more precise definition that clarifies the criteria of SMEs, other than what is stated by the IASB. For example, SMEs capital or turnover should not exceed a certain number.*

Interviewee (EA6) supports the idea of obligating large SMEs to adopt full IFRS:

> *For large SMEs, I believe that the application of full IFRS will provide a clearer understanding for different stakeholders. For example, banks and Zakat authority will benefit more if the financial statements of these companies were prepared in accordance to full IFRS.*

(4) Lastly, a fourth group of opponents make a different distinction. They argue that micro and small entities should not be required to adopt any accounting standards, whereas medium and larger entities should adopt IFRS for SMEs. Respondents faced with the practical

issue of adopting IFRS for SMEs expressed reservations about how appropriate this standard was for their own business and for smaller businesses in general. A small business owner (O7) argued that "not all companies need sophisticated standards", suggesting that accounting standards were more appropriate for financial businesses than for the non-financial sector. The owner of a consultancy firm advising small business start-ups (O8) thought that even IFRS for SMEs was too onerous for smaller companies, particularly those that had not kept detailed accounting records in the past:

> *I think that a reduced version of IFRS for SMEs is required to reduce the burden on companies that did not keep proper accounting records and books in the past. Having one standard for SMEs is not applicable. There is no "one size fits all". The story of having only two versions is not really representative.*

Some interviewees suggested further differentiation between companies according to the type of their business, condition of each business and its nature, not just its size.

> *In my opinion, not all SMEs should comply with these standards, some of them don't need it. It could be considered an extra burden on them. Companies must be classified. . . . I believe it is useful but for certain categories of businesses, not for micro. Companies that should comply with IFRS are those who provide services, have owners, officials, employees, deal with the government, have contracts...etc. Also, companies that should comply with IFRS are those who have an income above a certain limit (Interviewee O1).*

> *Not all companies need sophisticated standards. Maybe financing companies, car companies, those who apply for financial facilities and listed companies are the ones who need these standards (Interviewee O7).*

Interviewee (O8), who is a partner in a micro entity, stated that:

> *We should not throw IFRS for SMEs as an obligation on all categories of SMEs. I agree that medium and large companies have to comply with it, but for small and micro companies I do not.*

(O8) considers the adoption of IFRS harmful to small and micro entities. She doubts their ability to cope with all of the new regulations:

> *Big companies can tolerate the burden, but for small and micro companies it is extremely difficult for them especially with the current problems in the Saudi market. What small and micro companies are suffering from is more than enough, such as the imposition of new regulations from the Ministry of Labour, Ministry of Commerce and others. The last thing they want to think about is IFRS. IFRS is causing additional pressure on SMEs. Do they have the capacity that makes them tolerate all of these problems that are accumulated over their heads??? Can they deal with all of this???*

Opponents do not in practice refuse to apply IFRS for SMEs, but they are not happy to do it. Interviewee (O7) wishes she was not forced to implement both VAT and IFRS for SMEs at the

same time and does not find the demand to make such major changes at the same time to be reasonable. Things would have been better if changes had been phased in more gradually.

Overall, the various interviews were effective in identifying a range of views about both full IFRS and IFRS for SMEs. Auditors, whether working in national or international firms, recognised that adoption of full IFRS by listed companies was unavoidable, and accepted that full IFRS represented the "norm" for accounting standards (except for interviewee EA9, who opposed the adoption of full IFRS and IFRS for SMEs). Bankers also agreed with the adoption of full IFRS by listed companies, although from their perspective this represented simply an extension to the generality of companies of the standards that they had been required to follow for banks and insurance companies since 2008. However, some of the interviewees in both these groups were opposed to IFRS for SMEs, seeing this as an unnecessary source of confusion, leading to a lack of comparability and therefore transparency. Those involved in applying IFRS for SMEs in their own businesses tended to regard the new standard as an unavoidable obligation rather than a benefit, given that many of the business owners and managers thought that the requirements of IFRS for SMEs were excessive and often irrelevant. The majority of respondents supported the adoption of IFRS for SMEs in KSA, but about one third of respondents were sceptical or opposed to adoption. The opponents were split across four different views as to an appropriate alternative to IFRS for SMEs. Follow-up interviews showed that some original opponents dropped their opposition after favourable experiences of the first year of adoption of IFRS for SMEs.

8.6 Summary

This chapter has shown that interviewees suggested several reasons for adopting IFRS and IFRS for SMEs in KSA. Reasons for adopting IFRS could be classified into external and internal forces. External forces are represented by KSA's membership of the G20 and the WTO, the global financial crisis, neighbouring countries (including the other members of the GCC) and trade partners. Internal forces relate to the insufficiency of local capabilities to deliver accounting standards with high quality, combined with the belief that IFRS and IFRS for SMEs indicate best practice and offer high quality financial reports. Another internal force is represented in *Vision 2030*, which calls for attracting foreign investors and representing KSA

as a modernised and developed economy. Also, the government's desire to manage and monitor the economy, to be part of the global economy and to boost transparency.

However, there were some specific reasons for adopting IFRS for SMEs at the national level. The main reason that was suggested by most interviewees is to maintain a matching convergent framework to full IFRS. In addition, the unique features of IFRS for SMEs that makes it desirable to be adopted by SMEs, such as its lower disclosure requirements, less volume of regulation and technical superiority. Other reasons include the belief that IFRS for SMEs facilitates comparability, offers harmonisation, competitiveness and access to financing, improves SMEs visibility and develops business opportunities.

In addition, several parties were identified by the interviewees to be important users of SMEs financial statements. These users include governmental agencies, banks and other lenders, owners, partners and shareholders, management and board business, contacts and competitors, analysts, potential investors, external auditors, suppliers and advisors. Several respondents emphasised that SMEs' financial statements were important for calculating Zakat, which is a significant feature in KSA, given the importance of the General Authority of Zakat and Tax. The main uses of SMEs financial reports that were suggested by interviewees include: to know the financial position and performance of the company, to measure and distribute the profit between partners, to make decisions, and to apply for governmental tenders. However, there was no consensus that the adoption of IFRS for SMEs would help in meeting those purposes.

Finally, interviewees were classified into four groups, according to their views and attitudes towards the adoption of IFRS for SMEs. The first group includes interviewees who supported the adoption of IFRS for SMEs. The second group was classified as neutrals, including interviewees who do not care, and not bothered by the type of accounting standards (it does not make any difference to them). The third group is sceptics, which includes interviewees who were doubtful about IFRS for SMEs and advocated for a longer gap between the adoption of full IFRS and IFRS for SMEs. Finally, there were some people classified as opponents, who were negative about adopting IFRS for SMEs for different reasons. These opponents have been further classified into four sub-groups. Some of these opponents preferred the local accounting standards. Others thought that all entities should adopt full IFRS, maintaining one

framework. Others believed that IFRS for SMEs should genuinely be for small and medium entities, while larger entities should apply full IFRS. Finally, some suggested that micro and small entities should not be required to adopt any accounting standards or retain to use local accounting standards, whereas medium and large entities should adopt IFRS for SMEs.

These different attitudes raise an issue of whether it is possible to explain the differences in attitudes by referring to personal factors such as the age and educational background of the interviewees. This will be discussed in Chapter 10 and linked to the institutional logics to provide further insights. The following chapter (Chapter 9) will present findings related to the implementation of IFRS for SMEs at the company level.

Chapter 9 Implementation of IFRS for SMEs in the Kingdom of Saudi Arabia

9.1 Introduction

This chapter explains the collected data and presents findings related to the implementation of IFRS for SMEs in KSA, and is structured in five sections: (9.2) analyses the level of understanding the content of IFRS for SMEs and preparation measures that were taken before its implementation in KSA; (9.3) addresses the issues and challenges that face Saudi SMEs when implementing IFRS for SMEs, and ways to overcome the difficulties raised by these issues and challenges; (9.4) shows the efforts provided by the Saudi government and SOCPA to facilitate the implementation of IFRS for SMEs; and (9.5) is a summary. Three research questions explore this:

2-1. What was the level of understanding of the content of IFRS for SMEs in KSA before implementation, and how did SMEs in KSA prepare to implement IFRS for SMEs?

2-2. What issues and challenges did Saudi SMEs encounter when implementing IFRS for SMEs, and how did they address these issues and challenges?

2-3. How did the Saudi government work with the Saudi accounting profession to facilitate the implementation of IFRS for SMEs?

9.2 What was the level of understanding of the content of IFRS for SMEs in KSA before implementation, and how did SMEs in KSA prepare to implement IFRS for SMEs?

This question is split into two related questions: level of understanding, and ways of preparing. Most of the interviews were conducted in late 2017 and early 2018, before interviewees had begun to prepare financial statements for the first year of implementation of IFRS for SMEs for the year beginning 1 January 2018. However, some follow-up interviews were undertaken in February 2019, after preparers had a full year's experience of IFRS for SMEs.

9.2.1 Level of understanding and preparedness

Several respondents, particularly in earlier interviews, revealed that they were not aware of the existence of IFRS for SMEs, while others had heard of the standard but did not know what it contained. These interviewees could be classified as "unaware" of IFRS for SMEs. For example, interviewee (M2) showed his ignorance about the existence of IFRS for SMEs and the opportunity to adopt it. He thought that full IFRS was mandatory. As a manager in a large SME, he answered when asked about the framework he considers choosing, whether full IFRS or IFRS for SMEs:

> *Honestly, if you did not clarify to me the standard of IFRS for SMEs my answer would be that we will adopt full IFRS. But now, I have to consider both and most probably IFRS for SMEs. If full IFRS was not a mandatory requirement, I confirm the implementation of the smaller version for SMEs.*

Similarly, interviewee (O7), who is a partner in a micro family-owned business, did not have any idea about the standard. She answered when asked which standard she considered adopting (whether full IFRS or IFRS for SMEs):

> *I do not have any idea about both of them. Actually, I do not know these standards yet and how they are different from the US GAAP or SOCPA's standards.*

Although some unaware interviewees had a low level of understanding IFRS for SMEs and admitted that they had not read the English nor the Arabic version of the standard, and were unfamiliar with it, some of them expressed a view about whether the standard should be adopted, and in which form. This has been discussed in Chapter 8.

On the other hand, some interviewees had read the standard and knew what it contained. These interviewees could be classified as "aware". For example, interviewee (EA1) and (EA4), who had read the standard and considered that they understood it easily.

Table 9-1 summarises the level of awareness among respondents, based on their first interview if they had been interviewed subsequently. Noting that awareness could change over time, as participants had to apply IFRS for SMEs in preparing financial statements, and hence had to study the standard. Not surprisingly, external auditors constitute the highest number of aware interviewees, while owners constitute the highest number of unaware interviewees, as they are mainly not specialised in accounting matters.

Table 9-1: Level of awareness

Participants	**Number of unaware interviewees** (Had not read the standard or were unfamiliar with it)	**Number of aware interviewees** (Read the standard and understood it easily)
Accountants	1	1
Internal auditors	0	2
External auditors	2	10
Managers and CFOs	2	2
Owners	7	1
Bankers	1	3
Regulators (SOCPA officials)	0	1
Officials from governmental agencies	1	1
Total (35)	14	21
Percentage	40%	60%

Source: Prepared by the author

The question about the level of understanding the content of IFRS for SMEs overlaps with the question about attitude in Chapter 8 because attitudes towards the adoption of IFRS for SMEs may be a consequence of the existing level of understanding. For example, some interviewees who were unaware of IFRS for SMEs or who had weak knowledge of it opposed its adoption. They consider learning new things as a burden and a waste of time, money and effort. They felt that being familiar with other accounting standards, such as SOCPA's or full IFRS suits them and allows them to concentrate on their work. Their internal rejection comes from worries and fears from the transition. They wish things could stay the way they were for their comfort and to escape from the additional stress. Interviewee (EA9) expressed his worries about transforming senior and experienced professionals into students:

> *This caused a gap between knowledge and experience available in the market and the market requirements. There is a big gap, which resulted in transforming the best and experienced accountants into freshers again. Imagine, asking a certified public accountant, who is 60 or 70 years old, to restart all his previous experience, study all over again and search for new treatments under the international standards.*

Surprisingly, other unaware interviewees supported the adoption of IFRS for SMEs. They did not have confidence in the local standards and believe that international standards have the superiority. Interviewee (O4) stated this view earlier in Section 8.2:

> *I think the quality of the international accounting standards is better than the quality of the local accounting standards. I do not think we have the capabilities to construct our own.*

Another notable point is that specialists and people with prime or technical knowledge about IFRS and IFRS for SMEs are more likely to support the adoption of IFRS for SMEs and find it cost effective. That is because, people who are comfortable and more familiar with IFRS, see IFRS for SMEs as a next step, and do not see it as a major change. Also, they will benefit from the great demand for expertise and the low supply of it. The great demand comes from the large number of entities that need help and support, while the low supply is represented in the scarcity of specialists. They see this change in their interest and a chance for them to thrive and make money, as people will often pay for services that they cannot adequately evaluate. Interviewee (O5) highlighted that auditors who have knowledge about IFRS and IFRS for SMEs see the transition as a chance for them to increase their income:

> *Auditors want to increase their audit fees. They are concerned with consulting services and selling products related to convergence to international standards as a new source of income.*

Finally, there were some people who were familiar with IFRS for SMEs but oppose it because they thought that the environment is not ready, and it does not add any value. Therefore, we can see in Table 9-2 that different justifications allow the four different categories to exist. The most common position was the aware interviewees who supported the adoption.

Table 9-2: The relation between the level of understanding the content of IFRS for SMEs and the attitude

Attitude to adoption of IFRS for SMEs	**Awareness of IFRS for SMEs**		
	Aware	**Unaware**	**Total**
Supporters	13	7	20
Neutrals	0	3	3
Sceptics	2	0	2
Opponents	6	4	10
Total	21	14	35

Source: Prepared by the author

Interviewees gave a range of reasons for their lack of awareness or low level of understanding the international standards and the resulting lack of preparedness. For example, several

interviewees, such as (G1), (B1), (M1), (M2), (O1), (IA2), (O2), (O4), (O5), (O6), (O7) and (O8) stated that they were not fully aware of these standards as they are not specialised in accounting matters. Other interviewees highlighted that the available and offered training courses were focused solely on full IFRS. This was the view of an external auditor in one of the Big Four auditing firms (EA3), who highlighted having no knowledge about IFRS for SMEs:

> *I am not familiar with IFRS for SMEs. In our firm, none of the convergence projects that we do deals with IFRS for SMEs. I do not have any knowledge about it. Even for SMEs, we do convergence to full IFRS.*

Interviewee (M2) justifies the reason for his delay in being familiar with IFRS and IFRS for SMEs is its interaction with the VAT:

> *I did not have a chance to look at them. We have to consider that in January 2018, the introduction of VAT happened at the same time, and it is required on a monthly or a quarterly basis. On the other hand, the compliance date for preparing financial statements in conformity with IFRS or IFRS for SMEs is by the end of 2018, that is why people delay their preparation, which is wrong of course. Also, VAT has fines and deadlines, not like the case of adopting IFRS. Therefore, it did not have the same pressure that is caused by VAT. If IFRS was enforced in a different year than the VAT, it would have much attention. It came in the shadow of the VAT. IFRS comes in third place, not even in second place. Adopting IFRS comes after VAT implementation and changing the accounting system.*
>
> *People are so engaged with VAT requirements and issues that are related to the implementation of VAT. Until now, our company did not update its accounting system to be compatible with IFRS for SMEs!! We prepared for the VAT but not yet for IFRS.*

Similarly, interviewee (EA11) clarified his engagement with the implementation of VAT:

> *Until now, there is no real preparation. We did not discuss the details of practical implementation, to know the points of difficulty or differences. People are busy with the implementation of VAT because they have fines.*

In addition, (M1) did not read the standard, nor prepare or discuss the implementation with his external auditor. He clarified when interviewed in December 2017 (before the implementation date) that the introduction of VAT took priority:

> *I did not read it, but we must be ready before 2018. We did not yet discuss, with the external audit, how the implementation process will be. This year [2017] we have started preparing for the VAT, but we did not yet prepare for IFRS for SMEs.*

In addition, interviewee (EA11) observed that auditing firms were still reviewing financial statements for the previous year. She believed that the reason why many businesses were not, at the time of interview, prepared for IFRS for SMEs was that they thought that it was

too early to prepare and that there would be enough time, as they were still busy preparing their financial statements according to SOCPA's standards:

> *Until now [Feb 2018], auditing firms are busy preparing financial statements based on SOCPA's standards. From June 2018 they will start preparing comparison financial statements in accordance with IFRS.*

Similarly, (EA3) clarified that most entities in KSA were late in preparing for IFRS for SMEs, thinking that there was enough time for them to catch up:

> *Although we are only two weeks ahead of the obligation date, most entities in KSA until now [Dec 2017] did not take any action to convert to the international standards. The reason might be that the first reporting period under IFRS for SMEs is for the year 2018. So, the requirement to issue financial statements in accordance to IFRS will be sometime in 2019. There is a whole year before the resulting product is issued, which is financial statements that comply with IFRS. Especially if the company did not have quarter reporting.*

The final reason was mentioned by some interviewees, particularly owners and managers of SMEs. They stated that the lateness in publishing the Arabic version was the reason for not reading IFRS for SMEs by the time they were interviewed, as it was available on SOCPA's website only in January 2018. This in itself creates the problem of lack of preparedness for the transition. Interviewee (M2) stated the importance of the Arabic version:

> *Generally, in KSA, the Arabic version will be prevailing. In my opinion, in a country that the Arabic language is dominant, people will prefer to use the Arabic language, as it is easier and faster for them to understand.*

Interviewee (EA9) stated that the five-year transition period (from 2012 – 2017) was not useful, given that the standard was not available in Arabic until January 2018:

> *We need a period of five years after the translated materials are ready, to learn and prepare ourselves.*

9.2.2 How did SMEs prepare?

At the time the majority of the interviews took place, some interviewees stated that a lot of companies in KSA had not prepared for the transition. This was the view of interviewee (EA3), who highlighted that:

> *In practice, there are very few companies that understand the conversion to IFRS and know that it is not only an accounting matter, as there might be a change in the system, accounting policies, accounting processes, and maybe in the required resources. Companies that took action wanted to have this project in place and ready from the beginning of the year rather than the end of the year, so if there is any change, they will start implementing it in their*

system. But we have to say that in KSA, the percentage of companies that prepared in comparison to the total number of companies is very low.

Similarly, (M2) indicated that he did not perceive any preparation measures that were taken in plenty of companies around him:

The accounting software that we are using is compliant with SOCPA's standards. Currently, this is the case in all companies. Certain configurations should be done in order to make it customised to IFRS. Nobody changed yet, or at least in the company level that I know, within the same group of our company or from my colleagues.

Similarly, (O8) indicated that her company did not prepare for the implementation:

We did not do anything yet. No reaction has been taken.

An internal auditor (IA1) in one of the few companies that have started preparing for the implementation, indicated that preparation had started but was not complete:

We are not fully prepared. Still, we are like 80%.

(M2) clarified that although he had started attending some courses and would continue to do so, he believed that practices in his company would not change:

I have to admit that we did not do what we should do, what is required. We did not change our policies, programme, system, mentality. In reality, we did not change anything yet.

On the other hand, a minority of companies were prepared for the transition to international standards before the obligation date. For example, interviewee (O3), who is an owner of a small company that is a subsidiary to an international company, clarified that in order to prepare consolidated financial statements, her company was already prepared even before the obligation date:

Our company uses international standards as its base. Our problem was that IFRS was not acceptable in KSA. This required us to seek help from an external accountant in order to prepare another version of our financial statements according to the local accounting standards and for the requirement of Zakat. Which means that we needed to reverse ourselves in order to comply with Zakat.

Interviewee (EA4), (M2) and (O8) suggested that it is necessary to use software packages that are consistent with IFRS and IFRS for SMEs and train the accountant how to use the new software.

Similarly, a manager in a medium company (M4) has done some preparation measures in his company, such as changing the accounting system, training employees and hiring a consultant:

> *Since Oct 2016, our company started preparing to build a new accounting system. In 2018, we have started using a new accounting program called ERP system, which is compatible with IFRS for SMEs and fits the size of our company. It is also affordable and not complicated. It only needs minimal adjustments. We will start implementing this new system on the first of July 2018. We are interested in this matter and sending 10 employees to train for three hours daily about this accounting system. The company have also hired a consultant for the transition.*

(IA1) indicated that his company hired a consultant:

> *We hired a consultant to do IFRS conversion for us.*

Interviewee (IA2) gave three suggestions when he was asked about the procedures or steps taken by his firm in order to make complying with IFRS for SMEs an easy task. However, he indicated that he did not do any of them yet:

> *The lazy answer is that we will observe and learn from the experience of other companies. We can also ask our auditor to help. In addition, we can hire a consultant to help us implement it, but I think the first thing that should be done is reading the standard.*

During the period of conducting this research, there were several seminars and courses on IFRS for SMEs that aimed to increase the level of awareness and prepare the environment for the implementation. Some of these courses were free and offered to the public, while others were with fees and designed for practitioners. As stated in Section 7.7.2, the researcher attended several workshops and symposiums that were aimed at preparers and auditors. It allowed the researcher to observe how practitioners were preparing for the implementation of IFRS for SMEs and engaging with the process. Some companies sent their employees (accountants and internal auditors) in order to train them to implement the new set of accounting standards successfully.

Overall, the evidence presented above illustrates that respondents had different levels of awareness and understanding the content of IFRS for SMEs, based on their first interview. Most aware respondents were external auditors, while most unaware respondents were owners. Also, links were drawn between the level of understanding and the attitude towards the standard. Interviewees suggested several reasons for not being aware about the standard, including lack of specialist knowledge in accounting matters, absence of specific attention to

IFRS for SMEs, inadequate provision of courses about IFRS for SMEs, complexities relating to the interaction between implementing IFRS for SMEs and VAT at the same time, the belief that it there was plenty of time to prepare for implementing IFRS for SMEs, and the lateness in publishing the Arabic version of the standard.

Some interviewees suggested that, at the time they were interviewed, most SMEs in KSA had not prepared for the implementation of IFRS for SMEs. However, the minority of companies had done some preparation measures, such as sending their employees to attend training, hiring consultants, seeking help from auditors, updating or changing the accounting system, reading the standard, and observing and learning from the experience of other companies.

9.3 What issues and challenges did Saudi SMEs encounter when implementing IFRS for SMEs, and how did they address these issues and challenges?

Discussing the issues and challenges, and how they were overcome, is basically the main part of the implementation.

9.3.1 Issues and challenges

As some interviewees had not prepared in advance for IFRS for SMEs, they could not identify the issues and challenges that they might face. For example, (M1) stated when interviewed in December 2017:

> *We don't know yet the difficulties that we might face, as the implementation did not take place yet.*

However, others gave examples of the issues and challenges that may face SMEs when implementing IFRS for SMEs. Following from the low level of preparedness reported above, the application of IFRS is considered something new and incorporates changes in treatments and measurements. Interviewee (EA5) expressed the different technicality in reporting, where lots of people are not aware of this new standard:

> *There will be challenges in terms of understanding, classification of assets, impairment testing and quantifications. . . The problem is that people who are currently CFOs, finance managers or chef accountants in SMEs have never been exposed to IFRS and IFRS for SMEs, which are relatively new.*

Interviewee (IA2) highlighted that adopting IFRS for SMEs may cause change in numbers and disruption of the business:

> *Having different numbers from what was reported might change decisions and lead to disruption of the business model in the company or in the eyes of investors.*

Another interviewee, (O8), gave an example of a situation where companies become helpless and worried about implementing IFRS for SMEs:

> *The biggest concern that most owners have is if the internal financial statement was showing profit, but after implementing IFRS it shows a reduction in profit or loss!! Some companies can tolerate this, but others cannot, such as companies preparing to be listed or considered as an MBO (management buyout). For them, it is a great loss and a big problem, because their financial statements should show profit in a series of three sequential years. If any of the past three years did not make profit, their project might be delayed.*

However, interviewee (M1) clarified that international standards do not have new basics for accounting, they only consist additional explanations and details:

> *IFRS [and IFRS for SMEs] is used to explain and present financial statements. Everything else will remain the same, except that financial statements will consist of more pages than before. IFRS does not include suggestions nor new basics for accounting. There will be no big differences after the implementation of IFRS. It is not that difficult; the only matter is the existence of additional explanations and details that could help management and shareholders in making decisions.*

Interviewee (EA8) considered the complexity of IFRS for SMEs as one of the implementation hurdles:

> *Some of its [IFRS for SMEs] requirements may look obvious, but in reality, its application is complex.*

Interviewee (B3) reviewed in great detail the differences between full IFRS and IFRS for SMEs, concluding that "the differences between IFRS for SMEs and SOCPA are greater than the differences between full IFRS and SOCPA". This banker thought that the transition from the existing SOCPA standards to IFRS for SMEs would be more difficult than transitioning from SOCPA to full IFRS. This study confirms the above, as it was indicated in Table 5-4 and Appendix F that the core differences between the Saudi version of IFRS for SMEs and SOCPA GAAP are more substantial than the differences between the Saudi version of full IFRS and SOCPA GAAP.

Another issue is the absence of specialised training courses. Some interviewees clarified that training about IFRS and IFRS for SMEs did not happen, except recently. In addition, not all employees had the chance to attend training:

> *The available and offered workshops are public workshops. They do not include any practical measures. Entities still have ambiguity about the application mechanism of IFRS. I wish if detailed lectures were offered. What is offered right now, is lectures and seminars that give only a general idea about the standard. This is useful for the general public, but not for specialised accountants, as they need specialised courses (Interviewee EA8).*

> *The whole exposure to the topic of IFRS was very recent. Our company did not offer training to all employees. Only 3 out of 25 attended the training in one of the Big Four auditing firms (Interviewee M2).*

Other interviewees were worried about the additional costs that SMEs will have to bear in order to implement IFRS for SMEs. Here we have to differentiate between two types of costs. The first is the one-off costs, which happens once and is related to preparing the infrastructure and the process of implementing a new set of accounting standards. The second happens every year and is related to using a more expensive way of accounting than the previous one.

An example of the one-off costs is preparing the infrastructure, including the system and the accounting team. Preparing the accounting team requires costs that relate to providing specialised training courses. A supervisor in one of the local auditing firm (EA8) indicated that high cost associated with the high fees for attending specialised training courses is one of the challenges that professionals face, especially normal accountants:

> *The offered specialised courses from SOCPA are very few and expensive. These courses might be affordable for certified public accountants, but they charge similar fees to normal accountants, who are not yet qualified. Institutions that recruit normal accountants may not be willing to pay high fees and bear these costs.*

Interestingly, interviewee (IA2) considers the costs of doing the changes to prepare the infrastructure as an investment. He highlighted that:

> *If the infrastructure was not ready, it will require the company to invest in making changes in terms of better system and accounting team.*

In addition, interviewee (G2) thought that costs related to consultants' fees are the main issue, as usually, SMEs seek their help:

Costs are the main difficulty that SMEs encounter and are associated with consultant's fees, who help companies transform to the international accounting standards. However, companies that have a strong accounting team and competencies can prepare their financial statements without the need to resort a consultant.

Moreover, an accountant in a small SME that deals with constructions, interior and exterior design (Ac1) indicated that implementing IFRS and IFRS for SMEs increases auditing costs, especially in the first year of transition, as some companies request from their auditors to do the gap analysis, which is a process to identify the differences between the previous and the new accounting system. This process may include higher auditing fees:

There might be additional costs that come from the increase in the external auditor's fees, as they are requesting an increase in their fees to do the gap analysis and transit the financial statements from local to international accounting standards.

Similarly, interviewee (O8), who is an owner of a small company, explained that the increase in auditing fees may harm some SMEs:

The decision to adopt IFRS and IFRS for SMEs caused an increase in the auditing fees, which will negatively affect SMEs.

An example of the second type of costs that relates to using a more expensive form of accounting than the previous one was stated by interviewee (M3), who believes that the application of IFRS and IFRS for SMEs incorporates costly options:

From observing the practices of IFRS in KSA, companies prefer not to use the fair value model because they are worried that its application might be costly. The only item that companies choose to revalue is real estate (land and buildings). Companies take this decision when the benefits outweigh the costs.

In this matter, we have to say that KSA, is similar to other countries around the world, as they do not use fair value, except for land and buildings. Nobody revalues plant and machinery.

Another problem that was stated by various interviewees is that the environment is not ready and there is lack of qualified cadres. Interviewee (O5) was upset about the low level of awareness among some practitioners and regulators. She clarified that some of them are not fully aware of IFRS for SMEs. Other interviewees mentioned that finding people who have the experience, qualification and are able to do the transformation to IFRS is one of the problems they expect:

The Saudi market needs to catch up with all the change that is happening. We can't just throw things. There are not enough evaluators. Even for auditors, IFRS and IFRS for SMEs is something

new for them. We are already suffering from the weakness of the auditing industry and now, on top of that, we brought IFRS to worsen the case without considering if auditors are ready for it or not (Interviewee O8).

The biggest challenge is the lack of qualified cadres. It is difficult to find and recruit people who have IFRS qualification in auditing firms and SMEs. I believe that the problem in KSA is concentrated in the lack of adequate qualifications, whether in the users, beneficiaries, preparers or auditors (Interviewee EA9).

In general, [difficulties include] unqualified resources and people. Usually, the staff is not qualified to do, or to work on the bases of the new standard. There is a lack of awareness and training about the IFRS for SMEs itself. Also, the level of data information and information system does not support the accounting system to do the required estimations and evaluations.

To find people who have the experience and qualification to do the transformation and are able to implement IFRS (Interviewee M3).

Although there are plenty of facilities for SMEs and there are promises for them to thrive, they are facing many challenges. For example, the infrastructure is not ready (Interviewee G1).

Several interviewees stated that the number of practitioners does not cover the demand caused by the large number of SMEs:

Another problem is the lack of a sufficient number of accountants and auditors who have the ability to meet the high demand and audit the huge number of SMEs (Interviewee SO1).

Another problem is that the environment is not ready, and there are not enough certified public accountants to cover the demand and audit all entities in KSA (Interviewee G2).

Interviewee (EA7) indicated that one of the obstacles that face KSA when implementing IFRS for SMEs is that, usually, most consultants that KSA seeks their help, come from Pakistan, India, Jordan and Egypt. These countries did not adopt IFRS for SMEs. Therefore, consultants from these countries are not aware of IFRS for SMEs although they are fully aware of full IFRS:

I think it is a new experience for KSA to adopt IFRS for SMEs, as even most experts and consultants we resort to are from Pakistan, India, Jordan and Egypt are not aware of this standard. Unfortunately, none of them adopted IFRS for SMEs.

The challenge of changing the infrastructure and mind-set of accountants and professionals was mentioned by interviewee (IA2), who stated that one of the implications of IFRS for SMEs application in KSA is to look at IFRS as a way to improve accountants' practices and behaviour, as it creates a better accounting team:

All this will lead to having a higher quality of people working in accounting and finance. Old school employees will need to update their knowledge. Hopefully, this will lead to a higher quality of financial information and providing disclosures to different stakeholders.

In addition, several interviewees highlighted the absence of communication and synchronisation between governmental agencies or regulators and business as one of the implementation hurdles:

> *There is no synchronisation between the ministry of labour, Ministry of Commerce, and the municipal (Interviewee O3).*
>
> *There is a great loss of communication between regulators and the business itself. For example, many people do not know when they should adopt the standard, when could the early adoption happen, what will happen if they didn't adopt it, and what is their obligation (Interviewee EA10).*
>
> *There is no support, and there is uncertainty in some internal governmental organisations and services, such as there is no clear coordination between municipals and businesses (Interviewee G1).*

Furthermore, a senior official in SOCPA (SO1) clarified the problem of the absence of an agency or a party that monitors SMEs when implementing IFRS for SMEs. This is not like the case of implementing full IFRS in listed companies, where the CMA provided adequate guidance and support. Although the Ministry of Commerce and Investment (MCI), working through SOCPA, is the regulatory body responsible for businesses of any size (other than banks, insurance and listed companies) it is difficult for the MCI to monitor the large number of SMEs when implementing IFRS for SMEs. As Interviewee (SO1) observed:

> *One of the obstacles is that there is no agency that directly helps companies implement IFRS for SMEs, like the CMA for listed companies. The same implementation approach cannot be used for SMEs, because the obligation for SMEs to follow IFRS for SMEs comes from the corporate system and the auditor. The obstacle is that the number of SMEs is very large, and it is difficult to monitor all companies and offer guidance to all of them.*

Another important issue was raised by interviewee (O1), who suggested that adopting a Westernised type of accounting standards, which does not consider the environmental factors in KSA will not help. He highlighted that understanding the needs, circumstances and features of KSA is necessary for a successful implementation:

> *Importing something from developed countries does not mean it will always give us better results. I am always against this idea. Our problem is to copy and paste. Every culture has its own circumstances. Searching the internet and applying what others are doing or comparing with them will never help. Each country has its own history, culture, life, regulations and values.*
>
> *We need to prepare a customised system, that is in line with the local market. It is ok to adopt best practices that exist in foreign countries, but we still have to take into our account other considerations. Taking everything as a copy-paste approach, just because it is best practises, will not benefit people in anything, it will be like paper that is kept in the drawer.*

Although, it can be understood that interviewee (O1) opposes the adoption of Western and international standards (that are known as best practises) without any modifications or customisations (to make the standards suitable to the local environment), a senior official in SOCPA (SO1), indicated that there is no conflict between these international standards and the local environmental requirements.

Moreover, it was mentioned earlier in Section 4.3.1 that the Saudi culture is characterised by a high level of secrecy and conservatism, while IFRS is characterised by its large number of disclosures. Even IFRS for SMEs involves much more disclosures than the previous local standards (SOCPA's standards). This does not match the nature of the Saudi culture and is considered a challenge for the implementation of IFRS for SMEs. Interviewee (M2) mentioned from his 20 years of experience working in a large SME that companies in KSA prefer privacy more than full disclosures. He stated that:

> *From my experience, most of the companies that I have dealt with in KSA prefer privacy more than full disclosures. . . . The additional disclosures in IFRS for SMEs are considered a burden from the company's point of view.*

Similarly, interviewee (G1) believes that Saudi citizens are mainly characterised by being conservatives. He considers the implementation of IFRS and IFRS for SMEs as a challenge:

> *The fear in Saudi citizens, as they are known to be highly conservatives.*

Finally, there are some difficulties that relate to the nature of SMEs, as they are characterised by having limited and unqualified resources. Usually, SMEs face difficulties in financing and providing adequate training for their employees or hiring consultants or recruiting people with international qualifications. This point was mentioned by interviewee (EA11), who clarified that:

> *Usually, SMEs have limited resources. Most employees in SMEs do not hold international qualifications or not familiar with things that are happening in the market, such as the published circulars by SOCPA.*

Some interviewees stated that, there will be some difficulties only at the beginning (when switching to the international standards), but after passing the implementation phase, it will be fine. Interviewee (EA11) stated:

> *The difficulty is only in the first year of application.*

(SO1) highlighted some practices of management that are likely to happen in the first-time adoption, such as tolerating previous hidden expenses on the transitional year. This might create a problem for some SMEs, as it causes big changes in the financial statements:

> *Managements may take advantage of transition to international standards to clean their books. The transition phase may be exploited by the management of companies to hide or add previous losses, expenses or costs that were not visible in previous financial statements. Therefore, the transition year bears these losses and reduces its retained earnings.*

9.3.2 Overcoming challenges

The previous discussion indicated that there are several encountered challenges when implementing IFRS for SMEs in KSA. This section presents suggestions and ways, presented by some interviewees, to overcome the previously mentioned challenges. To assist the application of IFRS for SMEs, concerted efforts should be provided. Some of these efforts are provided internally by the companies itself, while others are provided by external parties, such as auditors, consultants, bankers or finance providers and universities.

1- The role of companies

For a successful implementation of IFRS for SMEs, companies should provide internal or external training. Internal training happens when specialists are invited in the company to train its employees, while external training happens when the company provides funding for employees to attend training courses held outside the company. (IA1) answered when asked about steps that are taken in his company to train and prepare accountants and internal auditors to implement IFRS for SMEs in 2018:

> *Our company offers some internal training about IFRS. In addition, some employees were sent to attend training in Dubai.*

While (M2) highlighted that his company prefers sending its employees in the accounting and auditing team to attend external training courses and workshops that auditing firms provide more than conducting internal training:

> *We rely on external training more than internal, such as those offered by auditing firms and advisory teams that do the gap analysis and training. Then, those who attend these courses can distribute the materials and circulate them internally and do presentations to teach other employees in the company.*

Interviewee (M2) explained that companies should urge its staff to read the standard:

Reading is the first step to understand and increase awareness. No one can apply anything without understanding it 100%.

In addition, companies should communicate with other companies that successfully converged and benefit from their experience, as they act as role models. Interviewee (O2) highlighted the advantage of dealing with trade partners and successful companies that have already implemented IFRS:

Top and successful Saudi companies play a big role, as they act as role models. We have seen this in the implementation of the VAT. Plenty of small and medium companies learned from what the big companies are doing. When small companies dealt with big companies or international clients, they learnt and benefited a lot, as bigger companies helped them in designing invoices and their bill system based on the new VAT system. The same thing applies to the implementation of IFRS and IFRS for SMEs.

Interviewee (M4) calls for providing an electronic platform to assist companies:

Providing an electronic platform that includes successful and best practices of convergence experiences for different categories of SMEs (micro, small, medium and large) as a model, so other companies could learn and be encouraged to transform and follow their path.

2- The role of auditors and consultants

Owners of different SMEs, such as (O2), (O6) and (O8), agreed that there is no way they can do the transition without the help of their external auditors and getting them to introduce the system and teach the accountant. Similarly, several managers employed an external auditor to do the convergence for them. For example, interviewee (M4) stated that:

There are many ways to facilitate the transformation, such as seeking help from auditors and consultancies who are selling convergence products with affordable prices.

Several external auditors, especially from the Big Four, realised their important role in helping companies implement IFRS and IFRS for SMEs. Although, because of the timing of the majority of the interviews, external auditors tended to focus on implementing full IFRS, their comments are likely to apply to implementing IFRS for SMEs as well.

Auditors have a great role. We have a service line for IFRS convergence and an accounting advisory team, which is not only for SMEs but is basically for any company that wishes to implement full IFRS (Interviewee EA5).

We provide consultancy services in accounting and transition to IFRS. Also, we try to raise the level of awareness of our clients and make them up to date by sharing with them any bulletins that are issued about IFRS. In addition, we offer seminars and training courses about IFRS updates and the differences between IFRS and the Saudi accounting standards (Interviewee EA6).

Some auditing firms provide specialised training courses for some of the employees in their client's businesses. Also, they provide consulting services in transformation and advice for the companies on how to apply the international standards correctly (Interviewee EA8).

Interviewee (EA4) gave an example of the important role that auditing firms play to facilitate the implementation of IFRS and IFRS for SMEs, such as creating an advisory section that helps companies prepare and quantifying the differences between SOCPA's standards and IFRS for SMEs when measuring key accounting numbers. He stated:

Our auditing firm encourages its clients to do it [quantifying the differences between SOCPA's standards and IFRS for SMEs] ahead of time, so that they will not be late and rush before the deadline. We are also encouraging and pushing our clients to work with expertise and train their staff. Otherwise, it will be tough on them to cope with all the new requirements, at the end of the year, such as the VAT and submitting their financial statements prepared in accordance with IFRS in "Qawaem".

Interviewee (EA4) clarified that, if the financial statements of a client did not comply with IFRS for SMEs the auditor will have to qualify his opinion and notify his client about the required adjustments by explaining the points and negotiating it.

Because of the great responsibility that is placed on auditors, interviewee (EA11) suggested that:

Accountants and auditors should organise their time efficiently. They need to balance between their work and developing themselves to catch up with the updates of IFRS and IFRS for SMEs. Big auditing firms already have advisory teams that provide IFRS convergence service and do gap analyses. Auditors help their clients walk into the right direction by giving them advise to choose the right consultant, supporting them and staying next to their sides. All Big Four auditing firms offer IFRS training and play a vital role in increasing the awareness about IFRS in the Saudi market (Interviewee EA11).

Several external auditors highlighted an important condition that has to be met, according to the accounting regulations in KSA:

We offer and share our experience in international standards, on the condition that we do not provide auditing and consultancy service to the same client at the same period, to avoid the combination of conflicting services (Interviewee EA6).

3- The role of bankers and finance providers

Only one interviewee (B1) highlighted that banks can play an important role in encouraging companies to implement IFRS for SMEs correctly:

Banks can have an enforcement power, by forcing clients who apply for cash, to comply with banks rules and regulations, which include providing financial statements prepared according to IFRS for SMEs, otherwise, they will not get what they want.

4- The role of universities

Universities can play an important role in preparing graduates with up-to-date accounting education that is based on IFRS. Interviewee (B3) indicated that:

> *Students in Saudi universities are now exposed to the international standards, which makes them engaged with the subject in an earlier time than before, where graduated students enter the work field, with an absence of knowledge about these standards, except those who study for SOCPA fellowship certificate or other professional certificates, such as CMA. This will make accounting graduates have a deep awareness of accounting standards and how to deal with the standards.*

Overall, the evidence presented above shows that there were several issues and challenges that faced Saudi SMEs when implementing IFRS and IFRS for SMES. Respondents who prepared for the implementation have identified several issues: IFRS for SMEs is new and incorporates different and complex treatments; there is an absence of specialised training courses; implementation involves additional costs, which SMEs may be unwilling or unable to incur; KSA is not ready for IFRS for SMEs, particularly because there are not enough qualified practitioners to meet the demand from the large number of SMEs; there is absence of communication and synchronisation between the government and regulators, on the one hand, and businesses, on the other; there is no monitoring agency; and IFRS for SMEs, by requiring a greater level of disclosure, is inconsistent with the Saudi culture's preference for confidentiality.

To facilitate the implementation of IFRS for SMEs and overcome the previously mentioned challenges, the evidence of the present research shows that companies relied on internal and external support. Some companies provided internal and external training, urged their employees to read the standard, and communicated with leading companies that successfully converged so as to imitate them. External support came particularly from external auditors and consultants who offered education, training, consulting services, gap analysis and transitional services about IFRS and IFRS for SMEs to help companies converge. In addition, bankers or finance providers may request compliance with these standards as a condition for funding, and universities were considered to play an important role in raising awareness of IFRS and IFRS for SMES among accounting graduates.

9.4 How did the Saudi government work with the Saudi accounting profession to facilitate the implementation of IFRS for SMEs?

There are unusual links between the Saudi government and the Saudi accounting profession in KSA. In this section, the researcher will explain how these links operate in practice and work together to implement IFRS for SMEs. The Saudi government delegated management of the process of adoption of IFRS and IFRS for SMEs to SOCPA, which works as the instrument of the Saudi government. SOCPA is an organisation that has a distinctive nature, as compared with the role of accounting professional bodies in many Western countries.

An example of the overlapping role is that on 4 December 2018, SOCPA issued a circular that was approved by the minister of trade and investment. The circular gave companies an exceptional opportunity to submit their financial statements within a period that does not exceed six months from the end of the financial year in which the company applies the international financial reporting standards for the first time, instead of the current four month period. That is because the process of transition to international standards is accompanied by efforts and costs related to changes in accounting policies and information systems. SOCPA noticed that more time was required to prepare financial statements, which they expected to result in heavy pressure on accounting firms.

9.4.1 Work by the Saudi government

Some interviewees thought that the government, represented in the Ministry of Commerce and Investment, the Ministry of Finance and the General Authority of Zakat and Tax, should be responsible for educating people and helping companies converge:

> *It is the responsibility of the Ministry of Commerce and the Ministry of Finance to educate people and help companies converge (Interviewee O2).*
>
> *There is a great role for GAZT (the General Authority of Zakat and Tax) to help, guide, educate and train SMEs to transform into IFRS (Interviewee EA12).*

Respondents acknowledged the government's efforts in providing generic financial support to SMEs:

> *The government is offering financial support and stimulation programmes for SMEs, especially in specific sectors. For example, the government have customised over 12 million Saudi riyals*

that include reimbursement of government fees, indirect lending, raising the capital of "Kafalah" programme and bold investment funds (Interviewee G1).

The government is supporting SMEs through the programmes offered by the General Authority of Small and Medium Enterprises (Interviewee O1).

However, some respondents perceived that not enough support was available to help them with the adoption: owners of some SMEs felt that they were left to adopt IFRS for SMEs without support from outside. For example, interviewee (O6) blamed the government for her company's lack of preparedness. She declared that her company had taken no preparation measures for implementing IFRS for SMEs because the company had just prepared its financial statements for the year 2017 according to SOCPA's standards. (O6) thought that the government's effort and interest was concentrated more on VAT:

The government is the one that should be blamed because it did not raise the required level of awareness about the topic. However, they did a lot for the VAT. The VAT took all the attention because of the fines, people were worried about it.

Interviewee (EA12) recommended more collaboration and coordination between SOCPA, banks, governmental agencies and the press to raise awareness of IFRS for SMEs and how it interacted with other initiatives such as the introduction of VAT and "Qawaem" system:

There is a need for collaboration and coordination between SOCPA, banks and the Ministry of Zakat. . . . Regulators' efforts are not in line with the different press that is released to the public.

9.4.2 Work by SOCPA

As mentioned in Section 4.4, SOCPA plays an important role in supporting the accounting and auditing profession locally and internationally. Locally, by conducting the following activities: organising training courses in both Arabic and English languages, conducting IFRS certificate course, supervising IFRS exams, publishing on SOCPA's website and magazine in addition to translating international accounting and auditing books for universities. Internationally, by playing an active role and participating in the IASB due process for issuing and developing the international accounting standards (Al Riyadh, 2017).

Furthermore, SOCPA is actively involved in a number of international accounting committees and gatherings including the International Forum of Accounting Standard Setters (IFASS), the Asian-Oceanian Standard-Setters Group (AOSSG), the Islamic Finance Consultative Group and the Emerging Economies Group of the IFRS. Through these participations, SOCPA seeks to

ensure that high-quality financial reporting standards are achieved in KSA. These efforts are reflected in the development of the accounting and auditing profession in KSA (Al Riyadh, 2017).

Interviewee (EA2), who is a partner in one of the Big Four, lists some of SOCPA's responsibilities, which have been delegated to SOCPA by the Saudi government:

> *SOCPA has full authority, as it is the responsible party for issuing and suspending licenses and cancellation of the commercial registration. It monitors whether accounting standards have been applied correctly by companies and if there is any weakness in the audit.*

A senior official in SOCPA, (SO1), declared that SOCPA has done its duty with all its might in order to facilitate the changes and challenges which companies grapple with when transitioning from old SOCPA rules to the Saudi version of IFRS and IFRS for SMEs. He listed some of SOCPA's efforts, such as conducting training courses based on international standards and translating textbooks, so that university students become familiarised and knowledgeable about the international standards when they graduate. Five books used for teaching in Canadian universities were translated and sold at affordable prices. In addition, SOCPA provided a team to answer questions or technical inquiries by allowing people to send their inquiries to SOCPA's website. In addition, SOCPA has prepared manuals that explain and identify the differences between SOCPA's standards and the international accounting standards and provided comparisons to highlight the differences. Appendices D, E, and F at the end of this thesis lists the differences. These manuals are important as they help companies know the required adjustments and ensure the validity of the implementation of the standard.

SOCPA has modified or customised some of the international standards to make them suitable for the local environment. The official endorsement document for adopting IFRS and IFRS for SMEs in KSA, (SOCPA, 2017), introduced a set of additional disclosures in some standards to meet the needs of users in the Saudi environment. Specialised standards were issued in areas where IFRS for SMEs could not fulfil the local reporting requirements. A senior official in SOCPA, (SO1) indicated that the needs of users in the Saudi environment have been met through these additional disclosures:

Following the additional disclosures stated in the endorsement document, it is evident that adopting IFRS and IFRS for SMEs is tailored to the needs of beneficiaries in the Saudi environment.

An external auditor, (EA2), acknowledged SOCPA's efforts in making the international standards compatible with the Saudi environment:

SOCPA has a big role to help in implementing IFRS and IFRS for SMEs. It also makes the modifications on the standards so that they become more compatible with the Saudi culture (Interviewee EA2).

Several interviewees acknowledged SOCPA's efforts in supporting the adoption process. For example, interviewees (EA5), (EA7), (EA6) and (M1) asserted that SOCPA has done an excellent translation of the standards. SOCPA spent great efforts and engaged professional firms in order to have a reliable translation. The participation of different parties ensured that meanings were not lost in the translation. Interviewee (EA5) stated that:

SOCPA, as the regulator, has done well in translating the standards. It engaged professional firms to translate the standards. The translation has been excellent so far and the meanings were not lost. There has been no significant difference of opinions, which have come as a result of the translation.

Interviewee (IA1) also believes there is nothing wrong with the translation, however, he prefers the English version:

Although SOCPA is doing a good job, I believe that reading the standard in English is better than reading it in Arabic.

However, interviewee (EA7) challenged what he considered to be a weak translation by SOCPA.

Interviewee (EA11) praised the way SOCPA handled the transition process:

SOCPA announced its transitional process very early. It provided enough time for the transition and gave SMEs an additional year for preparation after the obligation date for listed companies. In addition, every three months, SOCPA announces workshops and courses to train people about the IFRS and IFRS for SMEs, increase the level of awareness and prepare the market.

Interviewee (EA8) highlighted SOCPA's efforts in providing educational materials based on IFRS:

To solve the problem of weaknesses in the educational curriculums, SOCPA has translated educational books based on IFRS.

On the other hand, some interviewees thought that SOCPA's efforts were insufficient:

> *It is true that there have been efforts made in the last two years, such as translating some books, but this is not enough!! (Interviewee EA9).*
>
> *Although SOCPA has put a lot of efforts, it is still not enough (Interviewee EA10).*
>
> *SOCPA and the auditors should play a greater role in order to guide, educate and train SMEs to transform into IFRS. My personal opinion is that I did not feel a satisfied involvement from SOCPA to educate and prepare the environment for the adoption of IFRS. There are low enforcement rules from the regulators of SMEs. They do not have a strong presence, in comparison to CMA, which has strong rules that guide listed companies (Interviewee EA12).*

Interviewee (M4) suggested that SOCPA should provide additional free support, including consultation and live chat:

> *SOCPA should provide free consultation and live chat for companies to answer their queries, whether technical or general questions, like customer service. This service must be sponsored by SOCPA, which imposed these standards.*

Surprisingly, this manager was unaware that SOCPA already provided consultation and live chat, which may suggest that the service was poorly publicised.

Interviewee (M2) believes that the efforts provided by the Big Four auditing firms are more visible than SOCPA's efforts:

> *I am not aware if SOCPA provides training!! I did not search yet!! However, I think that big auditing firms are offering more training than SOCPA, especially for their clients. For example, we are receiving plenty of invitations from the Big Four auditing firms. Maybe those who are not clients of Big Four search for direct training from SOCPA.*

Finally, interviewee (B3) blames SOCPA for just focusing on the implementation of full IFRS and not studying the impact of adopting IFRS for SMEs:

> *In KSA, during the five-year transitional period [2012-17], SOCPA was focusing solely on the adoption of full IFRS. SMEs were not their main concern. Although SMEs are the largest sector in KSA, SOCPA did not study the impact of adopting IFRS for SMEs. This is illustrated in the manuals prepared by SOCPA. All the attention is given to full IFRS, and only a few pages, in the end, discuss IFRS for SMEs.*

The evidence presented above shows the unusual links between the Saudi government and the Saudi accounting profession. The Saudi government and SOCPA made efforts to manage the implementation of IFRS and IFRS for SMEs in KSA and help companies converge. The government's efforts included providing some education and training and offering generic

financial support to SMEs. However, some interviewees thought that the government's efforts were inadequate.

In addition to the tasks that SOCPA handled before commencing the project of managing the implementation of IFRS and IFRS for SMEs in KSA, SOCPA's efforts include: organising training courses based on international standards, translating textbooks, providing free consultation and a live chat service, identifying the differences between SOCPA's standards and the international accounting standards, modifying or customising some international standards to make them compatible with the Saudi environment, translating the standards and providing focused educational materials. However, some interviewees thought that SOCPA's efforts were inadequate.

9.5 Summary

This chapter has examined the views of interviewees regarding the implementation of IFRS for SMEs in KSA. Three research questions were asked. The first question investigated the level of understanding of IFRS for SMEs before implementation, and the preparation process for implementation. Respondents' level of understanding differed considerably, with auditors more likely to be aware of the content of IFRS for SMEs, and owners of SMEs being less likely to be aware. At the time of first interview, most SMEs had not prepared for implementation. The minority of companies that had made some efforts to prepare had used a range of approaches, including obtaining advice from external auditors and consultants, undertaking training, and learning from the experiences of other companies.

The second question examined the issues and challenges facing Saudi companies in implementing IFRS for SMEs, and how these challenges were overcome. Several respondents pointed out the absence of specialised training on IFRS for SMEs, the additional costs involved in following IFRS for SMEs, inadequate preparation of the Saudi accounting profession, and poor communication between government, regulators and businesses. In practice, a demand for training tended to stimulate a supply of training, offered by both auditing firms and specialist consultants, and both of these groups saw the provision of advice on implementing IFRS for SMEs as a potential source of additional fee income. Several respondents argued that,

in the longer term, accounting graduates in Saudi universities should receive specific education in IFRS for SMEs.

The third question focused on the roles of the Saudi government and the Saudi accounting profession. The relationship between government and profession in KSA was found to be unusual, with most of the practical implementation of both IFRS and IFRS for SMEs being delegated by the government to SOCPA. Although the government provided some education and training, a few respondents considered this to be inadequate. SOCPA undertook a wide range of duties in supporting implementation, however some respondents in business appeared to be unaware of this. Activities included organising training, translating the standard into Arabic, and modifying the standard to achieve compatibility with the Saudi environment.

In Chapter 10, the findings relating to the adoption and implementation of IFRS for SMEs in KSA will be compared to prior literature. In addition, theoretical explanations for the findings will be discussed.

Chapter 10 Discussion

10.1 Introduction

Building on the findings of Chapter 8 and 9, this chapter provides an overall analysis. It relates the empirical findings of this research to prior literature and theory. This chapter is presented in four sections: (10.2) presents research questions relating to the adoption of IFRS for SMEs; (10.3) presents research questions relating to the implementation of IFRS for SMEs; and (10.4) is a summary.

In this chapter, findings will be joined together in one overall framework. This combines two previous theories. The first is the institutional isomorphism framework, developed by DiMaggio and Powell (1983) that explains homogeneity between countries and companies in terms of normative, coercive and mimetic isomorphism. The second theory is the institutional logics framework, as discussed by Thornton et al. (2012), which provides an understanding of how institutions can differ, even though the institutional practices may take a particular form.

10.2 Adoption of IFRS for SMEs in KSA

Chapter 8 discussed the decision to adopt IFRS and IFRS for SMEs in KSA. Respondents provided a range of explanations for this adoption, referring to both external and internal forces. An important factor referred to by several respondents was the *Vision 2030*, with adoption being seen as an aspect of the modernisation programme that this document proposed. Respondents regarded the adoption of IFRS as both emulating practices in other countries, such as G20 and GCC countries, and applying the "best practice" of international standards. In this section, each research question is discussed in turn.

10.2.1 Why did KSA adopt IFRS?

Respondents suggested (Section 8.2) a range of reasons for adopting IFRS in KSA, including international pressures, the desire to copy other countries, following international best practice, weaknesses in local accounting standards, the Saudi government's new modernisation programme, being part of the global economy, and providing transparent, credible and comparable information. Many of these reasons are consistent with previous studies on the adoption of IFRS, discussed in Sections 2.2 and 2.4, although respondents

frequently stressed the overall Saudi government modernisation programme as a key factor that distinguishes KSA from other countries.

Comparison with prior literature

To explain why a country adopts IFRS, we need to understand first the factors that influence national accounting systems and shape the adoption decision. We also need to understand the suggested benefits of the adoption.

Table 2-3 shows the main factors, suggested by prior literature, that influence national accounting systems and the decision to adopt IFRS. Some of these factors were observed in the present study, in particular, the importance of the local capital market, the desire to access international capital markets and to attract foreign direct investments, and the copying of practices that are found in neighbouring countries and international competitors. However, other factors suggested in the literature, such as the type of legal system, the national economic system, language, literacy, educational level and local culture, were not mentioned by respondents. Also, the adoption in KSA did not appear to be driven by international institutions or regulatory pressures, such as the IMF and the World Bank, but respondents referred to the internal motivation of the government to modernise, represented in *Vision 2030* (see Section 4.2). This specific type of internal motivation has not been discussed in previous literature as a factor explaining adoption, although Mantzari and Georgiou (2017) have suggested that the adoption of IFRS may provide a signal that a country has a modernised economy.

Several studies have suggested that the move towards harmonising accounting standards across countries by adopting IFRS has numerous benefits. This had led developing countries in particular to adopt IFRS. Suggested benefits, and previous studies proposing the benefits, have been summarised in Table 2-4. These benefits include that adopting international accounting standards is time and cost-efficient in developing countries, as it provides high quality accounting standards that are ready for use without carrying the burden of producing local standards. In this study, some interviewees highlighted that adopting IFRS saves costs related to issuing or updating local accounting standards. One interviewee was doubtful about the local capabilities to construct high quality local accounting standards. Other

interviewees mentioned that adopting IFRS had the benefit of stimulating foreign direct investment, while interviewees also suggested that adoption of IFRS could be beneficial for the Saudi economy as a whole. Avoiding the cost of preparing and auditing financial statements under different bases for different purposes was also suggested as a potential benefit of adopting IFRS.

Some benefits suggested in the literature were not referred to by interviewees in the study, such as the potential to reduce companies' cost of capital. On the other hand, several interviewees emphasised the benefits for companies, auditors and accountants in following a set of financial reporting standards that were being continuously updated. The use of IFRS was also seen as enhancing accountants' knowledge and ability to work in an international context.

Theoretical interpretation

The research question "Why did KSA adopt IFRS?" focuses on general reasons for adoption. As already noted, although adoption of IFRS for SMEs presupposes adoption of full IFRS, full IFRS adoption does not necessarily imply adoption of IFRS for SMEs, so this research question can be analysed separately from the question "Why did KSA adopt IFRS for SMEs?" This implies that, although these two questions are likely to share common aspects, there may be different theoretical explanations for the two questions.

As a framework for addressing the first research question, the researcher developed a set of scenarios based on the existing literature before conducting the fieldwork. This set of scenarios was designed to operationalise institutional theory, and in particular the notion of isomorphism, as it might have manifested itself in the Saudi context. The first scenario was that the decision to adopt IFRS could be related to external pressures exerted on the KSA from international organisations such as the G20. This explanation is related to the idea of coercive isomorphism. The second scenario was that this decision could be related to the desire to imitate developed countries and have an international outlook, similarly to other members of G20, or to structure the Saudi financial market based on the model of similar markets in developed countries. This explanation is related to the idea of mimetic isomorphism. Finally, the last scenario was that this decision could be related to a national commitment to adopt

best practices. This explanation is related to the idea of normative isomorphism. Following the fieldwork, these three scenarios could be reviewed to determine how far the evidence collected in fieldwork was consistent with one or more of the scenarios. Previous literature that has attempted to use isomorphism to explain adoption of IFRS is now summarised.

Coercive isomorphism

Many countries have responded to powerful pressure exerted by international financial institutions that provide foreign aid, such as the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) (Neu et al., 2006; Neu and Ocampo, 2007, p.367). These bodies expect all countries to match their economic and political systems with that of the Western type. They also see that it is legitimate and necessary to adopt IFRS and by extension IFRS for SMEs for effective participation in international capital markets (Irvine, 2008).

In many places, demands made by powerful organisations were found as the main driver that pushes governments and professional accounting bodies to adopt international accounting standards. This has been clear in Bangladesh (Mir and Rahaman, 2005); the United Arab Emirates (Irvine, 2008); 132 developing, transitional and developed economies (Judge et al., 2010) and Romania (Albu and Albu, 2012).

Mimetic isomorphism

Several studies have suggested that countries are influenced by the position of their neighbours towards the adoption of IFRS and tend to imitate them. For example, Koning, Mertens and Roosenboom (2018) studying 168 countries (they excluded EU countries, so most of the countries were emerging economies) concluded that what drives countries to adopt IFRS is the adoption decision made by neighbouring countries and influential organisations. This indicates that countries are exposed to greater impact from neighbouring countries than from domestic and local factors. They suggested that coercion pressures from the IMF or the World Bank were the least effective mechanisms for adopting IFRS rather than mimetic and normative forces. They also suggested that learning from successful countries, emulation from countries with administrative similarities and competition with trade competitors are drivers for adopting IFRS. Earlier research is consistent with these findings. For example, Ramanna and Sletten (2009) found in 102 non-European Union countries that

countries are influenced by the practice in neighbouring countries. Samaha and Khlif (2016) supported the finding of Koning et al. (2018) that trade partners and competitors play a vital role in encouraging developing countries to adopt IFRS.

Normative isomorphism

Some previous research has found that adoption of IFRS can be explained by reference to normative pressures. Guerreiro et al. (2012) found that normative pressures could explain why large unlisted companies in Portugal voluntarily adopted IFRS. The study revealed that these companies decided to adopt IFRS because of their belief that IFRS has high legitimacy and superiority, as it provides accounting information with high quality. Also, there is a belief that adopting IFRS gives the impression that companies have prestige and social fitness.

The case of KSA

After providing clarification about the three scenarios of isomorphism, the focus will be on the special case of KSA. Which of the three types of isomorphism (coercive, mimetic and normative) best fits the case of KSA? Many respondents pointed to KSA's membership of G20, noting that most G20 countries have adopted IFRS. Did this mean that G20 was a coercive force, a mimetic force, or both? Respondents provided mixed answers to this question: for example, (EA7) thought that G20 put pressure on KSA to adopt IFRS (coercive isomorphism), whereas (EA4) saw adoption more as a process of copying other G20 countries (mimetic isomorphism). Copying practice in neighbouring countries, in particular the GCC, was also identified by some respondents, such as (EA12), as an important pressure (mimetic isomorphism). Interviewees frequently referred to IFRS as a set of "high quality" statements: for example, (O4) considered that IFRS represented "best practice", consistent with normative isomorphism.

The possibility of using all three forms of isomorphism as theoretical explanations for the adoption of IFRS in KSA demonstrates that institutional theory as developed by DiMaggio and Powell (1983) may not provide clear-cut answers in contexts such as the present study. What some respondents perceive as external pressure forcing KSA to adopt IFRS, other respondents see as simply providing a basis for emulating practice in other countries. Also, isomorphism does not provide a good explanation for some of the other factors that respondents raised.

Here, it becomes useful to refer to institutional logics. Several interviewees referred to the Saudi government's *Vision 2030* as an important contextual factor for the adoption of both full IFRS and IFRS for SMEs. This vision could be regarded as reflecting both state and market logics, but in a way that may be unique to KSA. Here, the state gains its legitimacy not through democratic participation (compare Thornton et al., 2012, p.73) but through the economic and social support provided to citizens. It is the threat to the state's continued ability to provide this support, given the depletion of oil reserves, that has motivated *Vision 2030* and its emphasis on the development of markets. Given the dependence of SOCPA on the Saudi state, professional logic was largely aligned with both state and market logics in support of adoption, as IFRS and IFRS for SMEs are both symbols of the modernisation of the Saudi economy and practical solutions to the problems of financial reporting.

Coercive isomorphism seems to provide a more straightforward explanation for adoption by individual companies, although in practice it may simply be a "relabelling" of the impact of a legal or regulatory requirement imposed on companies to follow IFRS (or IFRS for SMEs). This is consistent with the finding of Vellam (2012, p.338) in Poland that coercive pressure by the state is the primary mechanism for adopting IFRS by individual companies. The state exerts greater power than the normative forces originating from the accountancy profession, in order to persuade companies to comply. Coercion could be rationalised, as respondent (O2) did, in terms of the logic of the government's programme (*Vision 2030*) and various related aspects, such as modernising the Saudi economy. This interviewee appears to accept the institutional logic of the government, and within this framework sees the adoption of IFRS for SMEs as part of the package that comes with *Vision 2030*. The link with *Vision 2030* means that respondents see adoption as part of a programme adopted voluntarily by the Saudi government, and hence not the consequence of external coercive forces. Some respondents saw *Vision 2030* as drawing on best practice in other countries (normative isomorphism) or simply copying the practices of other countries (mimetic isomorphism), but the copying explanation cannot be fully supported because KSA, working through SOCPA, has adapted IFRS rather than simply adopting them on a word-for-word basis. Also, the mimetic isomorphism explanation is inadequate because it does not explain why KSA should imitate countries that have adopted IFRS rather than imitating the USA by adopting US GAAP.

Where the application of isomorphism does not give a clear explanation, it becomes useful to consider institutional logics. As already mentioned, state, market and professional logics all interact to explain the important role played by *Vision 2030* in motivating the adoption of IFRS. KSA is in the fortunate position, as compared with most emerging economies, of being financially and economically self-sufficient, which means that the power of international institutions to require adoption of IFRS and similar practices in return for loans and other support is significantly diminished. This largely rules out coercive isomorphism at the country level, despite the views of a few interviewees that KSA was under pressure to adopt IFRS. Copying practice in other countries was justified by some respondents on the basis that this was already "best practice", so what may appear to be mimetic isomorphism could be understood better as indirect normative isomorphism. All of this takes place against the background of *Vision 2030*, where the unusual state logics of KSA reinforce the professional logics of SOCPA to support adoption of financial reporting standards that are strongly rooted in IFRS but adapted to reflect some local factors (including the need for the standards to be consistent with the teachings of Islam).

KSA is a strongly Islamic country and the impact of religion is important. Surprisingly, though, in recent years, the religious and the cultural logics have not been significant, while the market and the international logics have become more important. The religious logic may seem to challenge this rather consensual position, but only one respondent expressed opposition to IFRS as importing religiously unacceptable notions such as interest into financial reporting. The general view of respondents, if they mentioned religion at all, was that the religion logic could easily be accommodated rather than posing a challenge.

The Saudi state is a source of legitimacy and may exercise its political power both directly and indirectly. In KSA, SOCPA is an agent of the state and this means that SOCPA is much closer to the state than equivalent professional accounting bodies in other countries (see e.g. Puxty et al., 1987). The government of KSA delegated SOCPA to work as a facilitator for the introduction of IFRS and IFRS for SMEs, which caused the state and profession to become heavily inter-linked.

10.2.2 Why did KSA adopt IFRS for SMEs?

Respondents suggested (Section 8.3) a range of reasons for adopting IFRS for SMEs in KSA, including that IFRS for SMEs is a complete set of high-quality accounting standards, known as best global practices, that is superior to the local standards and has additional disclosures. In addition, reference was made to the absence of local capability to construct or develop high quality local accounting standards. Other respondents thought that the reason for adopting IFRS for SMEs relates to the desire to maintain a matching framework to that of full IFRS. Also, IFRS for SMEs was seen as easier and cheaper to apply, because of its reduced requirements for accounting and disclosure, in comparison to full IFRS. Other interviewees believe that IFRS for SMEs facilitates comparability, offers harmonisation, competitiveness, and access to financing, improves SMEs' visibility and develops business opportunities.

Comparison with prior literature

Table 3-7 shows the main factors, suggested by prior literature, that influence the decision to adopt IFRS for SMEs. Some of these factors were observed in the present study, in particular, the ability to develop national accounting standards for SMEs and the current extent of use of IFRS. Although respondents did not comment specifically on the quality of governance institutions, views were expressed that local professional capabilities are not at a sufficient level to allow Saudi accountants to construct high-quality accounting standards. However, other factors suggested in the literature, such as culture and type of legal system were not mentioned by respondents.

Several studies have suggested that adopting IFRS for SMEs has numerous benefits. This had led developing countries in particular to adopt IFRS for SMEs. These benefits, and previous studies proposing the benefits, have been summarised in Table 3-8. Respondents endorsed the benefits mentioned in the literature in respect of reducing costs relative to adopting full IFRS, easier access to external capital, reducing the cost of raising finance, and increasing comparability of financial reporting. However, the benefit of attracting foreign investments, which was suggested in the literature, was not mentioned by respondents.

Theoretical interpretation

As was the case for the previous research question, the first attempt to apply a theoretical interpretation uses institutional theory, which has been widely used in studies that have a similar nature. Institutional practices are considered to be driven by internal and external pressures that can be understood as coercive, normative or mimetic. The views of some interviewees can be seen as reflecting the theoretical concepts of the frequently employed institutional isomorphism approach of DiMaggio and Powell (1983). Different interpretations were provided by several respondents to explain the reasons that pushed the Saudi authorities to adopt IFRS for SMEs. Respondents tended to link the adoption of IFRS for SMEs to the adoption of full IFRS. Therefore, their explanations for adopting IFRS for SMEs can be interpreted theoretically in a similar way to their explanations for adopting full IFRS. However, there were different emphases in responses to the question of why KSA adopted IFRS for SMEs. Very few respondents saw adoption as being coerced, with most respondents regarding adoption of IFRS for SMEs as a logical corollary of adopting full IFRS. If full IFRS provides a set of high-quality standards that are widely used around the world, then, to most respondents, so does IFRS for SMEs. This suggests that the main theoretical explanation for the adoption of IFRS for SMEs in KSA is normative isomorphism. No respondents referred to copying practice in other countries, ruling out mimetic isomorphism as an explanation. This is not surprising, as Table 8-1 shows that other neighbouring countries in the GCC either do not use IFRS for SMEs or are just beginning to adopt it. Hence, with respect to IFRS for SMEs, KSA is a leader rather than an imitator.

For this study, the theory of institutional isomorphism has been augmented by another level of theorisation. This is the institutional logics approach, as discussed by Thornton et al. (2012), which considers potentially competing institutional logics. According to this theorisation, there are several logics that provide a framework within which the adoption of IFRS for SMEs makes sense for KSA. As already noted in Section 10.2.1, modernisation is an internal driver that comes from the Saudi government's *Vision 2030*, and this could be regarded as exemplifying the impact of state or governmental logic.

The case of KSA

The special thing about KSA is the nature of its economy. Although it is an emerging economy, it is also a wealthy and increasingly sophisticated economy. The fact of being a member of the G20 is significant. A lot of developing economies are forced into adopting IFRS and IFRS for SMEs, as it is what the international financial institutions expect (IFRS for SMEs is considered as part of the package that comes with adopting full IFRS). This pressure is less relevant in the context of KSA. There is a certain amount of normative isomorphism by following high-quality accounting standards that are regarded as best practices. Also, there is a certain amount of mimetic isomorphism, as adopting IFRS and IFRS for SMEs is what competitive countries are doing.

KSA is passing through a transitional period. There are still some conservative people, who are hostile and see international standards as having a conflict with the cultural logic. They prefer their original standards rather than IFRS, seeing IFRS as imposing Western culture that is against their existing culture. However, there are also some people, who are enthusiastic and have a positive focus. They welcome and encourage the adoption of IFRS for SMEs, seeing the change as part of modernisation. The different attitudes are related to the commitment to community values and ideologies.

The views of accountants on the technical superiority of IFRS for SMEs are a strong reflection of the professional logic. Although, it is important to remember that SOCPA is more dependent on the Saudi government than equivalent professional accountancy bodies in Western countries, and hence professional logics become mixed with the state logic. Therefore, IFRS for SMEs is not just a technical solution that can be “sold” to companies on its own merits but is tied up with the emphasis in *Vision 2030* on increasing the economic contribution of the SME sector. IFRS for SMEs serves the profession and increases its income by making it possible to charge higher fees for auditing and other services.

Some interviewees indicated that adopting IFRS for SMEs will enhance their business, make it easier to raise capital and get money from banks. In the longer term, it makes the company more marketable in the stock market exchange. In this case and in most cases, the adoption supports the market logic. However, some may oppose the adoption of these new standards,

as in a few years' time, they will have to pay tax on the profit, and if their profit was measured according to the IFRS, then they will pay more tax. The market logic of adopting IFRS for SMEs was endorsed by interviewees such as (O1), (O5) and (B3).

Given that many SMEs are family-owned and managed businesses, we may expect family logics to be relevant in understanding the adoption of IFRS for SMEs in KSA. This country is dominated by the Al Saud family, and the royal family's wishes have been manifested in the *Vision 2030* initiatives and the royal family's willingness to open KSA up to the world. At the company level, some owners such as (O6) indicated that in order to stay sustainable in the market in the long term and to have a business that they can pass to their children, they need to follow new and modern trends including IFRS for SMEs. In this example, the family logic supports adoption. In some family businesses, profit maximisation is not a central objective. Owners of these businesses suggest that working with family members, having close and strong ties, and securing jobs for their children and the new generation are dominant objectives. In this situation, the family logic would be more important than the market logic. However, some owners indicated that adopting IFRS for SMEs does not make any differences. Whereas in other cases some may believe these standards are not helpful at all. Interviewees quoted in Chapter 8 argued that some SMEs do not need to report or prepare financial statements. For example, interviewee (O7), a partner in a small family-owned business, clarified that her business does not need complicated financial statements, because family businesses are usually built on trust.

Applying the notion of institutional isomorphism to answer this research question suggests that KSA has not been coerced into adopting IFRS for SMEs. The main explanations for adoption related to the claim that IFRS for SMEs was a high-quality and internationally recognised standard, implying normative isomorphism as the dominant theoretical understanding. As in the case of the previous research question, state and professional logics help us to understand the special relationship between the KSA government and SOCPA, while market and family logics are relevant to explain why there were differences in the views of respondents, particularly owners of SMEs, as to the desirability of adopting IFRS for SMEs.

10.2.3 What are considered to be the purposes of financial reporting by SMEs in KSA, and to what extent is adopting IFRS for SMEs considered to meet those purposes?

This research question has two aspects: first, the users of SMEs' financial statements, second, the purposes and uses of SMEs' financial reports. The two aspects of the research question are discussed separately.

Users of SMEs financial statements

In Section 8.4, respondents identified a range of users of SMEs financial statements in KSA (see Table 8-2). Governmental agencies, including the Zakat and Tax Authority and the Ministry of Commerce, were considered to be the main users. Banks and other lenders, owners, partners and shareholders, management and board, business contacts and competitors, and analysts were also considered to be important users. Less important users include external auditors, suppliers and advisors. Although some respondents referred to potential investors as users, other respondents did not believe that SMEs' financial reports were of interest to potential (particularly foreign) investors, as they thought that most SMEs did not seek external finance.

Comparison with prior literature

Several studies have identified users of SMEs' financial statements. Table 3-2 summarises the main users of SMEs' financial statements in different countries identified in these studies. Tax authorities and banks were identified as the main users. Other less important users include owners, owner-managers, managers, governmental agencies, public authorities, analysts, employees and shareholders.

Various potential users are identified in IFRS for SMEs itself. In the introduction to IFRS for SMEs (2015, P7), users of SMEs financial statements are stated to include shareholders (who are considered investors), creditors (both lenders and suppliers), employees and the public at large, while the text of the standard refers to "owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies" (IFRS for SMEs, 2015, para.1.2) as external users of SMEs financial statements. Elsewhere in the document, employees, customers and other user groups are mentioned.

It should be noted that the standard did not consider governmental and tax authorities as main users, as they are considered by the IASB to be in the position to demand whatever information they need. However, tax authorities were found in this study and others, such as Duc Son et al. (2006) and Kılıç and Uyar (2017) as the most important users.

Some of these users (mentioned in prior literature and the standard) were observed in the present study, in particular, governmental agencies including tax authorities, banks, owners and shareholders, managers, analysts and suppliers. However, there were some users identified in prior literature and the standard, but were absent in the context of this study, such as employees, customers and the public at large.

Finally, the current study identified business contacts and competitors, potential investors, external auditors and advisors as important users of SMEs financial statements in KSA, which previous research and the standard itself have overlooked. In addition, prior literature did not mention the Zakat authority, which is under governmental authority in KSA, as it does not exist in most countries, but prior literature mentions tax authorities.

Purposes and uses of SMEs financial reports

The empirical findings of this study highlighted in Section 8.4 that meeting the requirements of governmental agencies, to calculate Zakat and tax, is the main purpose for preparing financial statements by SMEs in KSA. Other important purposes include to know the financial position and performance of the company, to measure and distribute the profit between partners, to make decisions, to apply for governmental tenders, to produce more accurate forecasts, and in very rare cases to attract foreign investors.

Comparison with prior literature

Several studies have identified the purposes of SMEs' financial statements. Examples mentioned in Section 3.5 include that management use SMEs' financial reports to monitor the profitability and net assets. Also, it was suggested that SMEs financial reports help in displaying indicators about forecasts and cash flow. These purposes were also identified in the current study.

In addition, the compulsory content of IFRS for SMEs (2015, para.7) stated that the IASB has set out its views relating to the purposes of financial reports:

> The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

There were no purposes suggested in the literature or the standard that were absent in the context of this study.

Finally, there were some purposes found in this study that previous research has overlooked, such as help in calculation of Zakat and tax and help to apply for governmental tenders.

Theoretical interpretation

Several previous studies of users and uses of the financial statements of SMEs have referred to stakeholder theory to explain why particular groups are identified as important or less important groups in particular countries. The findings of the present study are largely consistent with previous studies, with one significant exception. This is the prominence that respondents give to the Zakat and tax authorities as dominant users. This reflects specific aspects of KSA, where the General Authority for Zakat and Tax has a role that is unique in predominantly Islamic countries. This is a case where religious logics intersect with state logics at a national level in KSA, and so the unusual finding of the present study can be understood as evidence of the continuing significance of Islam for the KSA as a state.

10.2.4 What arguments were proposed by owners, managers, employees and advisors of SMEs in KSA in favour of and against the adoption of IFRS for SMEs?

In Section 8.5, respondents were classified as supporters of the adoption of IFRS for SMEs, neutrals, sceptics, and opponents. The final class of opponents was further sub-divided into those who preferred local standards, those who thought that all entities should adopt full IFRS, those who thought that only genuine SMEs should adopt IFRS for SMEs, with larger entities following full IFRS, and finally those who thought that micro and small entities should not be required to adopt any accounting standards (or should remain with local accounting standards), while medium and large entities should adopt IFRS for SMEs. The different groups of respondents were also classified in terms of their educational background, their age and, for auditors, whether they worked for a Big Four firm or a local firm.

The arguments proposed by interviewees depended on their overall position on adoption of IFRS for SMEs. Supporters (57% of interviewees) tended to argue that IFRS for SMEs represented high quality, internationally recognised, accounting standards that would be simpler and cheaper option for SMEs than full IFRS. Supporters saw adoption of IFRS for SMEs as a positive step against the background of modernisation in KSA. Some professional accountants, perhaps more cynically, saw adoption of IFRS for SMEs as an opportunity for increasing their fees because of the greater work involved in preparing and auditing SMEs' financial statements. Some respondents (8.5% of those interviewed) were classified as "neutrals" because they had no particular view about accounting standards, or thought that the choice of accounting standard would make no difference to them. Sceptics (5.5% of those interviewed) tended to be doubtful about the value of change, or wanted to wait and see what the outcome of implementing full IFRS would be before accepting IFRS for SMEs. Opponents (the remaining 29% of those interviewed) believed that IFRS for SMEs was being imposed without due consideration of the standard's relevance in KSA. This included arguments that IFRS for SMEs was inconsistent with the principles of Islam as reflected in Sharia law, which at least one opponent saw as overriding any desire for modernisation or Westernisation of KSA. Other opponents thought that KSA was simply not equipped in terms of professional capabilities to adopt IFRS for SMEs (at least without an extensive learning period). These opponents argued that there were not enough well-trained professional accountants in KSA to meet current demand.

Professional accountant interviewees tended to support the idea of adopting IFRS for SMEs. They thought that IFRS for SMEs (and indeed full IFRS) are the outcome of a professional process undertaken by technical experts, rather than being developed by governments. The Saudi government has delegated the adoption of international accounting standards, including modifying the standards to satisfy local factors and translating the standards into Arabic, to SOCPA. The standard-setting process is controlled by the accounting profession and so can be considered as enhancing the professional status of accountants in KSA. Younger interviewees and interviewees with Western education were also more likely to support adoption.

Comparison with prior literature

Previous researchers have also identified supporters, neutrals, sceptics and opponents of adoption, but the present analysis extends existing literature by analyzing the opponents more carefully, showing that opponents do not form a homogeneous group, but can differ significantly in their views as to the best alternative to adoption.

Arguments about the suitability of IFRS for SMEs to developing countries were highlighted in Section 3.9 and 3.10. Table 3-8 indicates benefits of adopting IFRS for SMEs, identified by studies such as Albu et al. (2013), Joshi and Ramadhan (2002) and Kılıç and Uyar (2017). One argument in favour of adopting IFRS for SMEs presented in previous literature was that preparing financial statements under IFRS for SMEs would be less costly than under full IFRS. This argument was frequently used by supporters of adoption of IFRS for SMEs in KSA. A few respondents referred to the possibility that comparability of financial statements would be enhanced, which could be of benefit to international investors, bankers and financial analysts, but sceptics and opponents were more likely to argue that most SMEs would not be seeking foreign investment, so this would not be a benefit in practice of adopting IFRS for SMEs. No respondent suggested that adoption of IFRS for SMEs would reduce the cost of raising finance for smaller businesses. In addition to benefits identified in the existing literature, some respondents referred to adoption in the context of the modernisation programme represented by *Vision 2030*, and thought that adoption of IFRS for SMEs would enhance the economic position of SMEs in the Saudi economy.

On the other hand, Table 3-9 lists issues and challenges that previous literature has observed relating to the implementation of IFRS for SMEs. Because of such issues, we would expect there to be opposition to adoption. For example, Perera (1989, p.142) argues that "the Western style of accounting practices may not be all that relevant in many developing countries". As expected, several respondents opposed adoption of IFRS for SMEs, but this research highlights that the basis of opposition is not the same for all opponents. All of the issues and challenges identified in Table 3-9 were mentioned by at least one respondent, with some opponents suggesting that adoption would impose unreasonable costs on SMEs, many of which were not considered to need general purpose financial statements. Some opponents suggested that the quality of the Saudi accounting profession was not adequate for adoption

without a substantial amount of training. Other opponents noted that IFRS for SMEs was written in the English language and would need to be translated into Arabic. Those opponents who thought that micro and small entities should be exempt from applying IFRS for SMEs believed that the standard was too complex for such businesses, while the opponents who would prefer larger entities to apply full IFRS though that IFRS for SMEs was not complex enough. Reducing complexity was also an issue for opponents who thought that having two systems, full IFRS and IFRS for SMEs, at the same time for different groups of companies would create problems for accountants that a single framework would avoid.

An argument against adoption that previous researchers have not referred to is the claim that IFRS for SMEs is not consistent with Islam (this could be considered as a specific case of a cultural barrier to adoption). Only one opponent made great use of this argument, although it is interesting that, in translating IFRS for SMEs into Arabic, care was taken not to include examples that could be considered unacceptable to Muslims.

Theoretical interpretation

As for the previous research questions relating to adoption of IFRS and IFRS for SMEs, institutional isomorphism provides only a partial theoretical explanation for the empirical findings. A few interviewees expressed opposition to adoption on the ground that this was being imposed. For example, interviewee (EA9) mentioned that he was forced coercively to adopt these standards and did not like the way it was forced on him. Other opponents suggested offering SMEs a choice of the set of standards they prefer, whether full IFRS, IFRS for SMEs, local accounting standards, or no accounting standards at all. This could be interpreted as a rejection of coercive isomorphism. Supporters were more likely to emphasise the benefits of adopting a system that they considered to represent best practice (normative isomorphism). However, the nuances of support, neutrality, scepticism and opposition are not adequately captured by institutional isomorphism. It is necessary to refer to the institutional logics approach (Thornton et al., 2012), to explain the different arguments proposed in favour of and against the adoption of IFRS for SMEs in KSA, and the different positions adopted by interviewees.

In their study of the adoption of IFRS for SMEs in Italy, a developed country, Ghio and Verona (2018) detected the presence of cultural, professional and market logics in what they identified as a heterogeneous group of SMEs. They also indicated that there was a positive and significant relationship between the attitude towards IFRS for SMEs and these logics. It would therefore be reasonable to investigate whether these logics can also explain the findings of the present study, where respondents have also often commented on the wide variety of SMEs in KSA.

Cultural logic: Section 4.3 provided details about the distinctive features that characterise the Saudi culture and business environment. In short, the regulation system of KSA is based on Islamic law (Sharia). Saudi culture tends to place more emphasis on conservatism and secrecy. The transition from local accounting standards to IFRS for SMEs caused a change in the accounting culture of KSA. For example, the emphasis in SAS was placed on principles such as historical cost and prudence rather than valuing relevant and forward-looking information. Also, SAS was oriented towards protecting creditors more than investors and encouraged a conservative valuation of assets. An important cultural factor is the tension between conservatism, represented by the older generation, and modernisation, symbolised by *Vision 2030*.

Professional logic: It is possible to link the activities of certified public accountants with the professional logic, as traditionally, they have been considered technical experts in accounting standards (Ghio and Verona, 2018, p.104). Many accounting professionals in KSA, particularly younger individuals with Western education, have seen the adoption of IFRS and IFRS for SMEs as enhancing their professional status, as these standards are widely considered to be of high quality and are prepared by an international body. A by-product of adoption may be the possibility of charging higher fees for preparing and auditing financial statements, which again may be considered as a professional logic supporting adoption. A problem with the institutional logics approach is that it can be difficult to determine whether a phenomenon is evidence of a professional logic or a market logic. Researchers, such as Ghio and Verona (2018), Greenwood and Suddaby (2006) and Wyatt (2004) noticed the changing nature of professional firms. They indicated that most large accounting firms, such as the Big Four have moved from a traditional “professional” approach to more of a “commercial”, “market” approach that focuses on revenue generation in their operations. However, Ghio and Verona

(2018) found that although smaller accounting firms have an interest in the commercial aspect, they "still have more of a professional culture" (Coram, 2018, p.125). This means that the professional logic is an influential and important driver for small practitioners. Professional accountant interviewees in KSA tended to put more weight on the adoption of high-quality standards than on additional fee income, so professional logics tended in this instance to outweigh market logics.

Market logic: It is possible to link the activities of certified public accountants with the market or commercial logic, as recently, there has been a strong orientation towards providing consulting services by certified public accountants to their clients, especially to SMEs (Ghio and Verona, 2018, p.104). However, market logics may extend beyond the accounting profession. In February 2019, the researcher conducted a follow-up interview with (G1), who is the director of SMEs culture in the General Authority of Small and Medium Enterprises. He indicated that based on his knowledge, he thinks that SMEs respond to economic pressures. Although owners want to make a profit, they also want to have the status, which is associated with being business owners. He stated that normally what influences SMEs' choices is the economic logic. Usually, owners of SMEs strive and enjoy being directors of themselves. Their aim is to provide self-sufficiency, self-realisation and high self-esteem.

Demographic differences

Although the research question focused on the various arguments proposed by interviewees, it is worth examining how attitudes towards IFRS for SMEs are associated with the personal characteristics of the interviewees, namely: location of highest education, age and (for external auditors) whether the auditing firm is one of the Big Four auditing firms or a local auditing firm. In this study, respondents were classified broadly by age, which may be related to years of experience.

Other personal characteristics were analysed, such as gender, nationality, years of experience, and level of education. Earlier studies have identified some of these personal characteristics. For example, Ghio and Verona (2018) looked at age, years of experience and level of education as personal characteristics that could influence the views and attitudes of certified accounting practitioners towards IFRS for SMEs. Uyar and Güngörmüş (2013) examined the level of awareness and knowledge about IFRS for SMEs and linked it with

several personal characteristics. They found that accounting professionals who received training and were employed in one of the Big Four were more knowledgeable about the standards compared to others. However, educational level and years of experience did not have a positive impact on knowledge of the standard.

By referring to Table 8-5, it is clear that respondents who are older and have a local educational background, in addition to auditors in local auditing firms, are more hostile to the adoption of IFRS for SMEs. Respondents who are younger and have a Western educational background, in addition to auditors in international auditing firms, tend to support the adoption of IFRS for SMEs. Usually, values and convictions are deeply rooted and come from early education and experiences, while technical practices come from later education. For example, when learning about a topic like IFRS for SMEs, people relate to their late studies because it comes from later education, like in the MBA. In KSA, it has until now been more common to undertake advanced education in Western countries rather than in KSA. People who have doubts about IFRS for SMEs or IFRS generally on religious grounds are likely to be influenced by the whole combination of their beliefs that were created when they were young not their highest level of education. This may explain why the strongest expression of the religious logic came from an experienced accountant.

10.3 Implementation of IFRS for SMEs in KSA

Chapter 9 discussed the implementation of IFRS for SMEs in KSA including the level of understanding and preparing for the implementation, issues related to the implementation and how they were addressed. In addition, efforts provided by the government and SOCPA were examined. These topics are discussed in the following sub-sections, based on the specific research questions relating to implementation, by referring to prior literature and theory.

10.3.1 What was the level of understanding of the content of IFRS for SMEs in KSA before implementation, and how did SMEs in KSA prepare to implement IFRS for SMEs?

The empirical findings of Section 9.2 illustrated that respondents had different levels of awareness and understanding of the content of IFRS for SMEs. The statistics in Chapter 9 (Tables 9-1 and 9-2) are based on respondents' first interviews, which took place at the beginning of the year in which IFRS for SMEs became a requirement in KSA. Overall, 21 of the 35 respondents (60%) indicated that they were aware of IFRS for SMEs. External auditors were

the group of respondents most likely to be aware of IFRS for SMEs, although two external auditor interviewees stated that they were unfamiliar with the standard (one of these observed that he worked only with companies using full IFRS). On the other hand, only one owner out of eight interviewed reported awareness of IFRS for SMEs: this owner had a subsidiary outside KSA that had already applied IFRS for SMEs.

Table 9-2 shows that about two thirds of those supporting the adoption of IFRS for SMEs were aware of the content of IFRS for SMEs, although one third of supporters did so despite lack of knowledge of the standard's content. These supporters tended to regard IFRS in general as superior to local standards. Opponents of adoption of IFRS for SMEs were roughly equally divided between those who were aware and those who were unaware of the content of the standard. Opponents who were aware of the standard's content often thought that IFRS for SMEs did not add any value to either existing local SOCPA standards or to full IFRS. Opponents of adoption who were unaware of the standard's content took the view that any type of regulation such as IFRS for SMEs would impose a burden on small and medium-sized entities that was not justified by any benefits that might come from the standard.

Interviewees suggested several reasons for not being aware about IFRS for SMEs, including lack of specialist knowledge in accounting matters, absence of specific attention to IFRS for SMEs, inadequate provision of courses about IFRS for SMEs, complexities relating to the interaction between implementing IFRS for SMEs and VAT at the same time, the belief that there was plenty of time to prepare for implementing IFRS for SMEs, and the lateness in publishing the Arabic version of the standard.

Some interviewees suggested that, at the time they were interviewed, most SMEs in KSA had not begun to prepare for the implementation of IFRS for SMEs, although this may reflect the timing of interviews during the period when SMEs were preparing their financial statements for the year preceding the implementation of the standard. However, a few companies reported that they had undertaken some preparation measures, such as sending their employees to attend training, hiring consultants, seeking help from auditors, updating or changing the accounting system, reading the standard, and observing and learning from the experience of other companies.

Comparison with prior literature

Previous studies in developing countries on the adoption of IFRS for SMEs have only rarely explored the initial level of understanding about IFRS for SMEs and preparedness for implementing IFRS for SMEs. Uyar and Güngörmüş (2013) found that in Turkey, the majority of respondents (52%) were not fully aware of some methods, concepts and recent releases in IFRS for SMEs. They were also not aware of the differences between full IFRS and IFRS for SMEs, because of complexities in the standards. These findings were backed up by Kılıç et al. (2014). Also, Kılıç, Uyar and Ataman (2016) found that SMEs in Tukey are not fully prepared to implement IFRS for SMEs. This is particularly the case for small SMEs and SMEs that have only local activities and are audited by local auditing firms. Large and international SMEs and SMEs audited by a Big Four auditing firm were more likely to be prepared for IFRS for SMEs. The findings of the present study are consistent with this previous research.

Theoretical interpretation

One theoretical interpretation of the initially low level of understanding of IFRS for SMEs and preparation for implementation is simply an economic one: owners of SMEs will not incur costs on gaining an understanding and on preparing until they have no alternative. Within the institutional logics perspective, the awareness of IFRS for SMEs shown by external auditors exemplifies a professional logic, particularly as some external auditor respondents saw the implementation of IFRS for SMEs not only as an opportunity to improve accounting practice, but also as a way of charging additional fees. The relative lack of awareness on the part of owners of SMEs may represent an attitude to regulation that sees the government as likely to impose burdens on private enterprise in the pursuit of state logics. This attitude manifests itself in an attempt to ignore new requirements until they cannot be avoided. So, most SMEs begin their preparations to implement IFRS for SMEs only in the actual year of implementation, once the previous period's financial statements are out of the way. Only a few SMEs plan for implementation well in advance, and so market logics suggest that the supply of support for implementation, such as training courses, will itself be limited until the pressure to gain familiarity with IFRS for SMEs becomes urgent.

10.3.2 What issues and challenges did Saudi SMEs encounter when implementing IFRS for SMEs, and how did they address these issues and challenges?

This research question has two aspects: first, the issues and challenges that face SMEs when implementing IFRS for SMEs, second, the ways of addressing these issues and overcoming the challenges. The two aspects of the research question are discussed separately.

Issues and challenges

Respondents who prepared for the implementation have identified several issues. It was thought that the fact that IFRS for SMEs is new and incorporates different and complex treatments would make implementation difficult. Respondents noted the inadequate number of practitioners qualified to advise SMEs and the shortage of specialised training courses, while implementation was seen as involving additional costs, which SMEs were thought to be unwilling or unable to incur. Respondents observed an absence of communication and synchronisation between the government and regulators, on the one hand, and businesses, on the other, and noted that there is no monitoring agency to ensure compliance with IFRS for SMEs. Finally, the greater level of disclosure required by IFRS for SMEs was thought to be inconsistent with the Saudi culture's preference for confidentiality.

Comparison with prior literature

Table 3-9 shows the main issues and challenges that have been identified in previous research as facing SMEs when implementing IFRS for SMEs. The current research has found evidence that supports all the issues mentioned in prior literature. However, respondents referred to other issues and challenges, such as that IFRS for SMEs is new and incorporates changes in treatments, the number of practitioners does not cover the high demand, IFRS for SMEs is ambiguous in the eyes of some international consultants, absence of communication and synchronisation between governmental agencies or regulators and business, absence of a monitoring agency, and difficulties that relate to the nature of SMEs, which previous literature has not considered.

Overcoming the issues and challenges

Respondents identified four parties that should collaborate in order to overcome the previously mentioned issues and challenges. These parties include companies themselves, auditors and consultants, bankers and finance providers, and universities. Respondents suggested that companies, for example, should provide internal and/or external training, encourage employees to read the standard, and benefit from the experience of leading companies that have successfully implemented IFRS for SMEs, even imitating their practices. Respondents also pointed to the role of external auditors and consultants in helping companies implement IFRS for SMEs through offering education, training, consulting services, gap analysis and transitional services. Bankers and other providers of finance may promote the use of IFRS for SMEs when they request companies to comply with the standard as a condition for funding. Finally, universities play an important potential role in raising awareness of IFRS and IFRS for SMEs in accounting graduates, by providing adequate information and knowledge about IFRS and IFRS for SMEs in their accounting curricula.

Comparison with prior literature

In Section 3.11, various issues relevant to overcoming the challenges of implementing IFRS for SMEs were set out in Table 3-10. The most common approach to overcoming the challenges was through education and training. Several respondents discussed the provision of training, whether this involved internal training by specialists invited into companies or external training through courses held outside the company (possibly by the company's auditors). The role of university education in raising awareness of IFRS for SMEs by including it in their curricula was stressed by some respondents.

Previous researchers (Albu and Albu, 2012; Wijekoon, 2018) have noted that implementation of systems of financial reporting standards is facilitated by effective engagement from the auditing profession. This was certainly the strong view of external auditors interviewed in this research, which is not surprising, but several owners and managers of SMEs thought that they would be unable to cope with implementing IFRS for SMEs without the help of their external auditors.

Respondents, particularly owners and managers of SMEs, had remarked on the additional cost of implementing and complying with IFRS for SMEs as a potential challenge. Chand (2005) had observed that availability of adequate financial resources could overcome this challenge. Although no respondent referred specifically to the provision of additional financial resources, some respondents mentioned that the government should provide assistance. Respondents often thought that IFRS for SMEs was being imposed on them by the Saudi government, and they would not have bothered to implement IFRS for SMEs if this had not been a legal requirement. This is consistent with the finding of Chand (2005).

Previous research (Chand, 2005) has identified the value of networking with other companies, including early adopters, for the implementation of full IFRS. One owner of an SME advocated dealing with trade partners and successful companies that have already gone through the implementation process, while a manager called for the provision of an electronic platform setting out examples of best practice.

Although the main responsibility for ensuring that IFRS for SMEs is implemented correctly lies with the preparers and auditors of financial statements, one respondent thought that pressure from the providers of finance could act as a strong force in encouraging compliance. This has not previously been mentioned in the literature.

Theoretical interpretation

We can investigate whether all three forms of institutional isomorphism are possible explanations of the various ways in which the challenge of implementing IFRS for SMEs may be overcome. Some respondents noted that they would not have engaged with IFRS for SMEs in the absence of a legal requirement – they felt coerced into implementing IFRS for SMEs in their own businesses. Other respondents thought that implementation would be made easier through the availability of examples of best practice that they could copy. This appears to be a case of mimetic isomorphism rather than normative isomorphism as respondents considered that the examples of best practice were more likely to come from business contacts (or through an internet platform) than from formal statements from the accounting profession. Tensions between market and professional logics could be seen in the attitudes towards training, with some businesses seeing training as something that would be provided

externally, including by the accounting profession, while others thought that training was an internal matter. Auditors themselves thought that overcoming the implementation challenges, whether through providing training or offering advisory and consultation services, would generate additional business, another situation where market and professional logics may be coming into conflict.

10.3.3 How did the Saudi government work with the Saudi accounting profession to facilitate the implementation of IFRS for SMEs?

The empirical findings of Section 9.4 highlighted the unusual links between the Saudi government and the Saudi accounting profession, represented in SOCPA. The Saudi government and SOCPA have an important role in helping companies implement IFRS for SMEs, and both the government and SOCPA contributed to the efforts involved in managing implementation of both full IFRS and IFRS for SMEs.

The government's efforts included educating people and providing financial support, but much of the work was delegated by the government to SOCPA. SOCPA's efforts included organising training courses based on international standards, translating textbooks, providing free consultation and live chat, identifying the differences between SOCPA's standards and the international accounting standards, modifying or customising some international standards to make them compatible with the Saudi environment, translating the standards and providing educational materials.

Comparison with prior literature

The creation of SOCPA in 1992 has been discussed in Section 4.4. Based on the evidence summarised in Section 9.4, it is difficult to determine whether SOCPA should be analysed as an instrument for the Saudi state, a professional body, or a business that generates revenues.

At the beginning of the process of adopting and implementing IFRS and IFRS for SMEs, AlMotairy and AlSalman (2012) made various recommendations for effective implementation (see Section 4.5). Some of these involved the establishment of independent bodies for setting accounting standards and for monitoring and enforcing compliance. Other recommendations were based on the provision of training for accountants, university students of accounting, and owners and managers of companies. There was some evidence that SOCPA had engaged

with the provision of training and with general support for both accounting practitioners and companies relating to adoption and implementation, although some respondents thought that this was inadequate.

Some prior literature has examined the roles and activities of SOCPA over the adoption period. Al-Mousa and Al-Adeem (2017) indicated that many of their respondents acknowledged SOCPA's website and how it contributed to spreading awareness and knowledge about IFRS. Although many respondents of this study acknowledged SOCPA's efforts to provide online support through live chat, none of them pointed specifically to SOCPA's website.

Theoretical interpretation

SOCPA's role in the process of implementing IFRS for SMEs can be regarded in different ways. Is SOCPA acting as an agency of the Saudi government in developing Saudi focused versions of IFRS and IFRS for SMEs? Or is SOCPA acting as an independent professional body? Or is SOCPA's main aim to generate revenues from selling publications and providing training? As an agency of the government, SOCPA could be regarded as having a coercive role, as it is forcing companies to comply with international standards. At the same time, by providing Arabic translations of full IFRS and IFRS for SMEs, supported by publications of handbooks that demonstrate how these standards are to be applied, SOCPA could be regarded as having a normative role. In terms of institutional logics, SOCPA is facing tensions between professional and market logics, as it aims to generate substantial revenues through providing guidance and training, while at the same time wanting to operate as a professional body responsible for determining best accounting practice.

Some respondents found it difficult to understand the complex relationship between SOCPA and the state, as shown by their uncertainty about whether it was the state or SOCPA which should be mainly responsible for training. Although it is beyond the scope of this research to examine in detail the literature on the relationship between the state and the accounting profession, it may be observed that the way in which Puxty et al. (1987) characterised the relationship between the state and the accounting profession in Germany in the mid-1980s has similarities to the relationship in KSA today. In Germany, the state worked through the

professional accounting body, the *Institut für Wirtschaftsprüfer*, which controlled the development of detailed accounting rules through its committees. Puxty et al. (1987) compare this with the much less coercive relationship in the UK at that time, where the accounting profession developed accounting standards without any explicit state involvement. The specific culture of KSA is discussed in Section 4.3.1, by reference to prior literature. Several studies refer to the importance of authority and hierarchy in KSA, where a wide range of activities will be controlled by the state. The Saudi government may therefore be expected to be heavily interested in implementation of IFRS and IFRS for SMEs, while at the same time giving the appearance of neutrality by delegating implementation to SOCPA, which appears to be an independent professional body while being controlled by the MCI.

10.4 Summary

In this chapter, the empirical findings of Chapters 8 and 9 have been considered by reference to prior literature (as discussed in Chapters 3, 4 and 5), and theoretical interpretations of the findings have been set out with respect to each of the research questions. Generally, institutional theory has been referred to, and this theory is particularly helpful in understanding why and how IFRS for SMEs was adopted in KSA. Respondents' comments suggested that the main forces behind adoption were mimetic and normative, with only a small minority of respondents suggesting that KSA had been forced (coerced) into adopting IFRS for SMEs. Institutional logics were also helpful in explaining aspects of the adoption process, and were valuable when examining implementation by SMEs. Here, institutional isomorphism (in particular, coerciveisomorphism) is rather trivial as an explanation, as all SMEs were required by Saudi law to prepare their financial statements following IFRS for SMEs with effect from 1 January 2018. However, consideration of institutional logics, in particular market, professional, state, family and religious logics, provided insights into differences between respondents' views on adoption and implementation. A schematic representation of the use of institutional theory, particularly the concept of institutional isomorphism, in this study is set out in Figure 10-1.

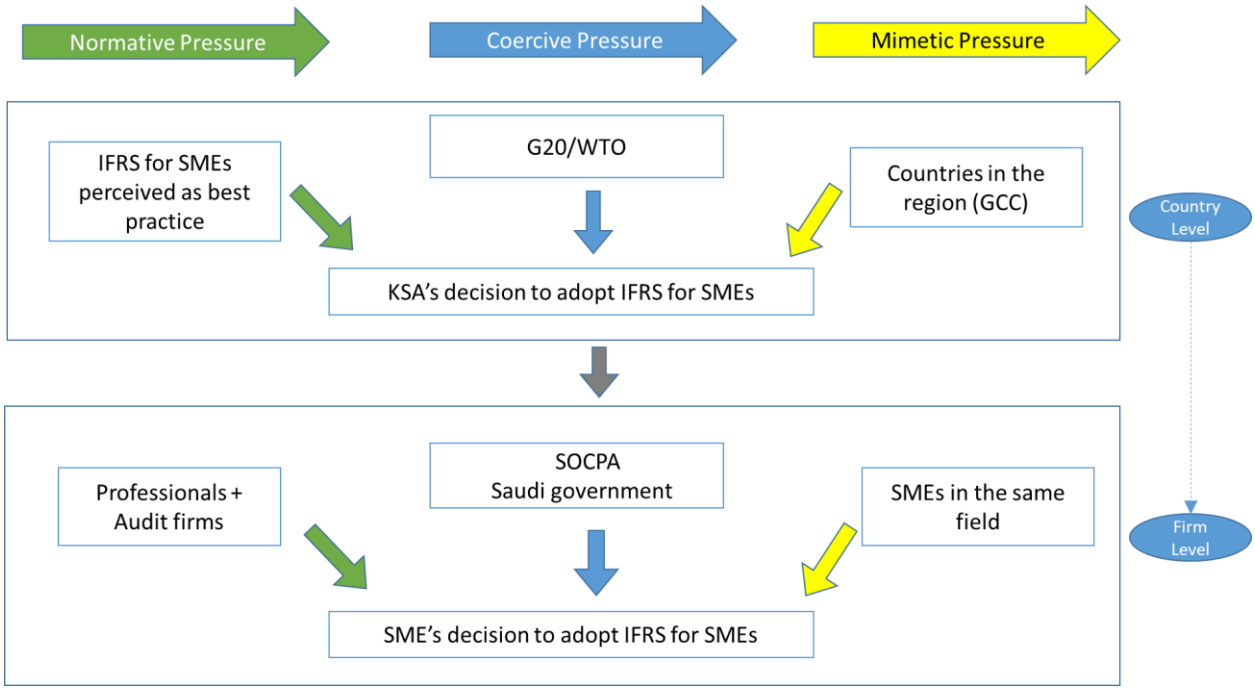

Figure 10-1: Theoretical framework for adopting IFRS for SMEs in KSA.
Source: adapted from Wijekoon (2018, p.98).

The final chapter (Chapter 11) will summarise the overall research findings, identify the contributions of the research, review limitations of the research, consider implications for policy, and propose suggestions for further research.

Chapter 11 Conclusion

11.1 Introduction

In the previous chapter, the researcher has drawn coherent inferences from the empirical findings presented in Chapter 8 and 9 by reflecting back on the literature and theory.

This empirical study has aimed to identify the reasons for adopting IFRS and IFRS for SMEs in KSA, the purposes of financial reports by SMEs, and whether reports prepared in accordance with IFRS for SMEs meet the needs of users. In addition, this study analysed respondents' views and attitudes towards the adoption of IFRS for SMEs, and the level of understanding of the content of IFRS for SMEs in KSA before implementation and preparation measures. It also pointed to the issues and challenges that face Saudi SMEs when implementing IFRS for SMEs and considered ways to overcome these issues and challenges. Efforts provided by the Saudi government and SOCPA to facilitate the implementation of IFRS for SMEs were discussed.

This chapter will bring the thesis to its conclusion and is presented in seven substantive sections: (11.2) summarises the main findings; (11.3) discusses the research contributions; (11.4) highlights the limitations of the study; (11.5) illustrates the implications of this study; and (11.6) provides suggestions for future research. This chapter ends with concluding remarks in Section 11.7.

11.2 Summary of main findings

> *I think that KSA is the first country in the Middle East that adopted IFRS for SMEs. Even Jordan did not adopt this standard. Countries in the Gulf region have adopted only the full version of IFRS. I think it is a new experience for KSA to adopt IFRS for SMEs. (Interviewee EA7)*

The adoption of IFRS for SMEs in KSA has proved to be an important development in financial reporting not just for KSA but for the whole region. Chapter 8 presents findings relating to why and how KSA adopted IFRS for SMEs.

Research question 1-1: Why did KSA adopt IFRS? Several reasons were suggested for adopting IFRS in KSA. These reasons include KSA's membership in the G20 and WTO, the global crisis, and influence from the trade partners and neighbouring countries. In addition, the adoption was necessary due to the insufficiency of local accounting standards. An

important reason includes the government's new modernisation programme *(Vision 2030)*, which calls for reforming the Saudi economy, society and accounting profession and providing transparent, credible and comparable information, which in turn, will enhance international trade and investment.

Research question 1-2: Why did KSA adopt IFRS for SMEs? Several reasons were suggested for adopting IFRS for SMEs in KSA. These reasons include the perceived technical superiority of the international standards (representing best global practice), lack of capabilities to construct or develop high quality local accounting standards, and a desire to maintain a matching framework to that of full IFRS for listed companies. In addition, following IFRS for SMEs was seen to reduce the burden on SMEs from complying with the requirements of full IFRS. IFRS for SMEs was thought to facilitate comparability, offer harmonisation, competitiveness and access to financing, improve SMEs' visibility and develop business opportunities for SMEs.

Research question 1-3: What are considered to be the purposes of financial reporting by SMEs in KSA, and to what extent is adopting IFRS for SMEs considered to meet those purposes? The main identified user of SME financial reports was governmental agencies, such as the General Authority of Zakat and Tax and the Ministry of Commerce. Banks and other lenders come in the second place, followed by owners, partners and shareholders. Other users were identified, such as management and board business, contacts and competitors, analysts, potential investors, external auditors, suppliers and advisors.

The main uses and purposes of financial reporting by SMEs in KSA include providing information to the government to calculate Zakat, tax and VAT, helping bankers and other users in making lending decisions, helping companies apply for loans, helping owners, partners and shareholders to know the financial position and performance of their company, measuring and distributing profits, applying for governmental tenders, and assisting analysts in producing more accurate forecasts. The majority of respondents did not believe that foreign investors use SMEs' financial reports, as these companies are not their target. This point is important, because *Vision 2030* advocates for attracting foreign investors. However, it was indicated by several interviewees that the adoption of IFRS for SMEs in particular might not help in attracting foreign investors.

Research question 1-4: What arguments were proposed by owners, managers, employees and advisors of SMEs in KSA in favour of and against the adoption of IFRS for SMEs? Respondents were classified into supporters, neutrals, sceptics and opponents. Some respondents supported the adoption of IFRS for SMEs and thought that this would be beneficial. Others were neutral: they did not care about accounting standards. Some were sceptical: they favoured granting SMEs a longer transition period to observe the outcomes of adopting full IFRS by listed companies. Finally, some were opposers. Although several respondents opposed immediate adoption of IFRS for SMEs by all entities not covered by full IFRS, the degree to which they opposed this position varied. One group of opponents preferred the use of existing local Saudi accounting standards. At the other extreme, some opponents of adopting IFRS for SMEs thought that all companies should be subject to the same framework of full IFRS. Further opponents thought that a different classification of companies would be preferable. Some argued that IFRS for SMEs should genuinely be for small and medium entities, with larger entities applying full IFRS. Others believed that micro and small entities should either not be subject to any accounting standards, or apply the local accounting standards, while medium-sized and larger entities should be subject to apply IFRS for SMEs.

In Chapter 9, the research objective was to understand the process of implementing IFRS for SMEs by companies in KSA, and the roles of the Saudi government and Saudi accounting profession in implementing IFRS for SMEs.

Research question 2-1: What was the level of understanding of the content of IFRS for SMEs in KSA before implementation, and how did SMEs in KSA prepare to implement IFRS for SMEs? This study found different levels of understanding and awareness about the content of IFRS for SMEs across interviewees, based on interviews that were conducted before the implementation date. The interviewees who were most aware of IFRS for SMEs were external auditors, while the most unaware interviewees were owners. Interviewees suggested several reasons for not being aware about the standard, including not being specialised in accounting matters, lack of attention and courses about IFRS for SMEs, its interaction with the VAT, the belief that it was too early to prepare and that there was plenty of time for preparation, and the lateness in publishing the Arabic version of the standard.

Some interviewees suggested that, at the time they were interviewed, most SMEs in KSA had not prepared for the implementation of the international standards. However, of the minority, some companies had done some preparation measures, such as sending their employees to attend training, hiring consultants, seeking help from auditors, updating or changing the accounting system, reading the standard, and observing and learning from the experience of other companies.

Research question 2-2: What issues and challenges did Saudi SMEs encounter when implementing IFRS for SMEs, and how did they address these issues and challenges? The implementation of IFRS and IFRS for SMES in KSA faced several issues and challenges, such as difficulties in implementing IFRS for SMEs, as it was new and incorporated different and complex treatments, the absence of specialised training courses, and the need to incur additional costs, which SMEs were thought to be unwilling or unable to incur. These costs related to preparing the infrastructure and changing the mind-set of accountants, such as training employees, using advanced information technology systems, hiring external experts, and increase in auditors' fees. Other issues and challenges included the inadequate number of practitioners qualified to advise SMEs, perceived ambiguities in IFRS for SMEs in the eyes of some international consultants, absence of communication and synchronisation between the government and regulators, on the one hand, and businesses, on the other, and absence of a monitoring agency to ensure compliance with IFRS for SMEs. Finally, the greater level of disclosure required by IFRS for SMEs was thought to be inconsistent with the Saudi culture's preference for confidentiality.

Interviewees identified four parties that should collaborate in their efforts to overcome the previously mentioned issues and challenges. These parties are the company itself, auditors and consultants, bankers or finance providers, and universities. Companies should provide internal and/or external training, urge their employees to read the standard, and communicate with leading companies that had successfully implemented IFRS for SMEs in order to benefit from their experience. External auditors and consultants were thought to be important in helping companies implement IFRS for SMEs, as they offer education, training, consulting services, gap analysis and transitional services about IFRS and IFRS for SMEs. Bankers or finance providers may play a role in implementation by requesting companies to comply with these standards as a condition for funding. Finally, universities are important in

raising awareness among accounting students by providing them with adequate information and knowledge about IFRS and IFRS for SMEs.

Research question 2-3: How did the Saudi government work with the Saudi accounting profession to facilitate the implementation of IFRS for SMEs? In KSA, there are unusual links between the Saudi government and the Saudi accounting profession, represented in SOCPA. The Saudi government and SOCPA made efforts to manage the implementation of IFRS and IFRS for SMEs in KSA and help companies with implementation. The government's efforts included educating people and providing financial support. SOCPA's efforts included organising training courses based on international standards, translating textbooks, providing free consultation and live chat, modifying or customising some international standards to make them compatible with the Saudi environment, translating the standards and providing educational materials. Although the Saudi government and SOCPA played a great role in implementing IFRS and IFRS for SMEs, some interviewees thought that their efforts were insufficient.

11.3 Contributions

This section summarises the main contributions of this thesis and how it adds to knowledge in different ways. The detailed empirical findings of the research are set out in the previous section by reference to the research questions, and are therefore not repeated in the present section. In terms of how the present study extends the **existing literature**, the research is the first study on the adoption of IFRS for SMEs in KSA. Most adoption studies focus on full IFRS and on large firms, so this study expands our knowledge in different directions. The study provides insights into how the use of IFRS for SMEs may support the contribution that the small and medium-sized business sector makes to economic growth and sustainability in KSA, which is a central feature of *Vision 2030*. The study was carried out in "real time", during the implementation process, rather than either before or long after implementation. Very few adoption and implementation studies have examined the process as it happens. The qualitative approach, based on interviews, has allowed the research to cover a wide range of stakeholders rather than just preparers, auditors or analysts. The research has also cast light on the unusual relationship between state and accounting profession in KSA.

The **theoretical** contribution of this study takes the form of "theory testing" rather than "theory development". It comes from applying an existing but underused theory (the new institutional theory combined with the institutional logics perspective) to understand the adoption of IFRS for SMEs in a new context, which is KSA. The institutional logics perspective (Thornton et al., 2012) has so far been used in only one study of the adoption of IFRS for SMEs (Ghio and Verona, 2018), but this study relates to a developed economy and uses a quantitative approach, not a qualitative approach. The institutional logics perspective was found to allow for a more nuanced understanding of the adoption of IFRS for SMEs in KSA and the process of implementation by SMEs than was offered by new institutional theory, particularly the concept of institutional isomorphism. This concept was found to be helpful at the "country" level, as respondents referred to pressures that could be classified mainly as "normative" and "mimetic", but also, to a much smaller extent, as "coercive". However, it was less useful at "company" level to provide a framework for the wide range of different views expressed by interviewees.

The unusual status of SOCPA as a professional body entrusted by the Saudi government to put into effect the adoption of IFRS and IFRS for SMEs can be understood through the interaction of state and professional logics. For SMEs, which are mainly family-owned enterprises, family logic tends to provide deeper understanding than corporation or market logics. However, the research found that the religious logic, surprisingly for a country grounded in the religion of Islam, had only minimal relevance.

The **methodological** contribution stems from providing a rigorous application of the snowball sampling technique. This thesis provides an in-depth review of the snowball sampling technique and critical discussion of why it is particularly relevant for management and accounting studies in the MENA region.

Finally, the **empirical** contribution is the most noticeable one. A summary of the main empirical findings was provided in the previous section. One of the significant empirical contributions is the identification and classification of several different attitudes to the adoption of IFRS for SMEs (support, neutrality, scepticism, and opposition). This extends previous literature (see for example Appendix 3-1), which usually categorises respondents into just two groups: supporters and opponents.

11.4 Limitations

As with all studies, this study has limitations. Because each of the qualitative methods used in this research has its own limitations, this study used multiple qualitative methods. For example, data was collected from interviews and triangulated against data collected from other secondary sources such as documents and observations. A common constraint for in-depth qualitative studies is the limited number of respondents interviewed, which may impede the extent to which the results can be generalised to different settings, time periods and other contexts.

Another limitation stems from theory choice. Broadbent (2002, p.447) states that "clearly theory choice is personal and there are other approaches that could be chosen" to conduct research. For this research, the institutional theory framework, developed by DiMaggio and Powell (1983) was combined with the institutional logics perspective, as summarised by Thornton et al. (2012). These two frameworks were chosen based on their strength in analysing the reasons for adopting IFRS for SMEs in KSA, and also because they have been widely used in related prior studies. The use of alternative theories, such as Callon and Latour's Actor-Network Theory could have produced different theoretical interpretations of the empirical findings. It should be noted that the research did not set out to construct a new theory based on the empirical findings, nor to test hypotheses derived from an existing theory.

Another limitation stems from the scope of this study, which was limited to examining people's perspective on the adoption of IFRS for SMEs in KSA. The location of the study has various unique features. This may limit the ability to extend the study to other emerging countries. This study is based on 15 SMEs located in Jeddah, but only 5 of these have branches in other cities around KSA. Therefore, there may be risks in generalising the findings of this study even to KSA as a whole. Care should be taken when generalising the findings to other countries or contexts.

This research was conducted during the first year of IFRS for SMEs implementation, so the investigation focused on the attitude and perception towards the adoption of IFRS for SMEs, rather than concentrating on actual implementation in entities financial statements.

This research did not seek to measure SMEs' compliance with the IFRS for SMEs and did not consider in detail the precise contents and technical details of the IFRS for SMEs.

11.5 Implications for policy and practice

Several interviewees made suggestions for improving the process of implementing new financial reporting standards such as IFRS for SMEs. One suggestion was that there should be a transitional or grace period for implementation, because SMEs in particular do not have the resources to change their accounting systems within a short period. Implementation should be supported through the provision of new accounting software and the offer of free training, paid for by the Saudi government. Governmental safety nets, such as financial support with additional audit fees, should be available so that SMEs do not run into financial difficulties as a result of implementing new accounting regulations. This supportive approach was considered to be more desirable than imposing penalties for not implementing IFRS for SMEs appropriately.

Micro companies should be exempt from complying with IFRS for SMEs because their business activities are simple and there is rarely a public interest in such companies.

Several respondents thought that the quality of materials provided to explain IFRS for SMEs was inadequate. Although SOCPA, and major accounting firms, had made an effort to include relevant material on their websites, respondents were often unaware of this. Hence, it would be desirable for SOCPA to publicise its educational material more prominently.

An issue with IFRS for SMEs identified by one of the auditors interviewed in the study was the existence of options and choices in both full IFRS and IFRS for SMEs. Although SOCPA's adaptation of these standards for use in KSA has removed some of the options, accounting standard setters should aim as much as possible to reach clear decisions when formulating standards, rather than leaving options that can generate confusion, particularly when comparing the financial statements of different companies.

Respondents from the accounting profession often commented on shortcomings in terms of education and experience of accounting practitioners in KSA, particularly in the area of accounting for SMEs. Addressing these shortcomings may be a longer-term process, but it

would include such policies as ensuring that IFRS for SMEs is embedded in the curriculum of accounting teaching at Saudi universities, ensuring that accountants from outside KSA are properly trained in applying IFRS for SMEs, and bringing existing Saudi accountants up to date with new developments such as IFRS for SMEs.

IFRS for SMEs aims to provide a framework for SMEs that wish to publish general purpose financial statements. None of the respondents suggested that there should be more access by the general public to the financial statements of SMEs, and at least one respondent specifically referred to the preference for privacy that was seen to be part of the culture of KSA. In many developed countries (though not the USA), all companies are required to file financial statements of some form or other in a depository to which members of the public have access. In the longer term, such a move would be a possibility for KSA, so that potential lenders and suppliers, as well as other stakeholders, may have direct access to financial information on SMEs.

11.6 Suggestions for future research

Future studies on IFRS for SMEs could consider using a quantitative approach (a questionnaire-based survey) to investigate the attitude of accounting practitioners in KSA towards the adoption of IFRS for SMEs. Such a study could be undertaken a few years after implementing IFRS and IFRS for SMEs. People will know much more about the international standards as the standards will by that point be embedded in the accounting and the auditing profession of KSA.

The study is based on 35 interviews, and future studies in KSA could include more interviews and engage in greater depth with particular stakeholder groups such as providers of finance.

The study does not examine the actual financial statements of SMEs, prepared using IFRS for SMEs. A further study could analyse the extent to which Saudi SMEs actually comply with the detailed requirements of IFRS for SMEs.

A longer-term study of the extent of the contribution of the SME sector to the overall Saudi economy could provide insights into how far the adoption of particular forms of accounting

such as IFRS for SMEs may be related to economic growth. This study could form part of a general review of the impact of *Vision 2030* on KSA.

This research is limited to a single country. As other countries in the GCC, and in MENA more generally, adopt IFRS for SMEs, there is the opportunity for international comparative studies.

11.7 Concluding remarks

This chapter has provided an overview of the entire study, discussed the empirical findings and the broader contributions, and identified limitations. The chapter has also highlighted some implications for policy and practice, and has made recommendations for future research. This study has provided considerable insight for the adoption of IFRS for SMEs by KSA, and the process by which companies have implemented IFRS for SMEs. The findings of the study are likely to assist regulators from both the state and the profession, auditors, accounting practitioners, owners and managers of SMEs, in understanding the issues and challenges of implementing a radical change in the system of financial reporting. The lessons learnt from implementing IFRS for SMEs in KSA are of relevance to other countries, and may also enhance our understanding of how new transnational regulations become accepted (or not, as the case may be) in other contexts around the world.

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Appendices

Appendix A: Different definitions of SMEs

Country and defining institution	Definition	Indicator/s
Australia *(The Australian Bureau of Statistics)*	Micro: < 5 employees Small: 5-19 employees Medium: 20-200 employees	Employment
Canada *(Industry Canada)*	SMEs are defined as those enterprises having annual revenues between CAD 30,000 and CAD 5,000,000.	Annual revenue
Cambodia *(Ministry of Industry, Mines and Energy, Cambodia)*	Small: between 11 and 50 employees and have fixed assets of $50,000 to $250,000 Medium: between 51- 200 employees and fixed-assets of $250,000 to $500,000	Employment and fixed assets
European Union *(European Commission)*	Micro: less than 10 employees; turnover should not exceed EUR 2 million; and balance sheet total should not exceed EUR 2 million Small: 10-49 employees; turnover should not exceed EUR 10 million; and balance sheet total should not exceed EUR 10 million Medium: 50-249 employees; turnover should not exceed EUR 50 million; and balance sheet total should not exceed EUR 43 million	Employment, annual turnover and balance sheet total
Ethiopia	Micro: < 1,600 euros Small: < 40,000 euro	Turnover
Indonesia	Different definitions adopted by different institutions such as Statistics Indonesia; the Ministry of Industry and Trade, and the State Ministry of Cooperatives and Small and Medium Enterprises	Employment, Assets and Sales
Korea *(Small and Medium Business Administration, Korea)*	Different definitions for different sectors (see, http://www.sbc.or.kr/sbc/eng/smes/definition.jsp)	Employment, capital and annual turnover
Malaysia (Small and Medium Industries Development Corporation, Malaysia)	Different definitions for different sectors (see, http://www.smecorp.gov.my/v4/node/14)	Employment and annual turnover
Philippines (Department of Trade and Industry, Philippines)	Micro: 1-9 employees and assets up to PHP 3,000,000 Small: 10-99 employees and assets between PHP 3,000,001 and PHP 15,000,000 Medium: 100-199 employees and assets between PHP 15,000,001 and PHP 100,000,000	Employment and assets
Singapore (Ministry of Trade and Industry, Singapore)	Not more than 200 workers and annual turnover not exceeding 100 million Singapore dollars	Employment and annual turnover

Country and defining institution	Definition	Indicator/s
South Africa	< 200 employees and turnover not exceeding 4 million euro	Employment and annual turnover
United Kingdom (European Commission)	Similar to EU	Employment, annual turnover, and balance sheet total
United States of America (United States Small Business Administration)	Manufacturing firms: max. 500 employees. Wholesale trade firms: max. 100 employees. Agriculture: max. US$750,000 in average annual receipts. Retail trade and most service firms: max. US$6.5 million in average annual receipts. General and heavy construction (except dredging): average annual receipts of max. US$31 million.	Employment and Annual revenue
Vietnam (Agency for SME Development, Vietnam)	Up to 300 employees and capital investment not exceeding VND 10 billion	Employment and capital investment

Sources: United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP): http://www.unescap.org/; The Organization for Economic Co-operations and Development (OECD): http://www.oecd.org/; SPRING Singapore: http://www.spring.gov.sg/Pages/homepage.aspx; SME Corp Malaysia: http://www.smecorp.gov.my/v4/node/14; Department of Trade and Industry Philippines: http://www.dti.gov.ph/dti/index.php?p=532; Small and Medium Business Corporation, Korea: http://www.sbc.or.kr/sbc/eng/main.jsp (cited in Soundararajan, 2014, pp.421-422).

Appendix B: Author's translation of part of SOCPA's endorsement document

SOCPA's endorsement document for adopting international standards in KSA (SOCPA, 2017, pp.76-78; 115-117) described the transition from the Saudi accounting standards (SAS) to the international accounting standards (IFRS and IFRS for SMEs) as:

A logical developmental stage:

Because SOCPA is keen to ensure a smooth and efficient transition to international standards, it is worth noting, in particular with regard to accounting standards, that the transition from local standards to international standards is considered in reality an extension of local standards and a development for it, as the previous decision of SOCPA's board of directors was activated, which stipulates that the international standards should be applied in cases that are not covered by the Saudi standard.

Based on the Saudi standards and international standards there are similar financial statements. Both have (financial position, income, changes in equity, cash flows). However, international standards allocate a separate statement for changes in certain elements of unrealised income, such as changes in the fair value of available-for-sale investments and translation differences of foreign operations financial statements in a list that extend the income statement called "other comprehensive income statement". This statement with the income statement represents a "statement of comprehensive income".

However, this additional statement does not require information that is not present at the entity, where the same information is available in the statement of changes in owners' equity. However, to give a complete picture of the changes in net assets (other than dealing with the owners) the idea of a comprehensive income statement that includes both the ordinary income statement and the other comprehensive income statement mentioned above.

A qualitative shift:

In comparison to the local Saudi standards, the international standards are more comprehensive, integrated and modernised, and are more comprehensive in their coverage for events that affect the financial position of the entity and the results of its operations. This includes coverage of topics that were not been included in the Saudi standards, such as employee benefits, separate financial statements, investment properties, agriculture, mining.

Also, there are some topics that were covered in the Saudi standards in a very brief way but were explained in detail and in an independent standard of the international standards because of the many details related to them.

Perhaps the most prominent feature of international standards is their interest in fair value measurement, allowing for a revaluation of fixed assets, valuation of investment properties at their fair value, as well as the measurement of animal and agricultural assets and their products at a fair value when it can be measured reliably. It requires measuring the long-term liabilities for end-of-service according to their current value rather than their par value.

International standards distinguish listed companies from other companies. While Saudi standards differentiate between joint stock companies and other companies. For example, after the transition to the international standards, joint stock companies that are not listed in the stock market are no longer required to apply the "operating segments" and the "earnings per share" standards when the full version of international standards is applied.

In addition, international standards represent an integrated set of standards, where some of its parts refer to other parts, reducing the likelihood conflict between standards requirements.

Finally, international standards reflect users' need in a better way, as they are updated regularly to ensure that the needs of the users of the financial statements are met and include disclosure requirements that are far superior to that required by Saudi standards. All of these attributes (universality, integration, and modernity) are reasons for the decision for the transition to international standards.

Local environmental considerations

The transformation plan stated that the methodology of studying the international standards in order to apply it in KSA should consider the Saudi environment, whether in terms of the legal provisions or adopted regulations or the level of technical readiness of the affected parties. Therefore, approving the transition to IFRS happened after an extensive study that considered the legal, regulatory and technical aspects of these standards. SOCPA endorsed a set of additional disclosures that are considered an integral part of the application of standards in the Kingdom.

Most of these disclosures came as a response to meet the needs of the users of the financial statements in the Kingdom who have particular interest in knowing the nature and types of company's investments and sources of financing, as these additional disclosures provide useful information that enables decision-makers to judge the extent to which the company's revenues, investments and sources of financing comply with Sharia requirements.

What is the impact of the transition to international standards on the amounts presented in the financial statements?

The international standards include requirements of measurement and presentation that may differ from Saudi standards, either due to the update of international standards than what they were at the issuance of the corresponding Saudi standard, or because of the existence of international standards that are not met by a Saudi standard, and international standards require additional disclosures that surpass those required by Saudi standards.

It is difficult, if not impossible, to measure the overall impact of the application of international standards on the amounts presented in the financial statements after the transition to those standards. This is the task of each company, according to IFRS 1 'First-time adoption', which requires companies to disclose the effects of transformation to international standards for the first time on its financial position and cash flows.

Training and qualification

The application of international standards may not require high expenditures in the development of current accounting systems, but it is hoped that it requires a high investment in the human element in order to optimize the application of standards, where the requirements of those standards should be understood.

When applying the requirements of the international standards, there is a high responsibility on the preparers and the auditor of the financial statements, as in many cases, they need to use their professional judgments. Therefore, the first step to prepare for the transition to international standards is training and rehabilitation, which takes time and money. Companies must have internal expertise that are capable of dealing with international standards before, during and after the transformation, and this will not be done except by intensive training of existing staff or attracting qualified experts to do this job.

Transformation to international standards is a project that requires management and resources!

The process of transition to the international standards represents a change in the enterprise, similarly to any significant changes in the enterprise, which needs management, resources and experiences. Therefore, it must be managed in a professional manner that includes a minimum of the following steps:

1. Appointing a manager for the project and an integrated management team.
2. Developing a written plan that includes all the necessary steps to implement the project.
3. Constructing a technical team to implement the transformation procedures.
4. Selecting the appropriate option from within the options offered by international standards.
5. Studying in depth the first-time adoption standard (IFRS 1).

Appendix C: Extracts of important Saudi rules and regulations related to SMEs

Law, Date	Key points	Reference
Zakat Regulations, 1985. Royal Decree No. (40)	Not available in the English language. Zakat is collected from all institutions, companies and individuals who are subject to Zakat. Ways to calculate Zakat: Zakat can be calculated by one of the following methods: Growth capital model *(customary* method) Zakat = Owner's equity + non-current liabilities – non-current assets -fixed assets – intangible assets +/- adjustments Working capital model (*sharia* method) Zakat =Current assets – current liabilities +/- adjustments In companies with mix shares: Zakat = (Current Assets - Current Liabilities +/- Adjustments) x 2.5% x % of Muslim Ownership Share SOCPA has announced a revised standard for accounting for Zakat in 2016.	https://gazt.gov.sa/en/RulesRegulations/Taxes/Pages/RoyalDecrees.aspx
The Implementing Regulation for Zakat collection, 2019	The Implementing Regulation for Zakat collection was issued by the resolution of His Excellency the Minister of Finance No. (2216) dated 7-7-1440H [14 March 2019]. It applies to the fiscal years beginning on and after 1 January 2019 for all taxpayers, except those who are taxed according to the estimations as stipulated in Chapter IV of the Regulations, as it will apply on their tax returns filled after 31/12/2019. Determining Zakat for those holding commercial books: Article 4 The Zakat container for the taxpayer who holds the commercial books consists of all his taxable funds subject to Zakat, including: 1. Capital, as well as the increase thereof, if the source of the increase is one of the components of equity or is funding for any items deducted from the Zakat base. 2. Revenues and payments to the taxpayer at the beginning or end of the year, whichever is lower. 3. Debts due to the taxpayer classified long - term and similar components of other components, such as: government finance, trade finance, creditors, payment paper, account overdrafts, loans to owners or partners (including their current accounts),	https://gazt.gov.sa/en/RulesRegulations/Taxes/Pages/ZakatRegulations.aspx

Law, Date	Key points	Reference
	The following should be observed: (A) If the debts owed by the taxpayer or other sources of financing are of three hundred and fifty four (354) days or more overlapping during the Zakat year and the following year, then they are added to the Zakat bowl for each year by the number of days per Zakat year. (B) The Zakat year of debts shall not be interrupted by renewal, rescheduling with the creditor itself, or by substitution These debts are debts or other sources of financing that finance what they were financing. (C) The addition of what is mentioned in this paragraph shall not exceed the total amount deducted from the vessel in accordance with Article (Five) of the regulation. 4 - Balance of the first year of Zakat from reserves carried forward from previous years. 5 - Balance of retained earnings from previous years. 6 - Allocations at the beginning of the Zakat year after deduction of the user during the Zakat year. 7. Adjusted net profit for the purpose of collecting Zakat in accordance with the provisions of the Regulations. 8. Profits under distribution, other than those declared for distribution and whose owners have not yet received them; provided that they are deposited in a special account that the taxpayer is not allowed to dispose of. 9. Change in fair value calculated in accordance with paragraph (6) of Article (6) of the regulation. 10. Any item of liability and equity is financed by a discounted item Zakat.	
Law of Commercial Books, 1989. Royal Decree No. (M/61)	Article 1: Every merchant shall keep that commercial books required by the nature and importance of his trade in a way that shows his exact financial status and the rights and obligations pertaining to his trade. These books shall be in order and in Arabic. He shall also keep at least the following books: Journal in its original form, Inventory Book and General Ledger. Exempted from keeping these books is the merchant whose capital does not exceed 100,000 Saudi Riyals (equivalent to £18,634 or $26,664).	https://www.wto.org/english/thewto_e/acc_e/sau_e/WTACCSAU59A2_LEG_1.pdf
Law of Certified Public Accountants, 1991.	Article 1: No natural or corporate person may practice account auditing unless his name is enrolled in the register of Certified Public Accountants at the Ministry of Commerce.	https://laws.boe.gov.sa/BoeLaws/Laws/LawDetails/56195fdf-46c2-44f0-88e5-a9a700f1be50/2

Law, Date	Key points	Reference
	Article 10: A certified public accountant shall comply with the professional code of conduct as well as the accounting, auditing and technical standards issued by SOCPA. A certified public accountant shall also abide by the duties set forth in laws and regulations.	
Income Tax Law, 2004.	Article 2: Persons subject to Tax (a) A resident capital company with respect to shares of non-Saudi partners. (b) A resident non-Saudi natural person who conducts business in the Kingdom. (c) A non-resident who conducts business in the Kingdom through a permanent establishment. (d) A non-resident with other taxable income from sources within the Kingdom. (e) A person engaged in the field of natural gas investment. (f) A person engaged in the field of oil and hydrocarbons production. Article 6: Tax base (a) The tax base of a resident capital company is the shares of non-Saudi partners in its taxable income from any activity from sources within the Kingdom minus expenses permitted under this Law. (b) The tax base of a resident non-Saudi natural person is his taxable income from any activity from sources within the Kingdom minus expenses permitted under this Law. (c) The tax base of a non-resident who performs an activity within the Kingdom through a permanent establishment is his taxable income arising from or related to the activity of such establishment minus expenses permitted under this Law. (d) The tax base of each natural person is determined separately. (e) The tax base of a capital company is determined separately of its shareholders or partners. Article 7: Tax Rates (a) The tax rate of the tax base is twenty percent (20%) for each of the following: (1) A resident capital company. (2) A non-Saudi resident natural person who conducts business. (3) A non-resident person who conducts business in the Kingdom through a permanent establishment. (b) The tax rate of the tax base for a taxpayer engaged only in natural gas investment activities is thirty percent (30%). (c) The tax rate of the tax base for a taxpayer engaged in the production of oil and hydrocarbon materials is eighty five percent (85%). (d) Withholding tax rates are those specified under Article 68 of this Law Article 36: General Provisions (a) Taxes shall be imposed on partners in partnerships and not on the company itself. However, the company is required to file a tax declaration for the purpose of information showing the amount of income, profit, loss, expenses, debts, and other items or tax related matters of the partnership for the taxable year. The declaration shall be subject to procedural rules, including fines imposed on tax declarations in accordance with this Law.	https://laws.boe.gov.sa/BoeLaws/Laws/LawDetails/23576008-1ce4-4685-ac3e-a9a700f2cb02/2

Law, Date	Key points	Reference
	(b) The partnership, rather than its partners, shall be responsible for choosing the taxable year, the accounting method, the inventory method and any other accounting policies consistent with this Law. It shall also be responsible for filing notifications and statements required in relation to its types of activity. (c) The provisions of this Law concerning capital companies shall apply to shares of limited partners in limited partnerships. Article 37: Taxation on Partners (a) In determining the tax base of a partner, income, deductions, losses, and debt derived or accrued against the partnership retain their status as to geographic source and type of income, gains, deductions, losses, and debt. (b) A partner's share in a partnership's income, loss, expenses, and debt shall be taken into account for the purpose of determining the tax base of the partner's taxable year in which the partnership's taxable year ends. The partner's loss which exceeds his cost base is suspended until the partner acquires sufficient cost base to offset the loss or until the partner's share is disposed of. (c) The loss of the related party disallowance rule stated in paragraph (d) of Article 63 of this Law shall not be applicable to the partner's share of losses and expenses in a partnership in accordance with paragraph (b) of this Article. A partnership's loss suspended according to paragraph (d) of Article 63 shall not be distributed among the partners until its conditions are fulfilled. The conditions shall be considered fulfilled in case a loss is incurred in distribution upon complete disposal of the partner's share. Article 68: Tax Withholding (a) Every resident, whether or not a taxpayer according to this Law, and a permanent establishment of a non-resident in the Kingdom which pays an amount to a non-resident from a source in the Kingdom shall withhold tax from the paid amount according to the following rates: (1) Rent 5% (2) Royalty or proceeds 15% (3) Management fees 20% (4) Payments for airline tickets, air or maritime freight 5% (5) Payments for international telecommunications services 5% (6) Any other payments specified in the Regulations, provided that the tax rate does not exceed 15%. In the case of amounts paid by a natural person, the conditions for withholding stipulated under this Article shall apply to the payments pertaining to his activity.	

Law, Date	Key points	Reference
	(b) A person withholding tax under this Article shall comply with the following: (1) Registering with the Department and pay the amount withheld to the Department within the first ten days from the month following the month of payment to the beneficiary. (2) Providing the beneficiary with a certificate stating the value of the amount paid to him and the value of the tax withheld. (3) Providing the Department, at the end of the taxable year, with the name, address, and the beneficiary's registration number (identification number), if available, along with any other information the Department may require. (4) Maintaining records required to prove the correctness of the withheld tax as specified by the Regulations. (c) The person responsible for withholding tax under this Article is personally liable to pay the unpaid tax and any delay fines resulting therefrom in accordance with paragraph (a) of Article 77, if any of the following cases applies to him: (1) If he fails to withhold tax as required. (2) If he withholds tax, but fails to pay the tax to the Department as required, (3) If he fails to report withholding statements to the Department as stipulated under subparagraph (3) of paragraph (b) of this Article. (d) In addition to what is stated in paragraph (b) of this Article, if tax is not withheld in accordance with the provisions of this Article, the beneficiary remains indebted to the Department for the amount of tax and the Department may recover it from him, his agent or sponsor. (e) Without prejudice to paragraphs (f) and (g) of this Article, if an amount is paid to a non-resident and tax is withheld for it in accordance with the provisions of this Article, that tax shall be final, taking into consideration that no further tax shall be imposed on the income from which the tax was withheld, and not to refund any amount paid as tax in accordance with this Article. (f) If the amount referred to in this Article is paid to a non-resident who conducts business in the Kingdom through a permanent establishment, and the amount paid was directly connected with the business of the establishment, such amount shall be calculated in determining the tax base of the non-resident. (g) If tax is withheld for an amount paid to a taxpayer which is included in its tax base, the tax withheld shall be deducted from the tax due on the taxpayer against the tax base. (h) For purposes of this Article and Article Five of this Law, "services" shall mean any work performed for compensation, except for the purchase and sale of goods or any other properties.	
Saudi Companies Law, 2015. Royal Decree No. (M/3)	Terms and phrases in the Companies Law: Established companies may take on of the following forms: solidarity company, simple recommendation company, joint	https://laws.boe.gov.sa/BoeLaws/Laws/LawDetails/97fcbd84-fd17-4111-876e-a9a700f1eac5/2

Law, Date	Key points	Reference
	venture company, joint stock company and limited liability company. Article 35: 1- Profits and losses and the share of each partner in such profits and losses shall be determined at the end of the company's fiscal year on the basis of the financial statements prepared in accordance with recognised accounting standards, and audited by a licensed external auditor in accordance with recognised auditing standards.	
Corporate Governance Regulations, 2017.	PART 6: The Company's External Auditor Article 80: Assigning the Audit Function The company shall assign the function of auditing its annual accounts to an independent and competent external auditor who possesses the necessary expertise and qualifications to prepare an objective and independent report to the board and the shareholders, setting out whether the company's financial statements clearly and impartially express the financial position of the company and its performance in the significant areas.	https://cma.org.sa/en/RulesRegulations/Regulations/Documents/CGRegulations_en.pdf
Law of Professional Companies, 2019.	Article 4: The provisions of the Companies Law shall apply to professional companies, in matters not governed by a specific provision of this Law, to the extent not contradictory to the nature of such companies.	https://laws.boe.gov.sa/BoeLaws/Laws/LawDetails/252cec9d-24ce-4ff2-b739-aad900d237bb/1

Source: Bureau of Experts at the Council of Ministers (2018)

Appendix D: Key differences between old SOCPA GAAP (SAS) and Saudi version of IFRS (IFRS/SOCPA): Recognition and Measurement

Area	SAS	IAS 16 (IFRS/SOCPA)	Challenges
Property, plant and equipment	Carried at cost less accumulated depreciation and impairment losses. Revaluation is prohibited.	IAS 16 allows entities to carry assets at cost less accumulated depreciation and impairment losses if any or at their fair values (changes in fair values are recognized in a separate revaluation reserve under equity of the entity).	Revaluation may result in strengthening of financial position (improve ratios). Consider cost and efforts involved in revaluation.
	Component accounting not covered.	Under IFRS, fixed assets are required to be componentized and depreciated based on each component's useful life.	Need to consider the capabilities of current accounting systems to perform component accounting.
	Treatment of site restoration costs not covered.	Provision for site-restoration and dismantling cost is required under IAS 37. To the extent it relates to the fixed asset, the changes are added/deducted (after discounting) from the asset in the relevant period.	Development of models to calculate restoration costs and discounting of such costs on a periodic basis.
	Depreciation is not calculated on the fixed assets that were determined to be disposed of immediately upon taking that decision. However, there is no mention of idle assets. Opinion issued by SOCPA - assets that were permanently idle and still in the entity's possession – if material – should be separated from other assets and their depreciation should be suspended.	Should be depreciated even it is idle, but not if it is held for sale (covered under IFRS 5).	
	Reassessment of useful life, residual values and depreciation methods performed only when events or circumstances indicate.	Estimates of useful lives would need to be revisited at the end of every year. Residual values of fixed assets need to be assessed and revised at the end of each reporting period and on adoption.	Residual values maybe significant for the plant but insignificant for other assets. Management would require a review of historical trends and assistance from operations management to estimate the residual values of assets.

Area	SAS	IAS 2	Challenges
Inventories	Weighted average method is recommended for valuation. First in First out (FIFO) or Last in First Out method (LIFO) available as allowed alternative methods, disclosure required for differences between weighted average method and allowed alternative method.	Choice available between FIFO or weighted average cost method. LIFO is prohibited.	Might have a substantial impact on entities using LIFO and would require system changes and staff training.
	Reversal of inventory write-downs is not covered.	NRV estimates are made at each reporting period end and increase in NRV from previous reporting period may result in reversal of write-down that is allowed under IFRS.	
	Capitalisation of borrowing costs not covered.	Entities may capitalize borrowing cost in cost of inventories manufactured that take a substantial period of time to get ready.	

Area	SAS	IAS 36	Challenges
Impairment of assets	SAS lists factors that should be considered to assess impairment, however initially the impairment is assessed by comparing the gross undiscounted cash flows from the assets with its carrying value. If gross cash flows are higher than carrying amount = no impairment If gross cash flows are lower than carrying amount = impairment is recognized based on discounted cash flows.	Entities are required to assess at the end of each reporting period whether there is any indication of impairment. Certain assets require an impairment test at least annually, such as intangible assets with indefinite useful life, intangible assets that are not yet available for use and goodwill acquired in business combination IAS 36 has a list of external and internal indicators of impairment. If there is an indication that an asset may be impaired, then the asset's recoverable amount is calculated – which is higher of fair value less costs of disposal or value in use. The difference between recoverable amount and carrying value is impairment.	Entities need to built in impairment assessment in their financial reporting close process to ensure impairment assessments/ reviews are performed at each reporting date.

Area	SAS	IAS 38	Challenges
Intangible assets	Certain incorporation costs are capitalized. Intangibles are carried at historical cost less amortization.	Incorporation costs are not allowed for capitalisation under IFRS. Can be held at cost less impairment or at fair value.	Entities may consider not to capitalise future incorporation costs.
Investment properties	Investment properties are measured at cost. SAS allows disclosure of the fair value information in the explanatory notes to the financial statements.	Investment property is initially measured at cost. IFRS allows accounting policy choice for subsequent measurement to carry investment property at either cost or fair value.	IFRS 13 guidance applies for fair valuation. Entities may choose to fair value investment properties that may result in a better financial position but need to consider the requirement of fair value exercise at each reporting period.

Area	SAS	IAS 12
Zakat and Taxation	Zakat is charged to the income statement if the Company is wholly owned by Saudi shareholders otherwise it is charged to the equity. Income tax is charged to the income statement if the Company is wholly owned by non-local shareholders otherwise it is charged to the equity.	Current and deferred tax are recognized as income or expense in profit and loss except to the extent that the tax arises from: • A transaction or event that is recognized outside profit or loss (whether in other comprehensive income or in equity) • A business combination
	Deferred tax requirements are similar to IFRS however limited compliance noted to date.	Under IAS 12, the Company needs to recognize deferred tax on all temporary differences. Currently, banks and insurance companies that report under IFRS in KSA do not account for deferred Zakat and this may not be possible due to Sharia requirements.

Area	SAS	IAS 19	Challenges
Employee benefits	Limited guidance available on employment benefits, however, the standards do require discounting of long-term obligations to reflect the current costs. Practically, companies are accounting for the End of Service Benefits (EOSB) obligations based actual payments that the Company would require to make – few companies are using the actuarial valuations also.	Employee benefits need to be reviewed to evaluate if they are defined benefit or defined contribution schemes. Liability for defined benefit schemes (like termination benefits / end of service benefits) would need to be determined through an actuarial valuation. Employee benefits would also need to be segregated as long-term / short-term benefits and long-term employee benefits would need to be discounted.	Entities with a significant number of employees (i.e. construction companies) may have significant EOSB recognised in their balance sheet. This would need to be valued in accordance with IAS 19 and will require actuarial assistance. There may be limited expertise available to determine the liability of defined benefit plan under actuarial valuation.

Area	SAS	IAS 39, IFRS 9	Challenges
Financial Instruments	No guidance available regarding accounting of derivatives. Limited guidance on hedge accounting.	Detailed guidance available for accounting for derivatives and hedges.	
	Financial instruments can be classified as: - Trade securities - Available for sale - Held to Maturity	Financial instruments can be classified as: - At fair value through profit or loss (which includes trading and designated instruments) - Available for sale - Held-to-maturity - Loan and receivables	
	SOCPA has issued a separate standard dealing with investment in securities – however, the guidance is limited and detailed aspects are not covered. Practically companies are applying IFRS where guidance in SAS is not available.	Separate standards for accounting and disclosure of Financial instruments has been issued which contains extensive guidance. The standards are being further enhanced and looks into all aspects of financial instruments like classification, recognition and measurement, de-recognition, impairment etc.	There may be limited expertise available for valuation of complex instruments such as embedded derivatives and accounting treatment of hedge transactions, so the entities will need to plan this ahead.

Area	SAS	IAS 17 & IFRIC 4	Challenges
Leases	Standard is prescriptive – should satisfy one of the following four conditions to be classified as finance lease: 90% of the value of the assets 75% of the life of the assets Bargain purchase option Transfer of ownership at the end of the lease term	Principle based - substance over form requirement – transfer of substantially all risks and rewards incident to ownership is to be considered while deciding the classification of the lease. IFRIC 4 requires identification of arrangements which do not take the legal form of a lease but which convey rights to use assets in return for a series of payments. Such arrangements should be accounted for in accordance with IAS 17	Need to review existing contracts to consider whether they fall under IFRIC 4 to account for as finance leases. Future agreements would need to be evaluated and consideration to be given to IFRIC 4 while drafting the terms and conditions;
	Land and building are not separately accounted for as operating and finance leases but are considered in conjunction.	Where a lease of the land and buildings has been treated as an operating lease under SOCPA, it may be that the buildings element, when considered separately, will be classified as a finance lease under IFRS.	Accounting processes and methods need to be updated to ensure leases for lands and buildings are separately accounted for.
	Lease rentals are recognised in the income statement on a straight-line basis, but future escalations are not considered.	Lease rentals should be recognized in the income statement on a straight-line basis (factoring future escalations).	

Area	SAS	IAS 41	Challenges
Agriculture	Does not allow that biological assets/producing should be measured at fair value.	Measure biological assets/producing cattle (non-current assets) at fair value.	Accounting method to account for agriculture assets has been changed from cost to fair value.

Source: Talal Abu-Ghazaleh Organization (2018)

Appendix E: Key differences between old SOCPA GAAP (SAS) and Saudi version of IFRS (IFRS/SOCPA): Presentation and Disclosure

Area	SAS	IFRS
Interim Financial Reporting	Minimum contents ○ Balance sheet ○ Income statement ○ Cash flows statement ○ Selected explanatory notes	Minimum contents ○ Condensed statement of financial position ○ Condensed comprehensive income ○ Condensed statement of changes in equity ○ Condensed cash flow statement ○ Selected explanatory notes
	A statement of annual operating results for the interim period is required to be included	No such statement is required
	The comparative balance sheet reflects the balances as at the end of the corresponding period.	The comparative balance sheet reflects the balances as at the end of the last financial year.
General	Disclosures for critical accounting judgments are not required.	Disclosures for critical accounting judgments are required.
	Disclosures for extra ordinary items is required.	IAS 1 prohibits any items to be disclosed as extraordinary items.
	Required to present expenses based on function (for example, cost of sales, administrative).	Entities may present expenses based on either function or nature (for example, salaries, depreciation). However, if the function is selected, certain disclosures about the nature of expenses must be included in the notes.
	Cash flow statement - only specifies indirect method	Cash flow statement- specifies both direct and indirect methods. Direct method is preferred.
	<u>Related parties</u> Relatives [family members] up to the 4th degree. Transaction oriented – e.g. disclosure to identify the controlling party not needed as long as there were no transactions. No mention of disclosure for management compensation.	Comprehensive definition of close family members. Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. Detailed disclosures required for all types of management compensation.

Source: Talal Abu-Ghazaleh Organization (2018)

Appendix F: Key differences between old SOCPA GAAP (SAS) and Saudi version of IFRS for SMEs (SME/SOCPA)

Area	SAS	SME/SOCPA Section 17	Challenges
Property, plant and equipment	Carried at cost less accumulated depreciation and impairment losses. **Revaluation is prohibited.**	Section 17 allows entities to carry assets at cost less accumulated depreciation and impairment losses if any or at their revalued amount (changes in fair values are recognized in a separate revaluation reserve under equity of the entity).	Revaluation may result in strengthening of financial position (improve gearing ratio). Consider cost and efforts involved in revaluation. Independent valuer mandatory for revaluation of properties
	Component accounting not covered	Fixed assets are required to be componentized and depreciated based on each component's useful life.	Need to consider the capabilities of current accounting systems to perform component accounting.
	Treatment of site restoration costs not covered	Provision for site-restoration and dismantling cost is required under Section 21. To the extent it relates to the fixed asset, the changes are added/deducted (after discounting) from the asset in the relevant period.	Development of models to calculate restoration costs and discounting of such costs on a periodic basis.
	Depreciation is not calculated on the fixed assets that were determined to be disposed of immediately upon taking that decision. However, there is no mention of idle assets. Opinion issued by SOCPA - assets that were permanently idle and still in the entity's possession – if material – should be separated from other assets and their depreciation should be suspended	Should be depreciated even if it is idle.	
	Reassessment of useful life, residual values and depreciation methods performed only when events or circumstances indicate.	No Change.	

Area	SAS	SME/SOCPA Section 13	Challenges
Inventories	Weighted average method is recommended for valuation. First in First out (FIFO) or Last in First Out method (LIFO) available as allowed alternative methods, disclosure required for differences between weighted average method and allowed alternative method.	Choice available between FIFO or weighted average cost method. LIFO is prohibited. Cost of inventories that are not ordinarily interchangeable can be determined by identification of their individual cost.	Might have a substantial impact on entities using LIFO and would require system changes and staff training.
	Reversal of inventory write-downs is not covered	NRV estimates are made at each reporting period end and increase in NRV from previous reporting period may result in reversal of write-down that is allowed under IFRS.	
	Capitalisation of borrowing costs not covered	Capitalization of borrowing cost not allowed.	It significantly affects companies with inventories that take a substantial period of time to manufacture or construct.

Area	SAS	SME/SOCPA Section 27	Challenges
Impairment of assets	SAS lists factors that should be considered to assess impairment, however, initially the impairment is assessed by comparing the gross undiscounted cash flows from the assets with its carrying value. If undiscounted gross cash flows are higher than carrying amount = no impairment If gross cash flows are lower than carrying amount = impairment is recognized based on discounted cash flows.	Entities are required to assess at the end of each reporting period whether there is any indication of impairment. Section 27 has a list of external and internal indicators of impairment. If there is an indication that an asset may be impaired, then the asset's recoverable amount is calculated – which is higher of fair value less costs of disposal or value in use. The difference between recoverable amount and carrying value is impairment. Decision to sell an asset is considered an impairment indicator.	Entities need to build in impairment assessment in their financial reporting close processes to ensure impairment reviews are performed at each reporting date.

Area	SAS	SME/SOCPA Section 18/16	Challenges
Intangible assets other than Goodwill	Certain incorporation costs are capitalized Intangibles are carried at historical cost less amortization.	Incorporation and development costs to be expensed. Can be held at cost less accumulated amortization & impairment. Maximum amortization period is 10 years.	
Investment properties	Investment properties are measured at cost. SAS allows disclosure of the fair value information in the explanatory notes to the financial statements.	Investment property is initially measured at cost and subsequently at fair value through profit or loss. Valuation of property from accredited valuer is mandatory (SAS amendments).	Properties whose fair value cannot be reliably measured remain treated as PPE under section 17.

Area	SAS	SME/SOCPA Section 28	Challenges
Employee benefits	Limited guidance available on employment benefits, however, the standards do require discounting of long-term obligations to reflect the current costs. Practically, companies are accounting for the End of Service Benefit (EOSB) obligations based actual payments that the Company would require to make – few companies are using the actuarial valuations also.	Employee benefits need to be reviewed to evaluate if they are defined benefit or defined contribution schemes. Liability for defined benefit schemes (like termination benefits / end of service benefits) would need be determined through an actuarial valuation. If an entity is able without undue cost and effort. Standard does not require independent actuary and comprehensive actuarial valuation annually.	Entities with a significant number of employees (i.e. construction companies) may have significant EOSB recognised in their balance sheets.

Area	SAS	SME/SOCPA Section 11	Challenges
Basic Financial Instruments	A separate standard dealing with investment in securities – however, the guidance is limited and detailed aspects are not covered. Practically companies applied IFRS where guidance in SAS was not available.	Initially measured at cost plus transaction cost except for fair value through profit or loss. If arrangement constitute financing transaction, at PV of future payments discounted at market rate. Standard requires the amortized cost model for all basic financial instruments except the financial instruments whose fair value can be measured reliably without undue cost or effort.	
	No guidance available regarding accounting of derivatives. Limited guidance on hedge accounting.	Detailed guidance available for hedge accounting under Section 12.	
	Financial instruments can be classified as: • Trade securities • Available for sale • Held to Maturity	Financial instruments can be classified as: • At fair value through profit or loss • At amortized cost • At cost less impairment	This might result in the classification of financial instruments under new names in the balance sheet.

Area	SAS	SME/SOCPA
General	Disclosures of *extra-ordinary items* is required.	Prohibits any items to be disclosed as extraordinary items.
	Required to present expenses based on function (for example, cost of sales, administrative).	Entities may present expenses based on either function or nature (for example, salaries, depreciation). However, if the function is selected, certain disclosures about the nature of expenses must be included in the notes.
	Cash flow statement - only specifies the indirect method.	Cash flow statement- specifies both direct and indirect methods. Direct method is preferred.
	Capitalization of borrowing costs for qualifying assets limited to fixed assets that take a substantial period of time to get ready for its intended use or sale.	Entity shall recognize borrowing cost as an expense in profit or loss.

Source: Talal Abu-Ghazaleh Organization (2018)

Appendix G: Ethics review details

Research question summary:
My research questions are:
- Why did KSA adopt IFRS for SMEs?
- Why do different types of companies in KSA, adopt IFRS for SMEs differently?
To collect data, I can use this question: What is the understanding of IFRS for SMEs by the people in the company? I can document their plan to adopt the IFRS
The experiential journey of two or four contrasting SMEs.

Research method summary:
I am planning to explore in depth the initial experiential journey of small and medium-sized enterprises (SMEs) when converging from the local Saudi Accounting Standards (SAS) to the International Financial Reporting Standards (IFRS). I will use a case study model of two or four contrasting SMEs (two are subsidiary to a parent listed company, while the other two are SMEs are guided by no one). I will collect data by talking to everyone who is involved in the preparation of the financial statements, such as managers (CEOs), accountants, internal and external auditors, officials from the Ministry of Finance, members from the professional accounting regulating body (Saudi Organisation for Certified Public Accountants-SOCPA), chamber of commerce and industry and finally academics.
I will probably conduct 24 interviews in total.

Risks to participants:
Does your research involve any of the below?
Children (under the age of 16): No
Participants with cognitive or physical impairment that may render them unable to give informed consent: No
Participants who may be vulnerable for personal, emotional, psychological or other reasons: No
Participants who may become vulnerable as a result of the conduct of the study (e.g. because it raises sensitive issues) or as a result of what is revealed in the study (e.g. criminal behaviour, or behaviour which is culturally or socially questionable): No
Participants in unequal power relations (e.g. groups that you teach or work with, in which participants may feel coerced or unable to withdraw): No
Participants who are likely to suffer negative consequences if identified (e.g. professional censure, exposure to stigma or abuse, damage to professional or social standing): No

Design and Data:
Does your study include any of the following?
Will it be necessary for participants to take part in the study without their knowledge and/or informed consent at the time?: No
Is there a risk that participants may be or become identifiable?: No
Is pain or discomfort likely to result from the study?: No
Could the study induce psychological stress or anxiety, or cause harm or negative consequences beyond the risks encountered in normal life?: No
Does this research require approval from the NHS?: No

Are drugs, placebos or other substances to be administered to the study participants, or will the study involve invasive, intrusive or potentially harmful procedures of any kind?: No
Will human tissue including blood, saliva, urine, faeces, sperm or eggs be collected or used in the project?: No
Will the research involve the use of administrative or secure data that requires permission from the appropriate authorities before use?: No
Will financial inducements (other than reasonable expenses and compensation for time) be offered to participants?: No
Is there a risk that any of the material, data, or outcomes to be used in this study has been derived from ethically-unsound procedures?: No

Risks to the Environment / Society:
Will the conduct of the research pose risks to the environment, site, society, or artifacts?: No
Will the research be undertaken on private or government property without permission?: No
Will geological or sedimentological samples be removed without permission?: No
Will cultural or archaeological artifacts be removed without permission?: No

Risks to Researchers/Institution:
Does your research present any of the following risks to researchers or to the institution?
Is there a possibility that the researcher could be placed in a vulnerable situation either emotionally or physically (e.g. by being alone with vulnerable, or potentially aggressive participants, by entering an unsafe environment, or by working in countries in which there is unrest)?: No
Is the topic of the research sensitive or controversial such that the researcher could be ethically or legally compromised (e.g. as a result of disclosures made during the research)?: No
Will the research involve the investigation or observation of illegal practices, or the participation in illegal practices?: No
Could any aspects of the research mean that the University has failed in its duty to care for researchers, participants, or the environment /society?: No
Is there any reputational risk concerning the source of your funding?: No
Is there any other ethical issue that may arise during the conduct of this study that could bring the institution into disrepute?: No

Declaration:
By submitting this form, I declare that the questions above have been answered truthfully and to the best of my knowledge and belief, and that I take full responsibility for these responses. I undertake to observe ethical principles throughout the research project and to report any changes that affect the ethics of the project to the University Research Ethics Committee for review.

Appendix H: Consent form (English)

Informed Consent Form

Thank you for agreeing to participate in this study, which will take place in 2017 and 2018. The study is undertaken by Sara Abdullah Bakr, a doctoral researcher in the School of Management at Royal Holloway University of London. Sara's supervisors are Professor Christopher Napier, Professor Christopher Nobes and Dr Elena Giovannoni.

This form clarifies the purpose of Sara's study, a description of the involvement required and your rights as a participant.

The purpose of this study is to:

• investigate the ways in which small and medium-sized entities (SMEs) in Saudi Arabia adopt the International Financial Reporting Standard (IFRS).

The methods that will be used to meet this purpose include:

1- One-on-one interviews.
2- Document analysis.
3- Observation

You are encouraged to ask questions or raise concerns at any time about the nature of the study or the methods I am using. Please contact me any time at the e-mail address or telephone number listed on the next page.

With your permission, our discussion will be recorded to help me accurately capture your insights in your own words. The digital files will only be heard by me for the purpose of this study. If you feel uncomfortable with the recorder, you may ask that it be turned off at any time. You also have the right to withdraw from the study at any time. In the event you choose to withdraw from the study all information you provide (including digital files) will be destroyed and omitted from the final research outputs. Insights provided by you and other participants will be used in writing a research report, and may also be used in academic publications, including articles in academic journals. Though direct quotes from you may be used in the research outputs, your name and other identifying information will be kept anonymous. The digital files and interview transcripts will be kept on password-protected computers and no one will have access to them except me (the researcher).

By signing this consent form, I certify that I _____ agree to the terms of this agreement.

Signature _____ Date _____

Sara Abdullah Bakr
SCHOOL OF MANAGEMENT
ROYAL HOLLOWAY UNIVERSITY OF LONDON
UK, EGHAM, SURREY, TW200EX
Sara.Bakr.2015@live.rhul.ac.uk
UK: 00447881826555
KSA: 00966504599330

Appendix I: Consent form (Arabic)

استمارة الموافقة المسبقة

شكراً لموافقتك على المشاركة في هذه الدراسة ، التي ستجري في عام 2017 و 2018. تقوم بهذه الدراسة سارة عبدالله بكر ، باحثة الدكتوراه في كلية الإدارة في جامعة رويال هولواي بلندن بإشراف البروفيسور كريستوفر نابيير، والبروفسور كريستوفر نوبز والدكتورة إيلينا جيوفانوني.

توضح هذه الاستمارة الغرض من دراسة سارة ووصف للمشاركة المطلوبة وحقوقك كمشارك.
الغرض من هذه الدراسة هو التحقيق في تبني المعيار الدولي للتقارير المالية المعتمد للمنشآت المتوسطة والصغيرة الحجم في المملكة العربية السعودية.

تتضمن الطرق التي سيتم استخدامها لتلبية هذا الغرض ما يلي:

- المقابلات الشخصية.
- تحليل الوثائق والمستندات.
- الملاحظة

نشجعك على طرح الأسئلة أو إثارة المخاوف في أي وقت حول طبيعة الدراسة أو الأساليب التي استخدمتها. الرجاء الاتصال بي في أي وقت على عنوان البريد الإلكتروني أو رقم الهاتف المدرج في هذه الاستمارة.

بعد الحصول على إذن منك ، سيتم تسجيل مناقشتنا لمساعدتي في التعرف على أفكارك بكلماتك الخاصة. سوف يتم الاستماع إلى الملفات المسجلة فقط من قبلي لأغراض هذه الدراسة. إذا كنت تشعر بعدم الارتياح تجاه المسجل، فيمكنك أن تطلب إيقاف تشغيله في أي وقت. لديك أيضًا الحق في الانسحاب من الدراسة في أي وقت. في حال اخترت الانسحاب من الدراسة ، سيتم تدمير جميع المعلومات التي قمت بتقديمها وإغفالها من مخرجات الأبحاث النهائية. سيتم استخدام المعلومات التي قدمتها أنت والمشاركين الآخرين في كتابة تقرير بحثي، ويمكن أيضًا استخدامها في المنشورات الأكاديمية، بما في ذلك المقالات في الدوريات الأكاديمية. على الرغم من أنه يمكن استخدام اقتباسات مباشرة منك في مخرجات الأبحاث، إلا أن اسمك ومعلومات الهوية الأخرى ستبقى مجهولة المصدر. سيتم الاحتفاظ بالملفات المسجلة ونسخ المقابلات على جهاز الكمبيوتر الخاص بي والمحمي بكلمة مرور ولن يتمكن أحد من الوصول إليها إلا أنا (الباحث).

من خلال التوقيع على نموذج الموافقة هذا ، أقر بأنني _____ أوافق على شروط هذه الاتفاقية.

تاريخ التوقيع _____

سارة عبدالله بكر

كلية الإدارة

ROYAL HOLLOWAY UNIVERSITY OF LONDON

EGHAM ،SURREY ،TW200EX

المملكة المتحدة

Sara.Bakr.2015@live.rhul.ac.uk

المملكة المتحدة: 00447881826555

المملكة العربية السعودية: 00966504599330

Appendix J: Survey questionnaire (English)

Demographics

Questions	Choices					
1-What best describes your role in relation to financial reporting?	Preparer	Auditor	Both			
2-What is the size of the firm?	Micro	Small	Medium	Large		
3-What is your information level about IFRS for SMEs?	Not at all	Very poor	Poor	Average	Good	Excellent
4-Do you know that the adoption of the IFRS for SMEs will be mandatory from 1st January 2018?	Yes	No				
5-Have you made any preparation for adopting IFRS for SMEs?	Yes	No				
6-If your answer was "Yes" in question 5: What have you done for preparation?	Met with the company's auditors	Taken training (attended conferences and seminars)	Prepared to amend accounting software programs			
7-Do you think it is better for the Saudi environment to have:	No laws at all to regulate financial reporting (free-market approach)	Keep the national standards **SAS**	Converge to the international standards **IFRS**			

The survey

Questions	Scale						
	1	**2**	**3**	**4**	**5**	**6**	**7**
	Strongly disagree	**Somewhat disagree**	**Disagree**	**Neutral**	**Agree**	**Somewhat agree**	**Strongly agree**
Perception on IFRS for SMEs							
IFRS for SMEs will provide a fairer view	1	2	3	4	5	6	7
IFRS for SMEs is appropriate for decision making	1	2	3	4	5	6	7
IFRS for SMEs is complex	1	2	3	4	5	6	7
IFRS for SMEs is detailed	1	2	3	4	5	6	7
IFRS for SMEs is understandable	1	2	3	4	5	6	7
IFRS for SMEs adoption is an inaccessible aim that cannot be achieved	1	2	3	4	5	6	7
IFRS for SMEs is flexible	1	2	3	4	5	6	7
IFRS for SMEs differs significantly from the existing local accounting standards	1	2	3	4	5	6	7
The costs for implementing IFRS for SMEs will exceed its benefits	1	2	3	4	5	6	7
IFRS for SMEs is better than the existing local accounting standards	1	2	3	4	5	6	7
IFRS for SMEs adoption will be time consuming for enterprises	1	2	3	4	5	6	7
Advantages of IFRS for SMEs							
IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs	1	2	3	4	5	6	7
Adopting IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector	1	2	3	4	5	6	7

Adopting IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting	1	2	3	4	5	6	7
IFRS for SMEs will increase the reliability of the information	1	2	3	4	5	6	7
IFRS for SMEs will improve the economy	1	2	3	4	5	6	7
Questions	**Scale**						
	1	**2**	**3**	**4**	**5**	**6**	**7**
	Strongly disagree	**Somewhat disagree**	**Disagree**	**Neutral**	**Agree**	**Somewhat agree**	**Strongly agree**
Transparency of information will increase	1	2	3	4	5	6	7
Financial statements will be more understandable	1	2	3	4	5	6	7
SMEs will be able to reach cross-border markets by applying IFRS for SMEs	1	2	3	4	5	6	7
The financial reports of SMEs will be comparable in sectors at the international level	1	2	3	4	5	6	7
Obstacles and disadvantages of IFRS for SMEs							
The first-time adoption of IFRS for SMEs will be costly for entities	1	2	3	4	5	6	7
Training of staff will be time-consuming	1	2	3	4	5	6	7
The adoption of IFRS for SMEs will be difficult because of the translation weaknesses	1	2	3	4	5	6	7
IFRS for SMEs requires too much information to disclose	1	2	3	4	5	6	7
Interpreting IFRS for SMEs will be difficult	1	2	3	4	5	6	7
SMEs will find it difficult to recruit the right resources with knowledge about IFRS for SMEs	1	2	3	4	5	6	7

Appendix K: Survey questionnaire (Arabic)

معلومات المشارك

المقياس						الأسئلة
			كلاهما	مراجع	معد	صف علاقتك أو دورك فيما يتعلق بإعداد التقارير المالية
		كبيرة	متوسطة	صغيرة	متناهية الصغر	ما هو تصنيفك لحجم شركتك
ممتازة	جيدة	مقبولة	ضعيفة	ضعيفة جداً	لا أعرف	ماهو مستوى معرفتك بالمعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة الحجم
				لا	نعم	هل تعلم أن تطبيق المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة سيكون إجباري من بداية يناير 2018
				لا	نعم	هل قمت بأية استعدادات أو تجهيزات لهذا التحول
			تجهيز برنامج تحويلي بشكل مبسط	حضرت مؤتمرات ومحاضرات متخصصة	تمت المقابلة مع المراجع القانوني للشركة	إذا أجبت ب "نعم " للسؤال السابق فما هي الاستعدادات أو التجهيزات التي قمت بها ؟
			الإلتزام بالمعايير العالمية للتقارير المالية	تطبيق المعايير المحلية للتقارير المالية	لا يوجد اي قوانين تنظم إصدار التقارير المالية	في رأيك الشخصي، هل تعتقد أنه من الأفضل للشركات المتوسطة والصغيرة في البيئة السعودية أن يكون:

الاستبيان

الأسئلة	المقياس						
	1	2	3	4	5	6	7
	غير موافق بشدة	غير موافق لحد ما	غير موافق	محايد	موافق	موافق لحد ما	موافق بشدة
المفاهيم المتعلقة بموضوع تطبيق المعايير الدولية لإعداد التقارير المالية للشركات المتوسطة والصغيرة في المملكة العربية السعودية							
المعايير الدولية لإعداد التقارير المالية ستقدم نظرة أكثر عدالة لنظام محاسبة الشركات المتوسطة والصغيرة الحجم	1	2	3	4	5	6	7
المعايير الدولية لإعداد التقارير المالية الشركات المتوسطة والصغيرة ستساعد في عملية إتخاذ القرارات المناسبة	1	2	3	4	5	6	7
تعتبرالمعايير العالمية للتقارير المالية معقدة وصعبة للشركات المتوسطة والصغيرة	1	2	3	4	5	6	7
المعايير العالمية للتقارير المالية تحتوي على تفاصيل دقيقة و معقدة بالنسبة للشركات المتوسطة والصغيرة	1	2	3	4	5	6	7
المعايير العالمية للتقارير المالية تعتبر مفهومة لمدراء المحاسبة في الشركات المتوسطة والصغيرة	1	2	3	4	5	6	7
عملية تطبيق وتبني المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة تعتبر هدف لا يمكن تحقيقه	1	2	3	4	5	6	7
المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة تتميز بأنها شديدة المرونة	1	2	3	4	5	6	7
هناك فروقات جوهرية بين المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة والمعايير المحلية السعودية	1	2	3	4	5	6	7
تعتبر تكاليف تطبيق المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة أكثر من فوائدها	1	2	3	4	5	6	7
الأسئلة	**المقياس**						

	1	2	3	4	5	6	7
	غير موافق بشدة	غير موافق لحد ما	غير موافق	محايد	موافق	موافق لحد ما	موافق بشدة
يعتبر تطبيق المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة أفضل من المعايير المحلية	1	2	3	4	5	6	7
يعتبر تطبيق المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة عملية مجهدة ومستهلكة للوقت	1	2	3	4	5	6	7
مميزات تطبيق المعايير العالمية للتقارير المالية على الشركات المتوسطة والصغيرة في المملكة العربية السعودية							
ستسهل المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة في تسهيل عملية تحول الشركات التي تطمح مستقبلا" أن تنمو وتطبق المعايير العالمية بنسختها الكاملة.	1	2	3	4	5	6	7
تبني المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة سيساهم في توفير فرص للتقدم بطلبات تمويلية من القطاع التمويلي.	1	2	3	4	5	6	7
تبني المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة سيساهم في تحسين كفاءة وفعالية التقارير المالية الصادرة عن الشركات المتوسطة والصغيرة	1	2	3	4	5	6	7
ستساهم المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة في تحسين جودة المعلومة المحاسبية والإعتماد عليها بشكل أكبر في الشركات المتوسطة والصغيرة	1	2	3	4	5	6	7
ستساهم المعايير العالمية للتقارير المالية في تحسين الإقتصاد في المملكة العربية السعودية	1	2	3	4	5	6	7
ستساهم المعايير العالمية للتقارير المالية في زيادة شفافية المعلومات المحاسبية	1	2	3	4	5	6	7

الأسئلة	المقياس						
	1	2	3	4	5	6	7
	غير موافق بشدة	غير موافق لحد ما	غير موافق	محايد	موافق	موافق لحد ما	موافق بشدة
ستساهم المعايير العالمية للتقارير المالية في تسهيل فهم قوائم الشركات المالية بشكل أسهل وأوضح	1	2	3	4	5	6	7
ستساهم المعايير العالمية للتقارير المالية لإيصال الشركات المتوسطة والصغيرة لأسواق عالمية جديدة	1	2	3	4	5	6	7
ستساهم المعايير العالمية للتقارير المالية في إجراء مقارنات بين التقارير المالية على مستوى عالمي	1	2	3	4	5	6	7
عيوب وصعوبات تبني المعايير العالمية للتقارير المالية للشركات المتوسطة والصغيرة في المملكة العربية السعودية							
سيكون تطبيق المعايير العالمية للتقارير المالية لأول مرة عملية مكلفة للشركات المتوسطة والصغيرة	1	2	3	4	5	6	7
سيتطلب تدريب الموظفين في الشركات المتوسطة والصغيرة وقت وجهد كبير	1	2	3	4	5	6	7
من صعوبات تبني المعايير الدولية المشاكل المرتبطة بالترجمة والذي قد يفقدها بعض المعاني	1	2	3	4	5	6	7
سيتطلب تطبيق المعايير العالمية للتقارير المالية زيادة مستوى الإفصاح عن العديد من المعلومات.	1	2	3	4	5	6	7
سيكون من الصعب تفسير المعايير العالمية للتقارير المالية.	1	2	3	4	5	6	7
سيكون من الصعب على الشركات المتوسطة والصغيرة أن توفر الكفاءات المطلوبة والتي لديها خبرة لتطبيق المعايير العالمية للتقارير المالية	1	2	3	4	5	6	7

Appendix L: Profiles of the Participants and description of the interviews

Number of participants = 35

Age: Younger (under 45) - Older (45 or more)

Location of the highest education: Western education (USA, UK, Canada, Pakistan) – Local education (Saudi, Jordan, Egypt, Yemen, Lebanon)

Interviewee role code	Gender	Location of the highest education	Age band	Nationality	Date of meeting	Duration of meeting
SO1	Male	Local	Older	Saudi	13 Dec 2017	1:02 hour
*G1	Male	Western	Younger	Saudi	19 Dec 2017	40 min
B1	Male	Local	Older	Saudi	19 Dec 2017	23 min
M1	Male	Local	Younger	Egyptian	19 Dec 2017	18 min
IA1	Male	Local	Younger	Jordanian	19 Dec 2017	20 min
EA1	Male	Local	Older	Egyptian	19 Dec 2017	20 min
EA2	Male	Local	Older	Saudi	19 Dec 2017	30 min
EA3	Male	Local	Younger	Yamen	20 Dec 2017	27 min
*M2	Male	Local	Younger	Jordanian	25 Dec 2017	1:30 hour
B2	Male	Local	Older	Saudi	26 Dec 2017	33 min
*B3 (first interview)	Male	Local	Younger	Jordanian	27 Dec 2017	47 min
O1	Male	Western	Younger	Saudi	2 Jan 2018	1:08 hour
EA4	Male	Western	Younger	Saudi	17 Jan 2018	18 min
IA2 + O2	Male + Male	Western + Local	Younger + Younger	Saudi + Saudi	22 Jan 2018	1:18 hour
EA5	Male	Western	Younger	Pakistani	24 Jan 2018	39 min
EA6	Male	Local	Younger	Egyptian	24 Jan 2018	45 min
EA7	Male	Local	Older	Saudi	30 Jan 2018	40 min

Interviewee role code	Gender	Location of the highest education	Age band	Nationality	Date of meeting	Duration of meeting
*EA8	Male	Local	Younger	Saudi	6 Feb 2018	50 min
EA9	Male	Western	Younger	Saudi	6 Feb 2018	54 min
EA10	Female	Local	Younger	Saudi	15 Feb 2018	33 min
O3	Female	Local	Younger	Saudi	18 Feb 2018	42 min
B3 (second interview)	Male	Local	Younger	Jordanian	19 Feb 2018	1:05 hour
O4	Female	Local	Younger	Saudi	24 Feb 2018	15 min
*O5	Female	Local	Younger	Saudi	24 Feb 2018	15 min
EA11	Female	Local	Younger	Saudi	25 Feb 2018	25 min
G2	Male	Western	Older	Saudi	25 Feb 2018	1:16 hour
M3	Male	Local	Younger	Egyptian	28 Feb 2018	22 min
*O6 + Ac1	Female + Female	Local + Local	Younger + Younger	Saudi + Jordanian	4 March 2018	1:05 min
EA12	Male	Local	Older	Jordanian	4 March 2018	1:30 hour
O7	Female	Local	Younger	Saudi	5 March 2018	51 min
O8	Female	Western	Younger	Saudi	6 March 2018	48 min
B4	Male	Western	Younger	Saudi	8 May 2018	1:15 hour
M4	Male	Western	Younger	Saudi	10 May 2018	40 min
Ac2	Male	Local	Older	Egyptian	31 May 2018	76 min

Source: Prepared by the author

*interviewees who were contacted for a follow-up conversation in February 2019.

Appendix M: The interview guide questions

Group 1: Accountants + Internal auditors + Managers and CFOs in SMEs:

Date:

Name of interviewee:

Nationality:

Gender:

From which university did you graduate?

Are you a qualified accountant?

Position/role in the company:

Years of experience:

In which group does your age fall: (45 years and above) or (under 45 years)?

Name of the company:

What is the activity of the company? Does it involve dealing with the public as a fiduciary? Does it undertake banking-type transactions?

Size of the company according to the Saudi classification of SMEs (Monsha'at):

Type of the company	Number of employees	Revenue
Micro	1-5	0 – 3 (SR Million)
Small	6-49	3 - 40 (SR Million)
Medium	50-249	40 - 200 (SR Million)
Large	More than 249	More than 200 (SR Million)

1. Which of the following financial statements do you present:

(balance sheet, income statement, cash flow statement, statement of changes in equity, and notes).

2. Who are the external users of your financial statements?
3. Does your company sell and buy locally, or, import and export internationally/foreign operations?
4. Is your external auditor a local auditing firm, an international auditing firm or one of the big four?
5. Does your company tend to adopt the full version of IFRS or IFRS for SMEs? Why?

6. What is your (attitude/personal perception/general opinion) towards the adoption of IFRS for SMEs in KSA?
7. From your experience in the company, what is the attitude of the employees in the company towards the convergence to IFRS or IFRS for SMEs?
8. What would happen if you did not comply with IFRS for SMEs?
9. Do you understand IFRS for SMEs easily? What type of difficulties do you face?
10. What steps are taken in your company in order to train people and prepare them to adopt IFRS for SMEs? Please, give examples? How did your company prepare and respond to the adoption of IFRS for SMEs in 2018?
11. Do you think IFRS for SMEs will make your accounts more transparent for suppliers or banks than local accounting standards that were applied in the past?
12. Have you been asked by any (bank, supplier, auditor or any other party), whether national or international, for your financial statement to be in conformity with IFRS for SMEs?
13. Is it important for you to prepare your financial statement in conformity with IFRS for SMEs to enhance your international relations?
14. When you buy from international suppliers or borrow from international banks, do they ask for accounts to make credit assessment/ to assess your credit risk?
15. Do you think there will be a difference in the adoption of IFRS for SMEs between companies due to the type of partnership (single, more than one)? Will firm structure lead to a difference in adoption?
16. Do you think the additional IFRS for SMEs requirements compared to the national accounting standards (for example, more disclosures) would be beneficial for the users (stakeholders/owners) more than it will add to the cost of preparation?
17. Is language a barrier? Are there any problems that arise from translating the standards from the English language to local Arabic language? Do you think that there are any differences in meaning between the English language and Arabic versions?
18. Do you prepare (financial information/ reports) in the English Language?
19. Do you think that introducing value-added tax will require you to change your internal accounts? Does it make the adoption of IFRS and IFRS for SMEs easier?
20. Do you think that the enforcement of value-added tax will enhance the clarity and the quality of SMEs accounts?

21. In your opinion, what are the procedures/steps that make complying with IFRS for SMEs an easy task?
22. Does your company use accounting software that already has a built-in format, which produces annual reports that are in conformity with the basics of IFRS for SMEs?
23. What effect does the use of IFRS for SMEs have on your accounting? (Are you still going to produce different financial statements for different purposes?)
24. To what extent is the accounting information of IFRS for SMEs used for these purposes: (i) Zakat, (ii) VAT, (iii) management of the company, (iv) dividend calculations, (v) suppliers?
25. Are there any standards in IFRS for SMEs that are inappropriate for SMEs?
26. What are the modifications and adjustment for the implementation of IFRS for SMEs in KSA? Especially for Sharia requirement?
27. What are the implications of IFRS for SMEs application in KSA? the various claims that are made for adopting IFRS for SMEs include: higher quality financial statements that lead to greater confidence, easier to raise capital, particularly from international investors, lower cost of capital, more relevant for companies that may ultimately seek stock exchange listing, more comparable, and other reasons like:……
28. Why do you think IFRS for SMEs is useful in KSA? How useful would the financial statements would be to different stakeholders?
29. How do you see the adoption of IFRS for SMEs in the context of other changes such as value added tax, as part of a campaign of modernisation?
30. How do you assess the Saudi accounting standards in terms of: Clarity, ease of application and giving a fair picture of the financial statements?
31. Do you periodically follow the transition plan to the International Financial Reporting Standards? Do you support the idea? And why?
32. What difficulties do you expect at the personal and the corporate level as a whole when moving to the International Financial Reporting Standards?
33. Do you know that technically, using IFRS for SMEs, when borrowing: the interest will be considered as an expenses/cost, while treating the interest differently under full IFRS (will be capitalised)?

Group 2: External Auditors:

Date:

Name of interviewee:

Nationality:

Gender:

From which university did you graduate?

Are you a qualified accountant?

Name of the auditing firm:

Position/role in the firm:

Years of experience:

In which group does your age fall: (45 years and above) or (under 45 years)?

1. What difficulties are your SMEs clients experiencing in implementing IFRS for SMEs?
2. What is your (personal perception or general opinion/attitude) towards the adoption of IFRS for SMEs in KSA?
3. What will happen if the statements of one of your clients did not comply with IFRS for SMEs?
4. Are you aware of any consequences to you, if your client's financial statements did not comply with IFRS for SMEs?
5. Do auditors have a role in implementing IFRS for SMEs? (For example, creating an advisory section to help companies prepare themselves for the implementation of IFRS for SMEs and to quantify the differences in key accounting numbers measured using current accounting practices in comparison to IFRS for SMEs).
6. Is language a barrier? Are there any problems that arise from translating the standards from the English language to local Arabic language? Do you think that there are any differences in meaning between the English version and the Arabic version?
7. To what extent is the accounting information of IFRS for SMEs used for these purposes: (i) Zakat, (ii) VAT, (iii) management of the company, (iv) dividend calculations?
8. Which of the following financial statements do you present:

(balance sheet, income statement, cash flow statement, statement of changes in equity, and notes).

9. Who are the external users of your financial statements?

10. Does the majority of your SME clients tend to adopt the full version of IFRS or IFRS for SMEs? Why?
11. What is your (attitude/personal perception/general opinion) towards the adoption of IFRS for SMEs in KSA?
12. What would happen if companies did not comply with IFRS for SMEs?
13. Do you understand IFRS for SMEs easily? What type of difficulties do you face?
14. What steps are taken in your auditing firm in order to train people and prepare them to adopt IFRS for SMEs? Please, give examples? How did your firm prepare and respond to the adoption of IFRS for SMEs in 2018?
15. Do you think IFRS for SMEs will make your accounts more transparent for suppliers or banks than local accounting standards that were applied in the past?
16. Do you think there will be a difference in the adoption of IFRS for SMEs between companies due to the type of partnership (single, more than one)? Will firm structure lead to a difference in adoption?
17. Do you think the additional IFRS for SMEs requirements compared to the national accounting standards (for example, more disclosures) would be beneficial for the users (stakeholders/owners) more than it will add to the cost of preparation?
18. Is language a barrier? Are there any problems that arise from translating the standards from the English language to local Arabic language? Do you think that there are any differences in meaning between the English language and Arabic versions?
19. Do you prepare (financial information/ reports) in the English Language?
20. Do you think that introducing value-added tax make the adoption of IFRS and IFRS for SMEs easier?
21. Do you think that the enforcement of value-added tax will enhance the clarity and the quality of SMEs accounts?
22. In your opinion, what are the procedures/steps that make complying with IFRS for SMEs an easy task?
23. To what extent is the accounting information of IFRS for SMEs used for these purposes: (i) Zakat, (ii) VAT, (iii) management of the company, (iv) dividend calculations?
24. Are there any standards in IFRS for SMEs that are inappropriate for SMEs?
25. What are the modifications and adjustment for the implementation of IFRS for SMEs in KSA? Especially for Sharia requirement?

26. What are the implications of IFRS for SMEs application in KSA? the various claims that are made for adopting IFRS for SMEs include: higher quality financial statements that lead to greater confidence, easier to raise capital, particularly from international investors, lower cost of capital, more relevant for companies that may ultimately seek stock exchange listing, more comparable, and other reasons like:……
27. Why do you think IFRS for SMEs is useful in KSA? How useful would the financial statements would be to different stakeholders?
28. How do you see the adoption of IFRS for SMEs in the context of other changes such as value added tax, as part of a campaign of modernisation?

Group 3: Owners:

Date:

Name of interviewee:

Nationality:

Gender:

From which university did you graduate?

Name of the company:

Age of the company:

Type of the company (sole/partnership):

Sector:

What is the activity of the company? Does it involve dealing with the public as a credit? Have a credit activity?

In which group does your age fall: (45 years and above) or (under 45 years)?

Do you pay dividends?

Size of the company according to the Saudi classification of SMEs (Monsha'at):

Type of the company	Number of employees	Revenue
Micro	1-5	0 – 3 (SR Million)
Small	6-49	3 - 40 (SR Million)
Medium	50-249	40 - 200 (SR Million)
Large	More than 249	More than 200 (SR Million)

1. Which of the following financial statements do you present:

(balance sheet, income statement, cash flow statement, statement of changes in equity, and notes).

2. Who are the external users of your financial statements?
3. What is the purpose or the main benefit for financial statements in your company? Is it done for: taxation, income distribution, credit contracts and negotiations, other regulatory issues and management compensation? Or: what are the objectives for SMEs financial statements?
4. Does your company sell and buy locally, or, import and export internationally/foreign operations?

5. Is your external auditor a local auditing firm, an international auditing firm or one of the big four?
6. Does your company tend to adopt the full version of IFRS or IFRS for SMEs? Why?
7. What is your (attitude/personal perception/general opinion) towards the adoption of IFRS for SMEs in KSA?
8. From your experience in the company, what is the attitude of the employees in the company towards the convergence to IFRS or IFRS for SMEs?
9. What steps are taken in your company in order to train people and prepare them to adopt IFRS for SMEs? Please, give examples? How did your company prepare and respond to the adoption of IFRS for SMEs in 2018?
10. Have you been asked by any (bank, supplier, auditor or any other party), whether national or international, for your financial statement to be in conformity with IFRS for SMEs?
11. Is it important for you to prepare your financial statement in conformity with IFRS for SMEs to enhance your international relations?
12. When you buy from international suppliers or borrow from international banks, do they ask for accounts to make credit assessment/ to assess your credit risk?
13. Do you think the additional IFRS for SMEs requirements compared to the national accounting standards (for example, more disclosures) would be beneficial for the users (stakeholders/owners) more than it will add to the cost of preparation?
14. Do you prepare (financial information/ reports) in the English Language?
15. Do you think that introducing value-added tax will require you to change your internal accounts? Does it make the adoption of IFRS and IFRS for SMEs easier?
16. Do you think that the enforcement of value-added tax will enhance the clarity and the quality of SMEs accounts?
17. In your opinion, what are the procedures/steps that make complying with IFRS for SMEs an easy task?
18. Does your company use accounting software that already has a built-in format, which produces annual reports that are in conformity with the basics of IFRS for SMEs?
19. What effect does the use of IFRS for SMEs have on your accounting? (Are you still going to produce different financial statements for different purposes?)

20. To what extent is the accounting information of IFRS for SMEs used for these purposes: (i) Zakat, (ii) VAT, (iii) management of the company, (iv) dividend calculations, (v) suppliers?
21. What are the implications of IFRS for SMEs application in KSA? the various claims that are made for adopting IFRS for SMEs include: higher quality financial statements that lead to greater confidence, easier to raise capital, particularly from international investors, lower cost of capital, more relevant for companies that may ultimately seek stock exchange listing, more comparable, and other reasons like:……
22. Why do you think IFRS for SMEs is useful in KSA? How useful would the financial statements would be to different stakeholders?
23. How do you see the adoption of IFRS for SMEs in the context of other changes such as value added tax, as part of a campaign of modernisation?

Group 4: Bankers and Lenders:

Date:

Name of interviewee:

Nationality:

Gender:

From which university did you graduate?

Are you a qualified accountant?

Name of the bank:

Position/role in the bank:

Years of experience:

In which group does your age fall: (45 years and above) or (under 45 years)?

1. Do you think that it is useful to require SMEs to prepare their financial statements in conformity with IFRS for SMEs when borrowing money from banks?
2. Is IFRS for SMEs more useful to you than previous accounting was?
3. Do you require companies to submit their financial statements in order to apply for a loan?
4. Do you require companies to prepare their financial statements in conformity with any type of accounting standards, such as IFRS, IFRS for SMEs, SAS, US GAAP?
5. Is it useful for you to require SMEs to adopt IFRS for SMEs?
6. Which of the following financial statements do you care about the most: (balance sheet, income statement, cash flow statement, statement of changes in equity, and notes)?
7. What is your (attitude/personal perception/general opinion) towards the adoption of IFRS for SMEs in KSA?
8. Do you understand IFRS for SMEs easily? What type of difficulties do you face?
9. Do you think IFRS for SMEs will make accounts more transparent for suppliers or banks than local accounting standards that were applied in the past?
10. Do you ask companies to prepare their financial statement in conformity with IFRS for SMEs?

11. Do you make credit assessment to assess company's credit risk?

12. Do you think there will be a difference in the adoption of IFRS for SMEs between companies due to the type of partnership (single, more than one)? Will firm structure lead to a difference in adoption?

13. Do you think the additional IFRS for SMEs requirements compared to the national accounting standards (for example, more disclosures) would be beneficial for the users (stakeholders/owners) more than it will add to the cost of preparation?

14. Is language a barrier? Are there any problems that arise from translating the standards from the English language to local Arabic language? Do you think that there are any differences in meaning between the English language and Arabic versions?

15. Do you think that introducing value-added tax will make the adoption of IFRS and IFRS for SMEs easier?

16. Do you think that the enforcement of value-added tax will enhance the clarity and the quality of SMEs accounts?

17. In your opinion, what are the procedures/steps that make complying with IFRS for SMEs an easy task?

18. Are there any standards in IFRS for SMEs that are inappropriate for SMEs?

19. What are the modifications and adjustment for the implementation of IFRS for SMEs in KSA? Especially for Sharia requirement?

20. What are the implications of IFRS for SMEs application in KSA? the various claims that are made for adopting IFRS for SMEs include: higher quality financial statements that lead to greater confidence, easier to raise capital, particularly from international investors, lower cost of capital, more relevant for companies that may ultimately seek stock exchange listing, more comparable, and other reasons like:……

21. Why do you think IFRS for SMEs is useful in KSA? How useful would the financial statements would be to different stakeholders?

22. How do you see the adoption of IFRS for SMEs in the context of other changes such as value added tax, as part of a campaign of modernisation?

Group 5: Officials from SOCPA and governmental agencies:

Date:

Name of interviewee:

Nationality:

Gender:

From which university did you graduate?

Are you a qualified accountant?

Name of the organisation:

Position/role in the organisation:

Years of experience:

In which group does your age fall: (45 years and above) or (under 45 years)?

1. Are there any punishments for those who do not comply with IFRS for SMEs? What is the effective mechanism? Who has the enforcement power?
2. What is the role and responsibilities of SOCPA after the change/switch to adopt IFRS for SMEs?
3. Are there any variations between the IFRS for SMEs as endorsed by the IASB and the Saudi IFRS for SMEs? If yes, what are the adjustments?
4. Does SOCPA monitor whether auditors are correctly checking that IFRS for SMEs has been applied by a company? If there is any weakness in the audit, what power does SOCPA have against an auditor?
5. Did SOCPA evaluated the costs and benefits related to the adoption of IFRS for SMEs?
6. Is language a barrier? Are there any problems that arise from translating the standards from the English language to local Arabic language? Do you think that there are any differences in meaning between the English language and Arabic versions?
7. Do you consider the case in KSA as: adoption, convergence or harmonisation?
8. Who are the main users of SMEs financial reports?
9. Which users will benefit from IFRS for SMEs?
10. How will the adoption of IFRS for SMEs help SMEs?
11. Companies that fall into the category of micro and small are exempt from having an auditor and are not required to publish their financial statements (Is this information

correct??). Do micro entities also have to adopt it? What are the characteristics of SMEs in KSA that makes them obliged to adopt IFRS for SMEs?

12. What is the link between this classification (Micro, Small, Medium and Large) and the accounting, auditing and tax practices?
13. Does it change or affect them? If a company is large, what is different?
14. Does the General Authority for Zakat and tax find it useful to require SMEs to prepare their financial statements in conformity with IFRS for SMEs?
15. To calculate Zakat, do you depend on the Saudi accounting standards or IFRS for SMEs? Which standard is more appropriate to use in order to calculate Zakat?
16. To calculate Tax, do you depend on the Saudi accounting standards or IFRS for SMEs? Which standard is more appropriate to use in order to calculate tax?
17. When SMEs prepare their financial statements in accordance with IFRS for SMEs, will Zakat and Tax authorities accept these statements? OR: Do SMEs have to prepare other statements according to Zakat and Tax regulations?
18. Does IFRS for SMEs help Zakat and Tax authorities?
19. Is there a relationship/link between accounting and taxation, in KSA?
20. To what extent is the accounting information of IFRS for SMEs used for these purposes: (i) Zakat, (ii) VAT, (iii) management of the company, (iv) dividend calculations?
21. What was the operational plan for transition?