Does the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) Suit Private Firms? Fieldwork Case-Study Vignettes for Taiwan

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Abstract

This paper challenges policy makers' claims that the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) is 'fit for purpose' in private firms, using the mixed method and fieldwork evidence from Taiwanese companies. We exploit a unique research window during 2012-2016, when the Taiwanese accounting regulators considered adopting IFRS for SMEs, but finally chose a new hybrid standard: the Enterprise Accounting Standards (EAS), involving elements of IFRS and IFRS for SMEs. We find that companies' attitudes towards IFRS for SMEs were strongly influenced by their plans and strategies (e.g., being acquired), and the accounting standard used by their parent companies. Hence, while introducing IFRS for SMEs or EAS seems a sound policy, accounting regulators should beware of their challenges to private firms (e.g., no ambitions to go public). Compliance costs could be attenuated by providing firms with clear accounting choices, whilst ensuring adequate financial reporting comparability.

Keywords: IFRS for SMEs, private firms, case-studies, corporate group, GAAP, mixed-method

I. INTRODUCTION

The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) was introduced by the International Accounting Standards Board (IASB, 2016), particularly for firms without public accountability, and it plays an important role in the convergence of financial reporting. Our research aims to investigate whether IFRS for SMEs did suit private companies in the Asian setting of Taiwan. Although private firms and SMEs are important to the economy (Ball and Shivakumar, 2005), most existing research has focused on listed and large companies (Chi et al., 2020). The relatively few studies discussing the IFRS for SMEs and private firms have led to inconsistent conclusions regarding the adoption costs and benefits; and the decision-making processes of private firms behind the adoption of this standard are not yet fully understood (Kaya and Koch, 2015; Nerudova and Bohusova, 2008; Quagli and Paoloni, 2012). Furthermore, the accounting regulators of many countries have not been certain about the efficacy of IFRS for SMEs (Baldarelli et al., 2012; Gassen, 2017). There has also been insufficient inquiry into the applicability of IFRS for SMEs to non-European/US settings (Devi and Samujh, 2015; Schutte and Buys, 2011): a gap which this paper aims to fill with this Taiwanese study. Scholars have indicated that further work on the financial reporting of SMEs and private firms is required to resolve this inconsistency and to promote its understanding (Damak-Ayadi, et al., 2020; El-Helaly et al., 2020; Fearnley and Hines, 2007; Litjens et al., 2012). Hence, our paper analyses Taiwanese private firms' views on the efficacy of IFRS for SMEs, including the adoption costs and benefits perceived by managers in diverse sizes of companies.

Using the mixed method (Teddlie and Tashakkori, 2009) and semi-structured interviews (Ruhnke and Schmitz, 2019), we present five case-study vignettes to develop a deep understanding of how managers viewed the suitability of IFRS for SMEs. We are undertaking *case-study business vignettes* that are commonly used in business, accounting, and finance research, as in the book of Sellitto et al. (2016) on small businesses. Our research includes deep qualitative analysis of the decision-making process within private firms, and quantitative calculation of perceived adoption costs and benefits, based on rational choice theory and its implementation by stated preferences techniques (Demski, 1973; Schipper, 2010; Scott, 2000). Overall, our results show that companies' plans and strategies (e.g., going public, being acquired) heavily affected their attitudes towards IFRS for SMEs. Further, when a parent company was required to adopt IFRS, private subsidiaries of the group were more likely to perceive benefit (e.g., from consistency of financial reporting within the group) in adopting IFRS for SMEs. These results suggest that while introducing IFRS for SMEs or EAS is a sound policy, the challenges to certain private firms (e.g., resources constraints, lack of ambitions to go public) should be noted. Compliance costs could also be attenuated by providing these firms with clear accounting choices, whilst ensuring adequate comparability in financial reporting.

This is the first research to adopt a more qualitatively based method for examining

Taiwanese firms' attitudes towards the IFRS for SMEs. It is also the first study to unearth how individual firms and corporate groups have evaluated the adoption of IFRS for SMEs (Yazdifar et al., 2008). Accounting regulators in many countries have had different opinions on whether to impose this new standard, and on whether private firms and SMEs should be allowed to choose their financial reporting standards (Arafat et al., 2020; Baldarelli et al., 2012; El-Helaly et al., 2020; Kaya and Koch, 2015; Lee, 2016; Nobes, 2010). Our study, analysing the decision-making process within private firms and the perceived costs and benefits of adopting IFRS for SMEs, helps to provide addition evidence on a non-western setting to assist policy makers with the evaluation of IFRS for SMEs. Thus, part of our contribution to the current literature is that we grasped the opportunity to obtain and analyse such complex data. This entailed a significant research advance, in a setting in which it is often difficult to get access to companies due to confidentiality. From this new body of evidence, we were then able to uncover new insights, through analysis, which would have been impossible with alternative methods, and to fill a research gap in the decision-making processes of private firms behind the adoption of IFRS for SMEs (Kaya and Koch, 2015; Quagli and Paoloni, 2012).

This paper is organised in the following way. Section II reviews the literature on IFRS for SMEs and illustrates how the Taiwanese accounting regulators attempted to introduce IFRS for SMEs. Section III explains the research methods. Section IV analyses Taiwanese firms' attitude towards IFRS for SMEs, using interview data. Finally, Section V summarises the finding of the paper.

II. LITERATURE REVIEW

Our review of literature below is diverse and broad in discussing different parties' views on IFRS for SMEs and in making international comparisons. It includes a detailed section on practice within numerous European countries (e.g., Turkey, Germany, Czech Republic, the Netherlands, UK, etc.). We also present comparative material about Taiwan itself., and about many other countries worldwide too, including Ghana and South Africa.

The Emergence of IFRS for SMEs

Recently, scholars and practitioners have recognised the different costs and benefits of complying with accounting standards which arise across firms. They may differ radically by size and type of ownership (Bassemir, 2018; Jones and Higgins, 2006; Ram and Newberry, 2013). For example, smaller firms are likely to have comparatively higher costs of financial reporting than larger firms. Users of financial reports may need to emphasise different accounting aspects when looking at SMEs, as compared to large firms (Pacter, 2007). There may also be distinctively different informational needs for private compared to public companies (Bassemir, 2018). For instance, the financial reporting of private firms may be mainly driven by tax considerations and lenders, whereas for public companies more by external investors in disclosing financial reporting information (Cameran et al., 2014; Chi et al., 2020; Pacter, 2007). Unlike public firms, private firms often rely on private information rather than external financial reporting to reduce information asymmetry (Bassemir, 2018). These factors can have differential impacts on financial reporting costs and benefits for private firms compared to public firms, with the private firms generally getting comparatively less benefit from financial reporting disclosures.

Reflecting this, in 2009, the IASB (2016) introduced IFRS for SMEs for firms without public accountability. According to the IFRS Foundation and the IASB (2016), IFRS for SMEs aims to be easier to read, and requires lower disclosure, compared to IFRS. Implementing IFRS for SMEs should enhance the comparability (e.g., of financial reports, between private and public, and local and foreign, firms) and quality of financial reports (Deloitte, 2009; IASB, 2016). Further, this new financial reporting standard should benefit SMEs through attracting investors and may also facilitate the convergence of accounting standards (IASB, 2016).

Private firms and SMEs are seldom subject to accounting research, compared to listed large firms. This may be because of data limitation (Coppens and Peek, 2005; Nobes, 2010), though some useful research has overcome this to address the applicability of IFRS, or IFRS for SMEs, to private firms and SMEs. For example, Fearnley and Hines (2007, p.402) investigated how the introduction of IFRS influenced the financial reporting of private UK firms, and concluded that 'IFRS was the price of listing that should not be foisted on other entities.' They also held that even IFRS for SMEs may not suit some private firms. Other researchers too have suggested that IFRS for SMEs is not an ideal standard for many private companies, taking account of the very different firm sizes embraced within SMEs (Nerudova and Bohusova, 2008; Ram and Newberry, 2013). To illustrate, in Nerudova and Bohusova's (2008) study of SMEs in the Czech Republic, the adoption of IFRS for SMEs was found to be particularly costly for micro firms. On a similar theme, Neag et al. (2009, p.41) found that IFRS for SMEs simply added yet another problem to daily survival for very small firm, and it was 'too complex for micro-entities.'

Although Quagli and Paoloni (2012) found some investors saw benefit from IFRS for SMEs, this was not paralleled with European firms and lenders of private firms, who viewed IFRS for SMEs unfavourable. Furthermore, Baldarelli et al. (2012) noted that even some European accounting regulators did not favour IFRS for SMEs for their country. Schiebel (2008) argued that auditors and accountants were the main groups to respond to IASB's draft exposure of IFRS for SMEs, and this might have biased the genesis of this accounting standard. This interpretation is bolstered by studies (Albu et al., 2013; Baldarelli et al., 2012; Schiebel, 2008) which have shown that different stakeholders (e.g., companies, investors, and regulators) evaluated the costs and benefits of IFRS for SMEs differently; suggesting more research on this standard was necessary.

International Comparisons

Much literature suggests that the adoption of IFRS for SMEs may be heavily influenced by country-specific attributes (Damak-Ayadi et al., 2020; Devi and Samujh, 2015; Gassen, 2017; Kaya and Koch, 2015; Schutte and Buys, 2011). Using cross-country data, Damak-Ayadi et al. (2020) have shown that country-level factors, such as culture and tax system, heavily affect whether or not a country will adopt IFRS for SMEs. Schutte and Buys (2011) argued that the creating of IFRS for SMEs was predicated on the experiences and views of opinion formers in developed countries, to the neglect of environments in developing countries. For example, Fitzpatrick and Frank (2009, p.50) argued that IFRS for SMEs may be 'the next standard for US private companies,' as it is perceived to help SMEs prepare financial reports cheaply, in a user-friendly way. An alternative view would be that a 'one size fits all' accounting standard would be ill suited to diverse firms, across highly differentiated markets. Indeed, Devi and Samujh (2015) challenged whether international accounting regulators should focus on the context and experience of developed economies. They commended paying more attention to alternative economic development paths. Similar opinions were held by De Moura et al. (2020). Moreover, Kaya and Koch (2015) used cross-country data to argue that countries outside the Europe were more likely to adopt IFRS for SMEs. These studies emphasise the importance to exploring the applicability of IFRS for SMEs in non-Europe/western settings. Between highly developed and underdeveloped countries lie the likes of South Africa, for which Schutte and Buys (2011, p.193) found that, in general, the contents of IFRS for SMEs matched 'the reporting requirements [viz., needs] of SMEs in South Africa.' Aboagye-Otchere and Agbeibor (2012), focusing on SMEs in Ghana, pointed out that IFRS for SMEs seemed irrelevant to local firms, which saw convergence with international financial reporting standards to be unimportant. Our study, based on Taiwanese data, may be helpful in assessing the applicability of IFRS for SMEs in countries outside the Europe.

European Experience

European experience offers a range of development perspectives. For Turkey, at the lower end of European economic development, Atik (2010) found that the general attitude to adopting IFRS for SMEs was positive, across many of their sampled firms, but some favoured adoption remaining voluntary. Furthermore, for four developing countries in Europe, Albu et al. (2013) found that users of financial reports held a more positive view of IFRS for SMEs than did preparers.

Other European studies have focused on more developed countries. For instance, Eierle and Haller (2009) surveyed German SMEs, arguing that firm size should not be the sole criterion for determining the adoption of IFRS for SMEs. Litjens et al. (2012) investigated the costs and benefits of IFRS for SMEs, using Dutch data. They used stated preferences, like our paper and Schipper (2010), finding a positive association between actual and perceived costs/benefits of implementing IFRS for SMEs. Litjens et al. (2012, p.243) found ‘significant complexity for standard setters in promulgating accounting standards’, which echoes our own finding for Taiwan. However, no extant studies have investigated further the decision-making processes of firms, in this context. This is mainly due to the difficulty in gathering such data.

Since most research literature typically focuses on country-level adoption of IFRS for SMEs, recent papers (Arafat et al., 2020; Damak-Ayadi et al., 2020) have also indicated the need to explore further the adoption of IFRS for SMEs at the firm-level, and its implications. Different from previous literature, our paper manages to obtain and use detailed primary firm-level data from managers to conduct detailed qualitative analysis. This helps us to achieve a deeper understanding of how different firms, with diverse characteristics, make decisions about adopting IFRS for SMEs: hence advancing beyond the current literature (Kaya and Koch, 2015; Quagli and Paoloni, 2012).

Our paper aims to explore in depth the rationale behind firms' perceived costs and benefits, thus unravelling the 'complexity' referred to by Litjens et al. (2012), through investigating the decision-making processes behind choices of financial reporting standards. This extends the work of Devi and Samujh (2015), in considering anew both stakeholders and barriers to implementation of standards.

IFRS for SMEs in Taiwan

As shown by Gassen (2017), IFRS for SMEs has had direct and indirect impacts on many countries, and Taiwan is one of these examples. The Taiwanese accounting regulator for private firms had intended to introduce IFRS for SMEs for several years (Small and Medium Enterprise Administration (SMEA), 2012). Although their timetable was uncertain, they invested in training to enhance the understanding of this new financial reporting standard

(SMEA, 2013a; 2013b). In 2013, mandatory IFRS adoption was imposed upon Taiwanese *listed companies*. However, Taiwanese *private firms* were restricted to using only the Generally Accepted Accounting Practice in Taiwan (Taiwanese GAAP) in that year. Driven by this incongruity between the treatment of listed and private firms, pressure increased on the regulators to achieve financial reporting comparability across public and private firms.

In the middle of 2014, the Taiwanese regulators revised the Business Entity Accounting Act, which was the principal accounting regulation for Taiwanese private firms. This Act had a legal precedence over financial reporting standards (e.g., Taiwanese GAAP or Enterprise Accounting Standards (EAS)). Regulations were changed to harmonise with the economic environment, and to follow the global trend of IFRS (Ministry of Economic Affairs (MEA), 2014). As a result, the treatments and terms of financial reporting were changed - to be consistent with IFRS. This new regulation was scheduled to come into force from 1 January 2016, with the permission of voluntary early adoption from 2014. When we conducted our early fieldwork in 2014, Taiwanese private firms could only use Taiwanese GAAP, and had no other choices. At that time, the business sentiment was that IFRS for SMEs would be introduced soon, following the amendment of the Business Entity Accounting Act (18 June 2014). As a result, Taiwanese practitioners were keen to learn about the details of IFRS for SMEs (SMEA, 2013b). According to the design advice of IASB, IFRS for SMEs was intended for firms which were not publicly accountable (IASB, 2016). In 2013, Taiwanese *public* firms were required to adopt IFRS, and Taiwanese *private* firms were required to use local GAAP. It was expected Taiwanese private firms would move soon to a new accounting standard, especially designed for private firms. The above historical setting within Taiwan seems an ideal one for investigating private firms' opinions on the IFRS for SMEs.

However, instead of introducing IFRS for SMEs, the Taiwanese accounting regulator for private firms decided to introduce a new standard called EAS, which aimed to combine both IFRS and IFRS for SMEs, and to be well adapted to Taiwanese business practice (Chuang, 2016). From 2016 onwards, EAS replaced Taiwanese GAAP and became the financial reporting standard that Taiwanese private firms had to implement (Chuang, 2016; SMEA, 2013a). EAS simplified the IFRS and IFRS for SMEs and was designed to consider the characteristics of Taiwanese private firms and SMEs (MEA, 2015). Taiwanese policy makers argued that EAS would help private firms to attract investors from public and international markets through the enhanced comparability of financial reporting (MEA, 2015), thus raising potential benefits. However, some scholars and practitioners viewed this argument with caution. For example, a report prepared by Tsai (2015) suggested that imposing IFRS based standards on Taiwanese private firms may not be appropriate, in terms of the potential costs it may impose. The reasoning behind this was that private firms could have different reporting purposes from public firms. Since experts have inconsistent opinions on the implementation of EAS, it is worth investigating the viewpoints of private firms. Our work is useful in evaluating the costs and benefits of EAS. It provides contemporary and potentially significant information about IFRS for SMEs and EAS. Ours is the first study to analyse carefully how Taiwanese private firms assessed IFRS for SMEs. In Taiwan, the small size of local markets and the pressure from the regulators and companies to enter international markets (Siu, 2005) and to use accounting standards which are used widely in the world (to attract international investors) (MEA, 2015) have significant affects upon firms' costs and benefits of adopting accounting standards. This setting allows us to investigate whether companies' perceived costs and benefits of adopting IFRS for SMEs in Taiwan are different from other countries with different institutional attributes.

As in many other market economies, SMEs and private firms play a crucial role in the Taiwanese economy (Nerudova and Bohusova, 2008). According to the National Statistics of Taiwan (2015), the manufacturing and service industries contributed more than 98% of real GDP in both 2013 and 2014, in Taiwan. More than 99% of the firms in these industries were SMEs in 2013 (National Statistics, 2012). Furthermore, more than 99% of Taiwanese firms were private in 2015 (MEA, 2015). These statistics emphasise the significance of private firms within the Taiwanese economy. Despite the importance of SMEs and private firms, relatively little academic research has investigated their financial reporting. This paper aims to fill the research gap in this area (Coppens and Peek, 2005; Fearnley and Hines, 2007; Litjens et al., 2012; Nobes, 2010).

One of the reasons why the Taiwanese accounting regulators proposed adopting IFRS was because financial reports under IFRS could provide more complete information than was achieved under Taiwanese GAAP (PwC, 2008; Taiwan Stock Exchange Corporation (TWSE), 2012). This is because contemporary Taiwanese firms often are members of corporate groups, and increasingly trade in foreign markets. The amendment of accounting regulations for private firms by the regulators also sought to follow the international trend towards IFRS. This had the additional perceived benefits of reducing the costs for firms going public, or trading abroad (MEA, 2015). In addition, several researchers have documented how companies which are members of corporate groups may be driven by different considerations in making accounting decisions, than are companies which are independent entities (Cameran et al., 2014; Yazdifar and Tsamenyi, 2005; Yazdifar et al., 2008). For example, achieving consistency across different divisions within a corporate group could lead to a decision outcome which is very different from that favoured by an individual firm (Boojihawon et al., 2007; Cameran et al., 2014). Such studies highlighted the relevance (and scarcity) of research on accounting decision-making between individual firms and corporate groups (Yazdifar et al., 2008). In our sample, there are both individual firms and members of corporate groups. They have different preferences on going public and extending overseas. The diversity in our small sample helps to generate new insights into IFRS for SMEs and advances our understanding of firms' behaviour in financial reporting, across different organisational forms.

To conclude on our literature review, we have covered matters like (a) the implementation costs like the reporting burden for smaller firms (such as micro firms), incongruity and inconsistency between the design of IFRS for SMEs and the reporting purposes and stakeholders of SMEs and private firms, etc, as well as (b) the implementation benefits like comparability, transparency, and investor attraction. We have also cross-referenced our approach to other areas that have used stated preferences, including the work of Litjens et al. (2012) which was explicit about perceived costs and benefits of IFRS for SMEs in the Netherlands. The above-mentioned elements of our literature review certainly do suggest factors which may increase or decrease the costs and benefits of implementing IFRS for SMEs, and we now move on to the theory that can facilitate the measuring of these costs and benefits, using a stated preference framework.

Theoretical Framework

Rational choice theory has been used in our study to investigate firms' attitudes towards IFRS for SMEs. It helps to enhance our understanding of how decisions, about whether or not to adopt this new standard, are undertaken (Demski, 1973; Scott, 2000). This theory indicates that a rational decision-maker will consider both costs and benefits when making decisions and will choose an alternative only when the associated benefits exceed the costs (Scott, 2000). This theory has been widely used in accounting literature. For example, Giner and Arce (2012) applied this theory to investigate lobbying behaviour during the IFRS setting process and showed that this involvement in lobbying was motivated by cost-benefit analysis. Further, both Demski (1973) and Christensen (2012) have used this theory to explain firms' choices of accounting methods and standards. These studies suggest that firms will adopt a new accounting standard only when the adoption benefit is greater than the cost. Following previous studies and applying rational choice theory to our setting, we should expect that firms will evaluate costs and benefits when considering the IFRS for SMEs adoption, and firms will only adopt IFRS for SMEs if they perceive net benefit in doing so.

In contrast to rational choices, our theory of preference in this paper, we have the likes of Veblen (1909) classically arguing that choices can be artificially manipulated (indeed controlled) by social forces like emulation, envy, and social status (Yilmaz, 2007). Modern adherents of this view include Ishida (2021). However, much of modern marketing analysis has shown that most consumer choices are much more hard-headed than this (Hochstein et al., 2019). Consumers use information very cleverly and in the modern world this is further enhanced by comparison websites, news streams, technical information sites, etc., all of which facilitate well-structured and consistent choices, which can be represented by utilities. Similarly, choices on accounting standards within a firm are not taken in a vacuum, or casually, but are the product of careful in-house research, often using decision support tools (Power and Reid, 2018) and augmented if needed by independent inputs from hired-in third party due diligence. These actions lay a sound basis for the use of utilities as an expression of rational choices. For these reasons, our approach using rational choice theory seems superior to alternative theories like those deriving from Veblen and others.

III. METHODOLOGY AND DATA

Sample

Perhaps because of scarce data on private firms, little extant research on IFRS has investigated the accounting choices of private firms (Coppens and Peek, 2005; Nobes, 2010). To fill this research gap, our work involved collected primary source data from Taiwanese private firms, through face-to-face interviews and administered questionnaires. As is common practice, when the fieldwork enquiry involves sensitive areas (in this case, where there is typically trade-secrecy surrounding the accounting standards used in the companies) we used 'gatekeepers' to the fieldwork domain (Shenton and Hayter, 2004). The advantage of proceeding in this way is that it creates trust with respondents, which makes them more likely to express opinions freely, and to provide more, and better, supporting information. This involved taking advice from an august collection of several distinguished Taiwanese scholars, on creating a judgment sample of ten companies reflecting the diversity of firm sizes and economic activities in the Taiwanese economy. They were experts on the diversity of Taiwanese firms and assisted in selecting a group of companies which constituted a representative or 'barometric' sample of Taiwanese firms. We were privileged to have such experts on the ground in Taiwan who had the judgment and experience to do this effectively. They were classical fieldwork gatekeepers, who had sufficient authority and status to assure the companies being investigated that there would be no threat to their business model, were they to agree to be interviewed intensively. In this paper, just five companies (see Section IV) are reported upon here: those with the most bearing on our research question of potential adoption of IFRS for SMEs. Although the sample is small, as is common in field work, the depth of our fieldwork allowed us to probe more deeply than is possible, with statistics alone, into how private firms evaluated the IFRS for SMEs.

The data collection was conducted in May and June 2014. This was when the Taiwanese accounting regulators for private firms were considering the introduction of IFRS for SMEs. To this end, the regulators provided a series of training programs, for the use of professionals (e.g., company directors, small business consultants, finance officers) wishing to understand how best to implement IFRS for SMEs. At this stage, the regulators had not finalised their plans for the adoption of IFRS for SMEs in Taiwan. This uncertainty helped our research agenda. It enabled us to explore firms' opinions on IFRS for SMEs and their willingness to adopt it.

Methodology

We use the 'mixed method' (Tashakkori and Teddlie, 1998; Teddlie and Tashakkori, 2009) in this paper. This approach combines a qualitative approach to seeking Taiwanese private firms' views about adoption of IFRS for SMEs, with quantitative calibration. For the latter we used 'stated preference' techniques. These are widely used in choice studies to measure the preferences of alternatives when no market preferences are available (Adamowicz et al., 1994; Alfnes, 2004; Paulley et al., 2006). Schipper (2010) was one of the first to advocate this technique in accounting, and its use is widespread in social sciences. It is a principal plank of the UK government guidance on project appraisal HM Treasury (2018, p.41). This paper applies stated preferences to the choice of financial reporting standards. Widely used in various types of cost-benefit analysis (e.g., transport, health care, environment), it has been used in accounting research by the likes of Litjens et al. (2012), for example, to look at perceived costs and benefits of IFRS for SMEs in the Netherlands. They use a large-sample questionnaire approach, amenable to single issue statistical/econometric analysis, as opposed to our more detailed case study approach, which is more ethnographically oriented. Our paper also provides new quantitative evidence on private firms' perceived adoption costs and benefits of accounting standards (this time for Taiwan). Our research is fieldwork and case-study based, so our quantitative findings serve as an adjunct to, not a substitute for, our more detailed qualitative narrative evidence. The core of this is embodied in our five case-study vignettes (see Section IV). Combined, our stated preferences and case-study vignettes, aim to give as complete picture of the adoption process of IFRS for SMEs, in a particular country, Taiwan, as is possible. This use of the mixed method is new to accounting research. Its advantage is that qualitative findings can be cross-referenced with quantitative findings. This allows us to see the same issue from different angles. Methodologically, it helps us in triangulating the evidence.

Instrumentation

Our key interview instrument was a semi-structured interview agenda. It had a three-part structure.

(i) In ‘choice of financial reporting regimes’ it examined: possible and actual choices of accounting standards; influences on choosing; the weighting of costs and benefits; techniques’ influence on choice of standard; choice of standard over different accounts; and emerging policy impact on choices.

(ii) In ‘choice of financial reporting techniques,’ it examined: valuing intangibles and investments; treating development costs; and techniques’ of importance for financial reports.

(iii) In ‘relation between choices and their rationale,’ it examined how choices of standards and techniques were related; whether/how decisions were staged; and the reasoning behind decision-making process.

This instrument design is helpful for investigators who wish to probe deeply into each research topic on the agenda (Cohen et al., 2002; Wengraf, 2001). We interviewed finance or accounting directors in our sampled Taiwanese firms. The interviews involved multiple accounting topics, and typically lasted up to 120 minutes. Interview notes were taken by hand, in Mandarin, at the time of meeting respondents, and were reviewed in a de-briefing session shortly afterwards. These notes were subsequently translated into English. We focus specifically on data relating to IFRS for SMEs. In this context, we have constructed five short case-studies (‘vignettes’) of Taiwanese firms (see Section IV). Respondents of sampled firms were asked about their opinions on IFRS for SMEs, using a common semi-structured agenda design, which is known for capturing interviewees’ insights (Ruhnke and Schmitz, 2019) (see Panel A of Table 1 for how ‘probes’ were developed on emerging policy choices, guiding narrative to go deeper).

[Insert Table 1 about here]

Another part of our instrumentation (i.e., a questionnaire) looked at the level of perceived (or expected) costs and benefits of adopting a specific accounting standard. Panel B of Table 1 shows how we calibrated expected adoption costs of accounting standards, and how respondents stated their preferences on the use of IFRS for SMEs as compared to Taiwanese GAAP, if they had a choice.

As shown in Panel B of Table 1, the perceived levels of costs and benefits were measured by a five-point Likert scale. Respondents answered whether the level of costs/benefits was zero, low, medium, high, or extreme. These ‘stated’ levels of costs and benefits were coded as 1, 2, 3, 4, or 5, respectively. This approach, founded on mainstream microeconomic theory (Mishan and Quah, 2007) holds that rational individuals will choose actions for which the benefit is greater than the corresponding cost. On this basis, we calculated firms’ net and ratio utilities of adopting accounting standards, conducting a cost-benefit analysis of choice of financial reporting standard. The *net* and *ratio* utilities were calculated using the formulae: Net Utility = Benefit – Cost; and Ratio Utility = Benefit ÷Cost.

Using the logic of stated preferences, rational agents in a firm (e.g., finance directors) should adopt a specific financial reporting standard when it yields a positive net utility (> 0), or equivalently a ratio utility greater than one (> 1). By weighing benefits against costs, our study can explore the extent to which firms' stated costs and benefits reflect their underlying preferences (observed through their narrative statements in face-to-face interviews), and whether the results from stated preferences, are consistent with their actual or intended choices, and their detailed narratives supporting these decisions. The complete interview agenda and questionnaire used in this research can be found in 'Supplementary Materials'[1].

In designing this instrumentation, we have carefully abided by the methodological prescriptions that have been proposed by various authorities on good practice in fieldwork instrumentation (Finch, 1987; Miles, 1990; Shenton and Hayter, 2004), and especially Sellitto et al. (2016) because this last source is relatively recent and is about fieldwork in a very similar domain (viz., small businesses) to the one explored in our work. A crucial part of design compliance to good practice is that validity and reliability should be a priority, alongside other desirable properties like transferability, dependability and confirm ability (Healy and Perry, 2000). It helped that meeting this standard was facilitated by running the whole fieldwork model initially in the UK, which allowed us to tease out problems of validity and reliability.

The UK fieldwork was foundational to the Taiwanese instrumentation, while the access to respondents was different in the latter case (involving gatekeepers), for cultural reasons. We now illustrate how our methods have validity (Hayashi et al., 2019). We achieved external validity by: (a) having field sites that were across sizes, incorporation, and industries, thus ensuring broad scope by representation; (b) using an investigative design that fostered analytical generalization, as when small sample commonalities can suggest syndromes at the large sample level; and (c) comparing the generation of our data to the generation of data elsewhere for similar subjects, e.g., for small businesses in Australia as in Sellitto et al. (2016). We achieved internal validity by our research design having: (a) credibility, as reflecting best practice in qualitative research methods at the time of construction, including its peer review at numerous well-respected conferences, workshops and seminars; (b) proven transferability to new locations and cultures, from the West (UK) to the East (Taiwan); (c) dependability, in that our work is internally consistent and repeatable by others; and (d) confirmability, in that we give open access to all our fieldwork design for others to use, if they wish, for confirmatory fieldwork, or audit of our processes. Construct validity was ensured by: (a) our careful piloting prior to the fieldwork; (b) our complementary use of semi-structured procedures (viz., our use of layered structured agenda for interviews) and structured procedures (viz., our use of complementary Likert scales, for attitude measurement); and (c) our comparison between qualitative data (e.g., detailed opinions on IFRS for SMEs) and quantitative presentations of stated preferences (e.g., from Likert scales). Here, the mixed method proves its worth (Franco and Matos, 2015), because it confronts qualitative with quantitative data, enhancing the validity and reliability of our work, as well as making our findings transferable, dependable, and confirmable. For example, we have already shown transferability of our research design from the UK to Taiwan (securing external validity), and our provision of full instrumentation detail to other researchers ensures that confirmability is an open door for them.

IV. CASE STUDY VIGNETTES

This section elaborates, with case-study business vignettes, how respondents in sampled firms viewed IFRS for SMEs when interviewed in the field. Our framework for vignettes is like that by Sellitto et al. (2016). These vignettes have five aims concerning the business investigated: capturing its type and nature; identifying the broad nature of issues facing fieldwork participants; removing peripheral conversations from interview transcripts; projecting the identity of the fieldwork participants within the ethical requirements of the project; and permitting analysis within the research framework. Five case-study vignettes are presented in this paper. In Taiwan, *public* firms had been required to adopt IFRS mandatorily from 2013 or 2015 onwards, depending on their firm type and listing status. By contrast, *private* companies in Taiwan had to report under Taiwanese GAAP before the regulation change of June 2014. For some private firms, belonging to a corporate group, their parent companies were public, and hence they had to implement IFRS. If the latter, two financial reporting standards were typically used in the group. Thus, the degree of reporting consistency desired within the group might influence private firms' accounting decisions (Boojihawon et al., 2007; Cameran et al., 2014; Yazdifar et al., 2008). Furthermore, individual firms might have different accounting practices, when compared to firms which are part of corporate groups (Yazdifar and Tsamenyi, 2005). Therefore, this section first studies two *individual private* firms, which were not members of corporate groups (viz., Company TH1 and Company TF2). Then, private firms, whose parent companies were public, (viz., subsidiaries of Companies TE3, TG4 and TA5, which were all part of different corporate groups) will be explored collectively at the end of this section. Our results aim to advance our understanding of IFRS for SMEs, and to help us to evaluate the consequences of regulation changes from the perspective of those empowered within the firm to make choices over reporting standards (e.g., the finance director).

Company TH1

First, Company TH1 was a private firm. It was not a member of a corporate group, and only prepared individual financial reports. It applied Taiwanese GAAP in 2014 in accordance with existing regulations. It had been founded around 30 years earlier, and its core business was the development and manufacture of industrial materials. By size, it was small, with just 15 employees. In commenting on the relative merits of IFRS for SMEs, our respondent said 'There is no great difference between IFRS for SMEs and Taiwanese GAAP', and elaborated as follows: 'People are used to Taiwanese GAAP. If we can choose, we prefer to continue using

Taiwanese GAAP to avoid additional costs.' These statements show how companies can favour the *status quo* if they do not recognise adequate net benefit in changing their accounting modes (Messier et al., 2014).

In interview, our respondent mentioned several times that the company was small, with few employees. Thus, it tended to adopt simple and inexpensive ways of preparing financial reports. Our respondent emphasised that being a small firm significantly impacted on its accounting choices. Our respondent also stated that 'SMEs prefer regulations with clear instructions, such as Taiwanese GAAP, rather than principles-based standards, like IFRS and IFRS for SMEs.' Our respondent expressed an aversion to a principles-based standard, because it required more decision-making, and therefore more costly labour-time and training (Agoglia et al., 2011). These findings for company TH1 indicate that without large perceived net benefit from adopting a new standard, it would tend to maintain its current financial reporting standard. To a small firm like TH1, with limited resources and few employees, IFRS for SMEs would be regarded as too costly, on balance, to implement. Being principles-based, IFRS for SMEs required additional adoption effort, increasing compliance costs (Collins et al., 2012; Di Pietra et al., 2008; Tyrrall et al., 2007) to a level that would make adoption infeasible.

Table 2 presents Company TH1's perceived and expected costs and benefits of adopting Taiwanese GAAP and IFRS for SMEs, respectively. For Company TH1, the adoption benefits of Taiwanese GAAP and those of IFRS for SMEs were both low. Nevertheless, IFRS for SMEs led to much higher adoption costs (extreme) than Taiwanese GAAP (medium). The stated costs and benefits were consistent with Company TH1's qualitative statements in previous paragraphs. From the viewpoint of company TH1, it seems that Taiwanese GAAP was relatively beneficial compared to IFRS for SMEs in terms of *net* (0.67 compared to 0.4) and *ratio* (-1 compared to -3) adoption utilities. The results obtained from this stated preference analysis support Company TH1's decision to use Taiwanese GAAP, given the assumption that it had a free choice of financial reporting standards. Additionally, the respondent of Company TH1 ranked IFRS and IFRS for SMEs with the same level of adoption costs (extreme) and benefits (low). Although accounting regulators have claimed that IFRS for SMEs is simpler than IFRS, it seems that - for this small firm - adopting IFRS for SMEs was not perceived to be more advantageous (on balance) than using IFRS.

[Insert Table 2 about here]

Company TF2

Our second case-study vignette is of Company TF2, a private firm operating in the high-technology industry. It was a micro firm and did not belong to a corporate group. At the time of interview, it prepared individual accounts under Taiwanese GAAP in 2014. Company TF2 ranked its possibility of change, to adopting IFRS for SMEs, as being high. Our respondent hoped their company would go to initial public offering (IPO, a common ambition of high-tech firms), or alternatively that it would be purchased by other companies in the near future. The respondent aimed to adopt the financial reporting standard which most other companies implemented, saying: 'Since IFRS is widely used in the world, applying IFRS for SMEs helps to enhance the comparability of financial reports' (Brochet et al., 2013; DeFond et al., 2011). This finding suggests that high comparability makes the firm a more attractive proposition for IPO, or trade sale, and is a major motivation for changing from Taiwanese GAAP to IFRS for SMEs. Thus, consistent with rational choice theory (Demski, 1973; Scott, 2000), Company TF2 perceived large benefits from adopting IFRS for SMEs and had incentives to change its accounting standard. This finding is different from that of Otchere and Agbeibor (2012) who show that SMEs in Ghana, with limited international activities, do not find IFRS for SMEs attractive. We argue the higher degree of internationalization in Taiwanese firms (Siu, 2005), such as in Company TF2, may explain the difference here.

This situation of Company TF2 is also very different from that of Company TH1 (see earlier discussion). Both Company TF2 and Company TH1 were very small, but behaved quite differently. On the one hand, Company TF2 aimed to be acquired, to merge with another company or to go public. In consequence, it was thought that applying IFRS for SMEs would help it achieve its strategic objectives for exit. On the other hand, for Company TH1, a conventional manufacturer of industrial materials, which focused more on stasis, than on transformation, there was no intention of being combined with other companies or going to IPO. They were content to continue using the accounting standard which they had adopted before, namely Taiwanese GAAP. The finding of Bassemir (2018) that a major motive for private firms to adopt IFRS is to attract external funding, is vindicated by these comparison case studies which show that IFRS for SMEs has the similar benefit. Company TH1, in its conventional manufacturing setting, had no ambitions to expand, therefore no requirement for external funding, and was comfortable with sticking with Taiwanese GAAP. By contrast, Company TF2, in a dynamic high-tech environment, was anxious to grow, and felt that switching from Taiwanese GAAP to IFRS for SMEs would help to achieve its strategic goal of growth by external funding, because potential external funders would be better able to evaluate alternative investment possibilities in this way.

What this finding suggests is that plans of companies will affect their attitudes towards IFRS for SMEs, quite apart from current calculations of costs and benefits. If private companies expect to go public or to be purchased by other corporations, they will prefer to use IFRS for SMEs (Bassemir, 2018). Because IFRS is the global trend, Taiwanese listed companies have had to adopt IFRS from 2013 or 2015 onwards. Adopting IFRS for SMEs is good for those private companies seeking to attract potential investors. This is particularly true because of the small Taiwanese markets and the pressure to enter international markets (Siu, 2005) and use internationally recognised accounting standards (MEA, 2015).

However, private companies which plan to maintain their ownership patterns, will be inclined to keep applying Taiwanese GAAP. Since most Taiwanese private companies are small and have simple business models, they are unlikely to display large difference to their financial reporting outcomes from using IFRS for SMEs compared to Taiwanese GAAP. Therefore, if lacking ambitions to expand the business, they have no incentive to adopt IFRS for SMEs, which requires additional transition costs (Franks et al., 1997; Meeks and Swann, 2009). Since EAS is based on IFRS, and IFRS and SMEs (Chuang, 2016), our results here suggest that EAS could be beneficial for some private firms (e.g., those which aim to IPOs or to be acquired by other companies). Even so, EAS might still be relatively costly as a standard for small private firms which plan to stay private and have limited resources.

Companies TE3, TG4 and TA5

For our remaining discussion of cases, it is convenient to treat three of them together: Companies TE3, TG4 and TA5. Whilst our previous two cases (Companies TH1 and TF2) were of *individual* private firms which did not belong to a corporate group, this section turns to private firms which were controlled by public companies.

Company TE3

First, Company TE3 was a publicly listed company which had been required to adopt IFRS since 2013. It was a medium-sized ICT firm which provided online services. It had a subsidiary in Hong Kong and a joint venture company in Taiwan. The respondent of Company TE3 said that the Taiwanese joint venture company reported under Taiwanese GAAP[2]. However, the respondent commented that ‘if we could choose accounting standards, we would prefer [the Taiwanese joint venture company] to adopt IFRS for SMEs.' The respondent added that 'This is because IFRS, and IFRS for SMEs, are the trend.' The basis of this attitude is not doubt closely related to the plan of this company, whose strategy was to expand the business, and to explore potential opportunities in global markets. Again, this finding shows the importance of international markets for Taiwanese firms (MEA, 2015; Siu, 2005) in choosing accounting standards and corroborates the empirical evidence of Bassemir (2018), to the effect that a desire for higher involvement in international markets prompts private firms to adopt IFRS.

The respondent of Company TE3 mentioned that adopting IFRS, and IFRS for SMEs, could help to attract investors, which again accords with the prior research (Bassemir, 2018). At the same time, this helps them to compare and evaluate investments, or transaction performance, across different markets. This finding implies that the more involved are private companies or their affiliated groups in international markets, the more are they likely to adopt IFRS for SMEs (Di Pietra et al., 2008).

Company TE3's prospective choice is fully revealed by cost-benefit analysis (cf. Table 3). It shows that Taiwanese GAAP yielded lower adoption costs (zero) than did IFRS for SMEs (low). However, IFRS for SMEs generated much higher adoption benefits (high) than Taiwanese GAAP (low). This is consistent with the respondent's statements. It turns out here that both financial reporting standards had the same ratio utility, but IFRS for SMEs brought higher net adoption utilities. In this situation, Company TE3 preferred IFRS for SMEs to Taiwanese GAAP. The results imply that when companies face two choices with the same ratio utility, their final choices may be determined by reference to their net utilities. Overall, the result is consistent with rational choice theory (Demski, 1973; Scott, 2000) that companies evaluate costs and benefits when making decisions, including accounting decisions. The findings of Table 2 and Table 3 suggest that a stated preference approach, which sets out systematically how managers' preferences over stated costs and benefits, is useful in studying how firms' expected accounting choices, on financial reporting standards, are determined.

[Insert Table 3 about here]

Furthermore, the respondent of Company TE3 pointed out that it was better for the parent and its subsidiaries to utilise the same reporting standards. The respondent explained this as follows: 'If the parent and the subsidiaries use different accounting standards, readers may not understand the financial reports.' This suggests that consistency across various divisions is important to communicating financial fitness for a corporate group and might influence companies' accounting decisions (Boojihawon et al., 2007; Cameran et al., 2014; Yazdifar et al., 2008). The finding also suggests why adopting EAS may seem favourable to private firms whose parent company is public, as consistency within corporate groups seems often to be a high priority (Deloitte 2016): the same situation can be seen in other companies.

Company TG4

This can be illustrated by Company TG4, a public large telecommunication company. It was an intermediate parent company and reported under IFRS. All its subsidiaries were private and could only adopt Taiwanese GAAP before the regulations changed in 2014. The respondent of Company TG4 also indicated that the company aimed for consistency across different divisions. Hence, if their subsidiaries had choices over financial reporting standards in the future, they would prefer to use IFRS for SMEs, for consistency purposes. Other Taiwanese companies also shared the same disenchantment with using two different accounting standards within a corporate group, which provided a strong incentive for them to use IFRS for private subsidiaries (Financial Supervisory Commission (FSC), 2013; Lin, 2010).

Company TG5

The respondent of Company TA5, a large firm in the IT industry, also stated that they aimed for consistency in accounting standards within the group. As with the situation in Companies TE3 and TG4, Company TA5 also adopted IFRS, but its subsidiaries had implemented Taiwanese GAAP in 2014. The respondent of Company TA5 stated that: 'We have evaluated the difference between Taiwanese GAAP and IFRS, and there is no great difference.' The respondent explained further that this was because the subsidiaries were selling companies, and their businesses models were simple. The respondent continued: 'Hence, if subsidiaries have to adopt IFRS for SMEs, it will not be difficult to do so.' For Company TA5 which was required to adopt IFRS from 2013, it was said that the data of subsidiaries had been converted into an IFRS version, and that this was presented in the consolidated accounts of the group. Therefore, using IFRS for SMEs for subsidiaries accounts would not be too costly, and might enhance the consistency of financial reports. This was because IFRS for SMEs was said to be consistent with IFRS but simpler (Fitzpatrick and Frank, 2009). These results suggest that private subsidiaries or joint venture companies might find using IFRS for SMEs to be beneficial, when their group or parent companies had already reported under IFRS (FSC, 2013; Lin, 2010). Nevertheless, the interviewee of Company TA5 did mention that it might well be costly for most of the SMEs to adopt IFRS for SMEs. This statement is consistent with findings of prior studies on IFRS that SMEs tend to have limited resources and find IFRS costly (Jones and Higgins, 2006; Nerudova and Bohusova, 2008). Since Taiwan's own EAS was established based on IFRS and IFRS for SMEs (Chuang, 2016), support can be found for policy makers' arguments that the introduction of EAS would help to reduce the inconsistency of financial reporting (Deloitte, 2016).

V. DISCUSSION AND CONCLUSION

To summarise, our research suggests small Taiwanese private firms found implementing IFRS for SMEs relatively costly (compared to alternatives) because it imposed higher transitional costs and required a greater exercise of judgement (Di Pietra et al., 2008). An exception would be small private companies that planned to IPO, or aimed to be purchased by other corporations. They might find IFRS for SMEs attractive because adopting this new standard had the advantage of enhancing the comparability of financial reports, thus increasing their attraction to investors (Bassemir, 2018). Different from previous literature which often shows that companies oppose IFRS for SMEs (Albu et al., 2013; Otchere and Agbeibor, 2012), our finding suggests that IFRS for SMEs can be welcomed in Taiwan, where the pressure to enter international markets is high (Siu, 2005). This finding supports the policy makers' claim that the introduction of IFRS for SMEs could help the convergence of accounting standards and assist companies in attracting funding support from investors (IASB, 2016).

Moreover, private subsidiaries or joint venture companies of public firms which report under IFRS might prefer IFRS for SMEs to Taiwanese GAAP to achieve consistency within the group. Thus, corporate groups, as contrasted to individual independent firms, can have different considerations in mind when assessing the relative benefits of financial reporting standards (Yazdifar et al., 2008). Such studies show that firm-specific characteristics (e.g., firm size, future plans regarding ownership, and membership of a corporate group) can have an important impact on how firms view accounting standards. This will further influence their accounting decisions. Such results suggest that firms may perceive some net benefits from the convergence of financial reporting, e.g., the advantages of attracting new and/or international investors, and of maintaining consistency in financial reporting within their organisations.

Several of the interviewed public companies which adopted IFRS compulsorily, had subsidiaries which could only report under Taiwanese GAAP (before the policy change in 2014) because these subsidiaries were private companies. Therefore, they had to apply two different accounting standards at the same time. Using multiple financial reporting standards imposes additional costs on these companies. From 2016 in Taiwan, private firms had to comply with EAS, a new financial reporting standard, being a hybrid of IFRS and IFRS for SMEs. The findings of our paper suggest that EAS adoption should enhance the consistency and comparability of financial reporting within corporate groups and across firms. We find that small private firms which anticipate going public or being acquired by public companies generally find EAS attractive. However, the mandatory adoption of EAS may impose a relative burden upon small private firms, which prefer to stay private and work within limited resources. For those small private firms with simple business, their financial reports will differ little between Taiwanese GAAP and EAS. If they do not plan to enter foreign markets, then mandatory EAS adoption is more likely to bring only additional costs (without additional benefits) to them. In general, introducing IFRS for SMEs or EAS seems a good policy option. Nonetheless, policy makers should pay close attention to smaller firms' disadvantages, like lack of resources and ambitions to go public.

The general implication of this paper is that allowing private firms to have clear choices (e.g., between local GAAP and IFRS for SMEs) can minimise their compliance costs, while simultaneously affording market participants with an acceptable level of comparability of financial reporting. This seems a policy prescription which is indicative of useful future actions.

While our work builds an empirical case for change in the way that new accounting standards like IFRS for SMEs are adopted (or not), and our cases are detailed, the task of extending this to larger datasets remains to be undertaken. In a sense, we have shown how different characteristics of private firms affect perceived costs and benefits of adopting IFRS for SMEs but have not shown yet how this can be generalised to the full population of firms. Further work is recommended to establish this.

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[1] The supplementary materials are available from the Strathclyde University Data Depository: https://doi.org/10.15129/fd9fbdcd-1852-4ad2-9403-23f4310ff600

[2] The interview was done in June 2014 when Taiwanese private firms could only use Taiwanese GAAP.

Table 1: Key contents of the semi-structured interview agenda and questionnaire

Panel A: questions for new accounting standards (from the semi-structured interview agenda)

1.6 Impact of emerging policy on choice
What financial reporting choices will become available to you in the future?
If you expect to change your regime, why is this so, and in what accounts will this be true?
How do you evaluate and decide upon regime change or regime status quo?

Panel B: questions for measuring adoption costs/benefits of accounting standards (from the questionnaire)

2.2.2 What is your expected **cost** of adopting the following financial reporting regime after 2015? (please circle)

IFRS	N/A	Zero	Low	Medium	High	Extreme
Taiwanese GAAP	N/A	Zero	Low	Medium	High	Extreme
IFRS for SMEs	N/A	Zero	Low	Medium	High	Extreme

Table 2: Company TH1's Perceived and Expected Costs and Benefits of Adopting Accounting Standards

Accounting Standards	Adoption Costs	Adoption Benefits	Ratio Utility (Benefits÷ Costs)	Net Utility (Benefits - Costs)
Taiwanese GAAP*	Medium (3)	Low (2)	0.67	-1
IFRS for SMEs	Extreme (5)	Low (2)	0.4	-3

Note: * denotes the expected accounting choice made by Company TH1

Table 3: Company TE3's Perceived and Expected Costs and Benefits of Adopting Accounting Standards

Accounting Standards	Adoption Costs	Adoption Benefits	Ratio Utility (Benefits ÷ Costs)	Net Utility (Benefits - Costs)
Taiwanese GAAP	Zero (1)	Low (2)	2	1
IFRS for SMEs*	Low (2)	High (4)	2	2

Note: * denotes the expected accounting choice made by Company TE3