Explaining IFRS reluctance with case study vignettes

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Abstract

Purpose

This article analyzes why listed Taiwanese firms uniquely rejected the early adoption of International Financial Reporting Standards (IFRS) in 2012. It investigates the underlying decision-making processes behind this policy reluctance to further understand the continuous phenomenon of rare voluntary IFRS adoption.

Design/methodology/approach

It reports on fieldwork evidence obtained in situ by in-depth interviewing in Mandarin. It uses qualitative methods, complemented by quantitative cost-benefit metrics of IFRS adoption. It presents five diverse illustrative case-study vignettes, using a judgment sample based on expert opinion.

Findings

While the net-benefits of implementing IFRS varied across firms, our unanimous finding was that no firms (in the sample or population) adopted IFRS early, despite stated intentions to the contrary. The key reasons for shunning early IFRS adoption were found to be frequent changes in regulations, insufficient benefits from adopting IFRS, and the undermining of comparability across companies, compounded with scarce preparation time. Further, we found that the Taiwanese accounting regulator's reluctance towards IFRS adoption, partly caused by a long-standing US influence, contributed to this anomalous outcome.

Originality

Ours is the first study to investigate the reasons behind the anomaly of no early adoption of IFRS in Taiwan, using new primary data, and illustrative case studies. Its novelty lies in extending understanding beyond the existing quantitative literature on accounting standards, using new "thick" qualitative evidence on motives for such choices, and decision-making processes, which have been neglected in previous work.

Practical implications

We recommend two critical policy changes: more realistic timelines; and less frequent regulatory changes.

Keywords: accounting regulator, case studies, decision-making, IFRS, policy feasibility, policy reluctance, stated preferences.

1. Introduction

This paper analyzes how Taiwanese listed companies responded to the option of early adoption of International Financial Reporting Standards (IFRS) in 2012. The issue is important, as not one Taiwanese-listed company adopted IFRS early. This was a unique happening worldwide. We analyze it as an example of policy adoption "reluctance", which is a well-known and studied phenomenon in other fields, e.g. Aggarwal (2009) for trade policy reluctance, Bye (2020) for security policy reluctance, Schiffino *et al.* (2009) for biomedical policy reluctance, to add to the ongoing discussion about the rare voluntary IFRS adoption (Hsu and Reid, 2021b; Pownall and Wieczynska, 2018). Since some countries that were unwilling to adopt IFRS start making efforts to adopt IFRS recently, it is important to understand how companies make decisions of IFRS adoption (Song and Trimble, 2022).

Another inspiration for this is literature like Christensen (2012), who argued that companies' adoption decisions on IFRS were not solely affected by the accounting standards per se. To

Christensen (2012), it is important to investigate further how the decisions of IFRS adoption were made, particularly regarding adoption costs. Enlarging this insight, Schipper (2010) had indicated the importance (and difficulty) of measuring both costs and benefits of accounting standards and urged more work to be undertaken in this area, involving the creation of suitable metrics of costs and benefits. Even given such metrics, it remains important to understand companies' rationales for IFRS adoption (or non-adoption). Not the least, this is because adoption incentives can have a significant impact on whether financial reporting quality will be improved after IFRS adoption (Christensen *et al.*, 2015). On a related note, in a meta-analysis of the impact of IFRS adoption (including voluntary and mandatory), Opare *et al*. (2021) point out that until now, it is very difficult to say directly whether IFRS adoption brings positive or negative impact to companies as various factors (country-level or firm-level) are involved. Other scholars too have pointed out the need to investigate the how of accounting choices, as well as the what and the why (Fields *et al.*, 2001; Stadler and Nobes, 2014). This is also noted in recent studies (Hsu and Reid, 2021b; Song and Trimble, 2022) that more discussion is needed to understand how companies make decisions of IFRS adoption (especially using a single country setting so companies are subject to the same country-level condition). Similarly, Opare *et al*. (2021) also suggest further research using a single country data. In the light of the recommendations above for extending the range and depth of such investigations, we pose our research question as: *What key factors, including adoption costs and benefits, led to not a single* *listed Taiwanese company adopting IFRS early?*

As suggested by recent studies, we use a single country setting of Taiwan. Using the case-study approach (Yin, 2018), complemented by cost-benefit metrics of IFRS adoption, this paper fills a research gap: first, by analyzing the decision-making processes of firms (Fields *et al.*, 2001; Stadler and Nobes, 2014) behind early adoption of IFRS (which is also a type of voluntary IFRS adoption) to further understand the phenomenon of rare voluntary IFRS adoption (Christensen, 2012; Hsu and Reid, 2021b; Pownall and Wieczynska, 2018); and second, by calibrating the costs and benefits of adopting IFRS (Christensen, 2012; Fields *et al.*, 2001; Reid and Smith, 2007b; Schipper, 2010; Stadler and Nobes, 2014). In doing so, this paper extends the existing financial accounting literature on IFRS, which emphasizes quantitative methods, whereas we provide a more detailed qualitative analysis, looking at broader considerations, like organizational features, decision processes, and business and regulatory attitudes.

Although IFRS is now widely adopted globally (though still unadopted in most parts of the US and Japan), the phenomenon of non-adoption or adoption reluctance still exists, due to the high adoption costs and the ongoing development of IFRS (e.g. IFRS 17 as of June 2022). Our paper, by advancing understanding of decision-making, and costs/benefits of IFRS adoption, should help policy makers in designing new accounting regulations. A recent paper on the IFRS reluctance topic by Hsu and Reid (2021b), based mainly on secondary source data, presents a case study to show how IFRS regulations result in a Taiwanese company which initially was keen to adopt IFRS early withdrawing at the last minute. However, that paper had no quantitative analysis and focused on just one (admittedly very important) firm. Our study extends the literature by: (a) using new primary source data (rather than secondary source data), obtained by fieldwork in Taiwan; (b) giving much fuller and deeper evidence on how firms make accounting decisions; (c) using five diverse case studies (rather than just one) based on the primary fieldwork data, to show how firms with different characteristics make this decision; and (d) augmenting the inputs of the above with new quantitative evidence, based on "stated preferences" over IFRS options, by personnel in our sampled firms.

Furthermore, compared with other Asian jurisdictions such as Singapore, Hong Kong, Philippines, and Korea, Taiwan is late in deciding the country-level IFRS adoption. Previous literature shows that the adoption timing would affect the costs and benefits of IFRS adoption, and hence the decision of IFRS adoption, and suggests future research to investigate the influence of IFRS adoption timing (Song and Trimble, 2022). Therefore, the IFRS early adoption in Taiwan also provides an opportunity for us to respond to this call.

The development of our paper proceeds as follows: literature, background on IFRS adoption in Taiwan, methodology, case-study vignettes, discussion of all cases, and conclusions.

2. Background Literature

2.1 IFRS

IFRS, as a modern international standard in accounting, has been widely debated (Singleton-

Green, 2015). It remains a very active research area, as testified by the two meta-analyses of adoption of IFRS by Opare *et al.* (2021) and Imhanzenobe (2022). Some researchers focus on mandatory adoption (Ahmed *et al.*, 2013). Others focus on explaining the different impacts of mandatory, compared to voluntary, IFRS adoption (Christensen *et al.*, 2007). For example, recent papers examine the impact of IFRS on misclassification practices (Bansal, 2021) and the relationship between capital structure and firm performance (Abdullah and Tursoy, 2021). However, it is not yet clear what the most important considerations of companies are, when contemplating IFRS voluntary adoption (Stadler and Nobes, 2014). Since the phenomenon of rare voluntary IFRS adoption still exists (Christensen, 2012; Hsu and Reid, 2021b; Pownall and Wieczynska, 2018), it is important to understand how companies make decisions about voluntary IFRS adoption (i.e. the goal of this paper).

Empirical evidence on the merits of early adoption is mixed (Christensen *et al.*, 2015). On the one hand, some scholars have doubted the benefits of voluntary IFRS adoption. For example, Daske (2006) indicated that early IFRS adopters in Germany failed to reap anticipated benefits, like lowering the cost of capital. By contrast, other scholars have documented clear benefits in voluntary IFRS adoption, like improving the information environment, and increasing international inward investment (Kim and Shi, 2012). Furthermore, the degree of commitment to IFRS seems to alter the consequences of IFRS adoption.

Recently, the literature on IFRS adoption has been revivified by a focus on Asian nations

(Marzuki and Wahab, 2018; Phan *et al.*, 2018). For example, recent papers emphasize IFRS adoption in Vietnam (Tran *et al.*, 2019), Korea (Kimberley and Kim, 2020), and Japan (Amano, 2020; Kashiwazaki *et al.*, 2019). The case of Japan is interesting, as historically it tended to mirror the behavior of the US, which, while influenced by IFRS, had adhered to its own US Generally Accepted Accounting Principles (GAAP). Japan emulated this until recently, by adherence to the very similar Japanese GAAP. However, of late Japan has started to converge on IFRS (Amano, 2020). In the light of this, we hope that our analysis of the wobbly passage of Taiwan to IFRS adoption, is a tale worth telling, with lessons to be learnt.

2.2 IFRS adoption in Taiwan

All Taiwanese listed companies had to adopt IFRS from January 2013 onwards (Ernst & Young, 2017). Qualified listed firms could also implement IFRS earlier, from January 2012, subject to approval by the accounting regulators (Taiwan Stock Exchange Corporation, 2012). However, none of Taiwanese listed firms chose to adopt IFRS early.

Taiwan was relatively late to contemplate mandatory IFRS adoption, compared to other Asian countries. For example, “ahead of the pack” were Singapore (in 2003), Hong Kong and the Philippines (in 2005), followed by substantial convergence in China (in 2006), South Korea (in 2011), and Malaysia (in 2012) (Daske *et al.,* 2008; Deloitte, 2013; IFRS Foundation, 2019). Important to understanding the context of Taiwan, compared to these other countries, is that, for historical reasons, going back to WW II, the US has had a crucial impact on Taiwan. Taiwan used to follow US GAAP in drafting its own local GAAP (Ernst & Young, 2009; Lu, 2009). It was a "sea change" when the Taiwanese accounting regulators recognized the ascendency of IFRS developments, from 2001 onwards, and began to converge on IFRS (Ernst & Young, 2009).

Taiwanese GAAP had been used in Taiwan since the 1980s. It had been subject to incremental development. Compared to IFRS, a principles-based standard which focuses on consolidated accounts, Taiwanese GAAP was rules-based, reflecting US standards, and emphasized individual accounts (PwC Taiwan, 2008). Literature indicates that the principles-based IFRS requires more judgment than the rules-based standards (Bennett *et al.*, 2006). This makes IFRS more time-consuming (and therefore more costly) to implement. IFRS also requires a higher level of disclosure than Taiwanese GAAP (PwC Taiwan, 2012), raising compliance costs and diminishing the appetite for adoption.

Previous literature indicates that country-level factors affecting IFRS adoption can further impact firm-level IFRS adoption. For example, Francis *et al.* (2008) indicate that firm-level, rather than country-level, factors dominate the decision of voluntary IFRS adoption in more developed countries whereas the opposite situation is observed in less developed countries. Using European firm data, Glaum *et al.* (2013) further show that the size of a country's stock market and the strength of a country's enforcement can affect firm-level compliance of IFRS 3. They also suggest that accounting traditions may affect firm-level IFRS compliance. For example, if a country's GAAP which was used before the IFRS adoption has similar regulations as IFRS, companies may find it easier to apply IFRS. Hence, the accounting traditions (which are heavily affected by US GAAP) in Taiwan and relatively late decision by Taiwanese regulators to implement mandatory IFRS adoption mentioned earlier may also influence Taiwanese companies' decision of IFRS early adoption.

By analyzing why listed Taiwanese firms uniquely rejected the early adoption of IFRS in 2012, we hope to enhance our understanding of the underlying decision-making processes behind this policy reluctance and to extend current literature on IFRS (Christensen, 2012; Hsu and Reid, 2021b; Pownall and Wieczynska, 2018).

3. Methodology and Data

In term of research paradigms in accounting (De Villiers *et al.,* 2019), we can identify three important themes in our paper. First, we adopt an objective ontology. As such, our position is that there is a reality out there "in the field", which can be objectively plumbed, by careful observation and calibration, e.g. of documentary sources and speech acts (Reid, 1987). This includes commentary by participants, like company personnel, who, we would hold, engage in this reality. Second, in terms of epistemology, we adopt an empirical approach, emphasizing grounded knowledge "in the field" of Taiwanese companies (Reid, 2015). This is augmented by authoritative knowledge (e.g. as applied to judgment sampling) exercised from industrial experts. All of this allows us to create individual business case studies, embodying personal views and concrete knowledge of company practice. Third, we adopt an axiology that locates value, or worth, in the expressed desires, and consequential actions, of human subjects (in our case, personnel within companies). These expressions of value take place within our judgment sample of firms. This involves intensive enquiry within each firm. Overall, our approach is ideographic in that we hold that we cannot truly know and understand our social environment, like the setting of a firm, without experience of it: hence our use of a fieldwork methodology that takes us right inside firm, to engage with their personnel face to face, in a working environment.

Following the above discussion on research paradigms, our research uses a case study approach, implemented by fieldwork. Five cases of Taiwanese firms are reported (coded TA, TB, TC, TD, TE). Data were collected by both semi-structured interviews and administered questionnaires, to ensure deep analysis (Houghton *et al.*, 2013). The advantage of case study work is that it provides "thick data" on individual firms, going beyond the bare bones of sparse variables like sales revenue and total assets, in econometric work (Yin, 2018). This case study method allows insights into matters like motives, strategies, and choices, which are denied to the econometrician. Though our sample is small, at five firms, it was carefully designed, by industrial experts, to display the diversity and range of firms in Taiwan. This point is bolstered by statistical work reported below.

Our qualitative analysis (Butler-Kisber, 2018) of "face to face" interview data is complemented with quantitative metrics of IFRS adoption costs and benefits, based on the "stated preference approach" espoused by previous studies (Reid and Smith, 2007a, 2007b; Schipper, 2010). Rational choice theory is used to analyze firms' decision-making in making early adoption choices (Hsu and Reid, 2021a). Rational choice theory indicates that a rational individual will make decisions using the cost and benefit analysis (Demski, 1973; Scott, 2000). This theory suggests that firms would adopt IFRS early if their perceived benefits exceeded their perceived costs (Demski, 1973; Scott, 2000). In this paper, we will analyze whether companies' decisions of IFRS early adoption are consistent with rational choice theory. Moreover, voluntary disclosure theory may further explain companies' decision to adopt IFRS early (or not). Voluntary disclosure theory suggests that voluntary disclosure is not costless, and companies' decision to disclose information voluntarily is affected by various factors, including associated costs, risk, and outsiders' knowledge (Bewley and Li, 2000; Hummel and Schlick, 2016). Like voluntary disclosure, early adoption is not costless and the decision to adopt IFRS early may be influenced by various factors, such as additional costs and risk associated with the early adoption and outsiders' (such as investors or suppliers) knowledge of IFRS. Therefore, we also apply the voluntary disclosure theory in our study.

Our fieldwork researcher was well-embedded in Taiwanese society and was able to establish good rapport in face-to-face meetings, speaking in Mandarin. This facilitated an "insider" perspective and led to great depth of understanding of motives and behavior, as reported by respondents in the field (Mack and Goretzki, 2017).

The fieldwork occurred in 2014, when Taiwanese companies did their first reports under IFRS. The respondents/interviewees were Chief Financial Officers (CFOs), or Accounting/Finance Directors within the firm. Interviews were long and detailed, lasting up to two hours. A judgment sample that was typical of the range and composition of Taiwanese firms was carefully selected after discussion with several senior Taiwanese scholars. They had intimate knowledge of accounting practices in Taiwanese businesses and were also important gatekeepers to the field, without whom access to Taiwanese firms would probably have been impossible. Five companies are discussed in this paper. Three of the sampled firms were in the IT sector, one in manufacturing and one in financial services. These three sectors (IT, manufacturing, financial) are the leading strategic ones in Taiwan (Chen, 2018; Directorate-General of Budget, Accounting and Statistics, 2019).

In terms of our sample being representative of the population of firms, we say the following. We include companies with different firm size in our sample, to ensure the breadth of our coverage. One firm (Company TE) of our sample was a medium-sized firm. It had a headcount of about 50 employees, and few assets, roughly 10k USD. Hence, Company TE is really a small and medium-sized enterprise (SME). There are many Taiwanese firms with this description, and hence it is good to have this company in the sample. In addition, Companies TA, TB, TC, TD in our sample are larger companies with an employee number ranging from about 600 to over 30k. Previous literature shows that firm size is significantly associated with IFRS adoption, and hence our sample consisting of both large companies and SMEs can help to examine whether the results vary with firm size.

A statistical test of the sample (Companies TA, TB, TC, and TD)[1] compared to its population, can be constructed in several ways, but a revealing way is to look at an efficiency/productivity measure like the ratio of sales revenue (R) to the headcount (L) (Jacobsen *et al*., 1995). That is the ratio, R/L, which shows what each employee contributes to sales of the firm. For our sample (TA, TB, TC, TD) the average turnover per employee (R/L) is 324 USD. From the population of Taiwanese firms where our sample is drawn, the 95% confidence limits on this ratio R/L are (306, 679) USD. As 306 < 324 < 679, this supports the hypothesis that our sample of four non-SMES does indeed represent well the broader population of firms. Similarly, the average total assets (1,144,080 USD) of these four companies is also within the 95% confidence limits on total assets of the population (1,030,332 to 1,982,445).

To ensure the work that we have done is sound and replicable, we have provided full instrumentation in a data depository[2], both in English and in Mandarin, which can be accessed by all readers. In that data depository, there is also a small locked sub-file with sensitive data within, undisclosed, as it could identify the identity of firms. It is lodged as a gage of good faith. We would hold that our work is replicable because the fieldwork design, instrumentation, and execution were used successfully previously in the UK to analyze IFRS related topics (Hsu and

Reid, 2021a). Based on the successful replication of the study in Taiwan, a non-Western setting that has its unique difficulties in carrying out fieldwork, we show the replicability of our tools and procedures, which could readily be adapted to other countries.

Our administered questionnaire[2] (Yin, 2018), focused on key statistics, like revenue and headcount, and stated costs and benefits of accounting standards. Respondents ranked perceived costs and benefits of adopting IFRS, using a five-point Likert scale (Hsu and Reid, 2021a). The levels of adoption costs and benefits were coded, using integers 1 to 5. The *net utilities* (e.g. benefit – cost = 4 - 1 = 3) and *ratio utilities* (e.g. benefit/cost = 4/1 = 4) of adopting IFRS were then computed. Rational choice theory suggests that managers should only adopt IFRS early if there is a positive "net" utility in doing so, which requires either a *net utility* of adopting IFRS greater than zero, or a *ratio* utility of adopting IFRS greater than unity (viz. B – C > 0 or B/C > 1), cf. Demski (1973), Scott (2000), and Reid and Smith (2007a, 2007b). Other factors such as associated risk and outsiders' knowledge of IFRS may also influence companies' decision to adopt IFRS early, as suggested by voluntary disclosure theory (Bewley and Li, 2000; Hummel and Schlick, 2016). In addition to firm-level factors, country-level factors may also help to explain companies' decision-making of IFRS early adoption (Francis *et al.*, 2008; Glaum *et al.*, 2013) in our case studies.

The agenda of semi-structured interviews, designed to further investigate the decision-making processes of companies, had three parts: choice of financial reporting standards; choice of financial reporting techniques; and the relations between choices and their rationale.

4. Case Study Vignettes

This section analyzes five case studies, which take the form of vignettes, classically defined by Finch (1987) as being "reflective of real actions that respondents take, predicated on their own evaluation at the time of the fittingness of such actions", and as recently used and analyzed in a small business context by Sellitto *et al.* (2016) They demonstrate diverse attitudes which respondents had towards IFRS adoption. Key attributes of all case studies are summarized in Table I.

[Insert Table I about here]

4.1 Companies TA and TB: averse to adopt early

First, we consider two Taiwanese firms, Company TA and Company TB, which both had negative net utilities (B – C < 0) of IFRS adoption.

4.1.1 Company TA

Company TA was a large, listed technology-based firm, which was founded in the late 1970s. Its specialization was in developing new solutions for raising the efficiency of computers and switching hubs. Most of its costs (51%) were incurred in Taiwan, and the rest in China (48%). Its markets were very diverse. Company TA was the ultimate parent company. To satisfy public accountability, it required IFRS adoption for both its consolidated and parent individual accounts, from 2013 onwards. It had been given the option to adopt IFRS earlier, in 2012, but rejected this opportunity.

The respondent (the Financial/Accounting Manager) in Company TA said that the possible benefits of early adoption of IFRS were carefully evaluated at that time, backed up by decision support from external consultants. The respondent added that “we sent questionnaires to all subsidiaries to see the difference [in financial reporting results] between Taiwanese GAAP and IFRS.” In the light of this enquiry, the respondent reported that “there was no obvious benefit [of adopting IFRS earlier].” Consistent with Company TA not choosing to adopt IFRS early, its perceived net benefit from adoption, by the metric (B-C), was *negative*. This was rationalized by the interviewee saying that “IFRS was a new standard, it took time to understand IFRS. However, the time was limited.” This result is consistent with that of Song and Trimble (2022), suggesting that the timing could be a factor which influences the IFRS adoption decision. All of this contributed to early adoption being unlikely. This respondent further stated that “we were under time pressure when making this decision [i.e. to adopt IFRS early or not] because in the beginning we were not sure what disclosure level the [accounting] regulator wanted.” This statement suggests that improved communications regarding regulations would be helpful in encouraging companies to adopt a new standard.

The respondent of Company TA stated that “It is neither necessary nor beneficial for us to adopt IFRS earlier as we do not have investment properties or DRs.[3]” This respondent further explained that firms which issued DRs, or had investment properties, tended to find adopting IFRS beneficial, and indeed were willing to be early adopters. This reflected the general view of practitioners. Issuing DRs is a common way for Taiwanese companies to obtain international capital (MRI, 2008). For them, if DRs were issued in the US or the UK, they would have to use IFRS not Taiwanese GAAP. Thus, early adopters of IFRS were enabled to prepare just one type of financial report (rather that both IFRS and Taiwanese GAAP) (MRI, 2008). The significant costs of preparing financial reports were thereby diminished.

There was also the further perceived advantage that IFRS allows companies to value "investments properties" using the fair value approach. Since the alternative cost approach under Taiwanese GAAP differs greatly from the fair value approach, some firms might enjoy the advantage of using fair value to report higher net asset levels, possibly boosting stock prices, hence favoring reporting under IFRS from 2012 (Rodríguez-Pérez *et al.*, 2011). The results are consistent with those of Hsu and Reid (2021b) that investment properties are a crucial factor which would influence companies' decision of IFRS adoption. As Company TA did not issue DRs and did not have investment properties either, it did not have consequential prospective benefit from using IFRS, so decided against adopting it early. This case suggests that a firm's accounting choices are associated with its specific institutional characteristics, like its extent of engagement in foreign capital markets, and its disposition of investments.

In considering adoption costs, the respondent of Company TA stated that "We have used Taiwanese GAAP and the [accounting information] system [which was consistent with Taiwanese GAAP] for a long time. If we switch to IFRS, we must revise the system, particularly regarding functional currency [as outlined in IAS21]." This suggests that the cost of changing accounting information system is one of the main costs of adopting IFRS.

This respondent added "The regulations of Taiwanese GAAP are clear, and management needs to make more decisions under IFRS." Thus, Company TA was taking the view that Taiwanese GAAP had the merit of being a straightforward standard, with a clear, indicative listing of how firms should handle the details of financial reporting. However, the interviewee of Company TA also mentioned the advantage that "IFRS is more flexible." This suggests that whilst the implementation of IFRS requires more judgment, arguably takes more time, and imposes higher costs, it has the comparative advantage of being a flexible standard (Ball, 2006). Moreover, the interviewee of Company TA said that "there are more things to do under IFRS, such as liability reserves and warranty provisions." This is because IFRS requires the estimation of liability reserves and warranty provisions (as outlined in IAS37), whereas such estimation is either not required, or is simpler to use, under Taiwanese GAAP. Thus, using IFRS entails additional costs of *evaluation* like the allocation of time and effort.

The qualitative analysis of the previous paragraphs is backed up by the quantitative metric of Company TA's stated preferences. Its respondent ranked the IFRS adoption costs and benefits as high (4) and low (2), respectively. Thus, for Company TA, IFRS adoption led to a negative net utility (B - C) of -2 and a ratio utility (B/C = 0.5) less than unity. Hence, Company TA perceived adopting IFRS was *unbeneficial*, under either preference criterion. In accord with this, Company TA did not want to adopt IFRS early from 2012.

In interview, the respondent of Company TA reported that they did weigh costs against benefits when making decisions about which financial reporting standard to choose; although they conceded that significant changes in financial reporting standards, such as the transition from Taiwanese GAAP to IFRS, were uncommon. The measurements underpinning decisions on standards were said to be based on a combination of previous experiences and further calculations of costs and benefits (e.g. in terms of "opportunity cost" as measured by time allocated to specific tasks within the company). Overall, the result of Company TA is consistent with rational choice theory that a rational individual's decision is based on cost-benefit analysis (Demski, 1973; Scott, 2000).

4.1.2 Company TB

Company TB was another Taiwanese listed firm which perceived a negative net utility of adopting IFRS. Company TB was a large firm of about 1,500 employees, which designed and produced computer chips. Founded in the 1990s, it was a research-intensive company whose R&D/sales ratio was somewhat greater than 10%. All its sales were made in Asian markets, and they were distributed widely (33% in Taiwan, 46% in China, 21% in other Asian markets). Being based in Taiwan, most of its costs (80%) were incurred in Taiwan.

When asked about the option to adopt IFRS early (from 2012), the respondent (the Financial Manager) of Company TB said that they perceived no benefit in early adoption. The respondent explained that "we do not issue global DRs, so we would not have the benefit of using the same financial reporting standard as firms in other countries [through adopting IFRS early]" (DeFond *et al.*, 2011; MRI, 2008). A similar opinion was expressed by the respondent of Company TA (cf. Section 4.1.1). Elaborating further, the respondent of Company TB said that "if we wanted to adopt IFRS early, we would have to apply [to do so]". Further, the respondent stated that "this [the application for early adoption] will compress the time for the conversion process." In a similar way to Company TA, Company TB also found that there was little time available to adopt IFRS early. The respondent of Company TB also indicated that "there is not much difference in the adoption timing [between normal and early adoption]." The respondent explained that since early adoption had only a one-year advantage, operationally it would not make a big difference to go for normal adoption from 2013. Further, the respondent pointed out that "It [early adoption] is not with the majority." As most companies were not going to adopt IFRS early, a perceived disadvantage is to be "out of line" with others. This respondent explained that if Company TB chose to adopt IFRS early, its basis of financial reporting would differ from competitors, which might confuse the readers of financial reports (De Franco *et al.*, 2011), including – crucially - potential investors in the firm. Considering all the drawbacks mapped out above, Company TB decided not to adopt IFRS early.

The respondent of Company TB confirmed the qualitative analysis of the previous paragraph, saying that their company did consider explicitly the costs and benefits when choosing accounting standards. This respondent pointed out that their company used a combination of business experience and explicit calculation to mediate the perceived costs and benefits of adopting IFRS, including early adoption. In terms of stated preferences, this respondent rated IFRS adoption as having a medium (3) cost but a low (2) benefit. For Taiwanese GAAP (the standard their firm had adopted before compulsory IFRS adoption) the respondent of Company TB said that their stated preferences were that this choice had both a low cost (2) and a low benefit (2) (i.e. it had a ratio utility of unity, and a net utility of zero). Comparing choices of Taiwanese GAAP vs. IFRS, this respondent evaluated adoption benefits in each case to be low (2). Nonetheless, the perceived adoption costs (3) of IFRS were higher than Taiwanese GAAP costs (2). In this situation, the stated preference of Company TB would be *not* to adopt IFRS, which yielded lesser net utility (viz. B – C = -1 compared to 0) and lower ratio utility (viz. B/C = 0.67 compared to 1) than Taiwanese GAAP. Therefore, overall, it is understandable that Company TB decided against early adoption of IFRS. The stated preference evidence is clear on this and the results are consistent with rational choice theory. The qualitative analysis buttresses this conclusion with two points: (1) that early adoption imposes a further burden - of shorter preparation time; and (2) that early adoption compromises the comparability of financial reports. The findings from the qualitative analysis are in accord with voluntary choice theory (Bewley and Li, 2000; Hummel and Schlick, 2016) that Company TB's decision of IFRS early adoption was affected by various factors, such as additional cost to do so and whether the users of financial reports are able to understand IFRS, in addition to the costs and benefits of adopting IFRS. Both qualitative and quantitative analysis jointly support the clear conclusion that Company TB should reject early adoption of IFRS, which indeed it did.

4.2 Companies TC and TD: equivocal to adopting IFRS early

We now discuss further two Taiwanese firms (TC and TD) with zero net utilities (B - C = 0) of adopting IFRS, implying ratio utilities of B/C = 1. Scores such as this are equivocal, in that the metric alone does not give a clear-cut guide to the decision made. We therefore need to explore whether firms with equivocal attitudes towards IFRS adoption are different from firms with clear unequivocal decisions.

4.2.1 Company TC

Company TC was a large manufacturer, with more than 30,000 employees, producing components of computers and other consumer electronic devices. It was founded in the 2000s. More than three quarters of its sales and costs were incurred in PR China; and around 10% of sales and costs were generated in Taiwan. Regarding ownership stakes, institutional investors held 50% of the shares, and insiders held about 40%.

Since Company TC was a listed firm, it was obliged to adopt IFRS from 2013 onwards. It could also choose to adopt IFRS early in 2012, but it chose not to. Its respondents (the Controller, and the Accounting Director) explained that "we preferred continuing to use Taiwanese GAAP if we could." They said the company had used Taiwanese GAAP for a long time. Hence, key investors were habituated to reading financial results reported under Taiwanese GAAP, and their lack of familiarity with IFRS could impede continued investment. Consistent with previous literature (Francis *et al.*, 2008; Glaum *et al.*, 2013), this result suggests that accounting traditions, at the country-level, can heavily affect the firm-level IFRS adoption. Our respondents in Company TC argued that another motive for sticking with Taiwanese GAAP was that it was simpler to calculate financial ratios under this standard. They explained that "the format of financial statements was different under IFRS, and it is difficult to calculate financial ratios."

In recounting their approach to early adoption or not, the respondents of Company TC reported evaluating the adoption costs and benefits through subjective judgment. Their stated preferences of costs and benefits of early IFRS adoption were ranked as medium (B = C = 3). They indicated that the major costs of using IFRS were "transition costs." They explained that "there are more things to do [during the transition period] but the number of employees, and salaries, are unchanged. So just the first year will be harder." After the transition period, according to them, the adoption costs of IFRS and of Taiwanese GAAP would be similar. They added that "the company is big, so the cost after allocation [i.e. the cost allocated to each division] will be quite low." However, they also said that "so far, we do not see the benefit of using IFRS." Thus, overall, the stated adoption costs and benefits of Company TC suggested no obvious incentive for adopting IFRS. Furthermore, our respondents indicated that if Company TC had wanted to adopt IFRS earlier, it would have had to provide comparison reporting, involving both IFRS and Taiwanese GAAP. They argued that this was too burdensome for Company TC, imposing additional work and thus additional costs, and making early adoption even less attractive. Not surprisingly, Company TC decided not to adopt IFRS early.

Like Company TA and Company TB (considered in Sections 4.1.1 and 4.1.2 above), Company TC did not see the benefits of using IFRS. However, refining their remarks, the respondents of Company TC conceded that long-term benefits were possible. They said that "Suppose we used IFRS. When we started to trade abroad and issue DRs, we would not need to switch to IFRS again, unlike [the situation when] using Taiwanese GAAP [as we have already complied with IFRS]. It may be convenient for attracting investors" (DeFond *et al.*, 2011; MRI, 2008). Company TC was in a different position from Companies TA and TB, which did not expect to issue global DRs. This potential long-term benefit might explain why Company TC perceived a relatively greater net utility from adopting IFRS, namely B - C = 0, compared to Company

TA and Company TB (viz. B - C < 0). These findings suggest that a company's targeted capital markets have a bearing on its attitude to accounting standards.

Interview findings for Company TC suggested a *status quo* of no perceived net benefit in changing standards (Messier *et al.*, 2014), this being consistent with stated preference evidence (viz. B – C = 0 and B/C = 1). Hence qualitative and quantitative evidence agrees.

4.2.2 Company TD

Company TD, a Taiwanese bank, exemplified the case of zero net utility of adopting IFRS. It was a large, listed company, with around 7,000 employees and most (90%) sales in Taiwan. Around half of its equity was held by foreign owners. Differing from other sampled firms which perceived negative net utilities, Company TD perceived larger gross benefits of using IFRS.

The respondent (the Controller) of Company TD said their company did not adopt IFRS early because there was insufficient time. This respondent added that "it takes time to reallocate resources [within the firm] and train personnel [to deal with the transition]." The respondent also mentioned that "actually it [viz. early adoption] is just one year earlier." This suggests that early adoption bestowed only a small time-line advantage. Furthermore, the respondent suggested that incentives for early adoption of IFRS were not strong, adding that "there were some controversies regarding the applicability of EU-IFRS at that time." An example was the treatment of preferential deposit interest rates for bank employees, when calculating pensions.

The respondent argued that the accounting regulators in Taiwan were still trying to resolve reporting issues, across several industrial sectors.

Even so, as with Company TC, the respondent of Company TD did perceive gross benefits in adopting IFRS. This respondent stated that "The proportion of our shares held by overseas investors is high. So [through] using IFRS, we can enhance the transparency [of financial reporting]." This statement is consistent with findings of prior research (Singleton-Green, 2015). Adopting IFRS can also help overseas investors to understand better the performance of Company TD, because IFRS is commonly adopted in global markets (DeFond *et al.*, 2011).

These results suggest that firms with zero net utilities of adopting IFRS still tend to have positive perceived benefits, while firms with negative net utilities often did not recognize any adoption benefits at all. The advantage of using stated preferences to enquire into such variations in "tastes" (here, over financial reporting standards) is that it helps to capture summarily companies' preferences towards accounting standards. Regarding the metric for stated preferences, the respondent of Company TD rated both the adoption costs and benefits of IFRS as high (i.e. C = B = 4). This respondent reported basing their assignment of costs and benefits on "judgment based on experience." As in the case of Company TC, the controller of Company TD felt that the costs and benefits from using IFRS, in the post-transition period, were like those pertaining to Taiwanese GAAP. To this respondent, the main costs of adopting IFRS were the transition costs, including costs incurred in acquiring advice from accountants who were knowledgeable in this field. The adopting of IFRS itself generated a net utility of zero (B – C = 4 – 4 = 0), so a business like theirs had little incentive for early adoption of IFRS, especially given the short window of time for adoption, and the uncertainties of the new regulations. The detailed narrative of choice and the summarizing stated preferences suggest the same outcome. The results of Company TD are generally consistent with rational choice theory and voluntary disclosure theory.

4.3 Company TE: positive on adopting IFRS early

This section looks at Company TE, a listed firm which had a positive net utility (B – C > 0) of adopting IFRS. Company TE was a medium-sized IT firm, launched in the early 2000s. Its principal activity was providing online community platforms, and it had just over 50 employees. It focused on the national market, and 95% of its sales and costs were incurred in Taiwan.

In interview, the respondent (the CFO) of Company TE explained how their firm confronted the choice of early adoption of IFRS. The respondent said that prior to the decision eventually taken by company TE (viz. not to adopt IFRS) there were detailed discussions with their accountants. The respondent stated that “The types of our business activities are very few.” Since the business characteristics of the company were quite simple, there would be little operational difference between implementing IFRS or Taiwanese GAAP. Furthermore, the respondent said that “we used to apply Taiwanese GAAP, so we are used to it.” The respondent added that “we do not feel the switch to IFRS will bring benefits.” This meant they were content to continue reporting under Taiwanese GAAP, in the absence of evidence of sufficient benefit from changing to IFRS. Our fieldwork findings help to explain why the *status quo* was an attractive option for Company TE (Messier *et al.*, 2014). To augment the above explanation, the respondent of Company TE also mentioned that they were influenced by the fact that there were very few companies [4] in Taiwan which adopted IFRS early, from 2012. This suggests, as in the case of Company TB too, that firms are partly motivated in their choices by comparisons with what other firms are doing – especially in their own industry (De Franco *et al.*, 2011). The results of Company TE, showing that various factors affect the company's early adoption decision, are in accord with voluntary disclosure theory.

Surprisingly, the respondent of Company TE ranked the adoption costs and benefits of IFRS as low (2) and high (4), respectively. These stated preferences imply a positive net utility ($B – C = 2 > 0$) and a ratio utility greater than one ($B/C = 2 > 1$), both of which suggest a decision to adopt IFRS. The respondent explained that high adoption benefits of IFRS arose because of perceived advantages arising from attracting investors. To this way of thinking, even if adoption costs of IFRS were higher than those of Taiwanese GAAP, adopting IFRS had the advantage of "going with the trend." This respondent emphasized the importance of using the same accounting standard as others if the company wished to attract more investors. Compared to companies with negative net utilities ($B – C < 0$) of adopting IFRS (e.g. Companies TA and TB), overall Company TE perceived much higher benefits and incentives for adoption.

The above evidence of positive opinions on mandatory IFRS adoption from 2013, backed by positive net utilities, contrasts with the negative opinion that Company TE held about *early* adoption of IFRS. This outcome shows how a company's attitude can change over time. The reasons for this may be various, but often boil down to very natural changes in the operational planning of a firm over time, as Company TE has illustrated. During the interview, the respondent of Company TE indicated that the company had been an individual (stand-alone) firm before the first quarter of 2013. However, from the second quarter of 2013, it had started to report consolidated accounts, after it had established a subsidiary in Hong Kong. Moreover, Company TE had recently set up a joint venture with a foreign company. The evidence above suggests that companies based in Taiwan which were starting to expand and seeking overseas markets may have behaved differently from firms which simply sought a sustainable business presence within Taiwan. For expanding firms, which aspire to significant overseas presence, adopting IFRS may offer more benefit, especially if it increases their attraction to foreign investors (DeFond *et al.*, 2011). This line of reasoning seems to explain why Company TE did not perceive net benefits in early adoption of IFRS before 2012 yet did perceive subsequent high adoption benefits (e.g. from the second quarter of 2013).

5. Discussion of All Cases

This section summarizes the key factors affecting both: (1) the IFRS adoption costs and benefits which were expressed by respondents in interviewed firms; and (2) the decision-making in the early adoption choice. The results from all cases are summarized in Table II.

[Insert Table II about here]

These results encapsulate the case for supporting the goal of our research, as expressed in Section 1, namely to identify those key factors, including adoption costs and benefits, which resulted in not a single listed Taiwanese company adopting IFRS early.

5.1 Factors affecting adoption costs and benefits

Our fieldwork suggests that the factors influencing firms' attitudes towards a specific accounting standard, like IFRS, include the attractiveness of the firm to investors (see cells TC/CB, TD/CB, and TE/CB in Table II), and the operational planning of companies (see cell TE/CB in Table II). It also reveals how the overseas trading ambitions of firms, and their structuring of investments, have important effects on their adoption costs and benefits of IFRS. Specifically, our case studies show how firms can find IFRS adoption attractive, when they expect to gain benefits from re-valuing their investment properties at fair value (see cell TA/CB in Table II). The emphasis of respondents on foreign markets and investors may be because obtaining international capital is strategically important at the micro-economic level for companies in Taiwan, and for its economy at the aggregate level (Lu, 2009).

5.2 Decision-making in the early adoption choice

Summarizing on decision-making processes, our cases show that in determining whether to adopt IFRS early, the sampled firms emphasized: (1) adoption costs and benefits, (2) comparability across firms, (3) preparation time, (4) the time difference between early adoption and normal adoption, and (5) the relevant accounting regulations.

While our sampled firms were diverse in both incentives and stated preferences for adopting IFRS, all chose not to adopt early. Apparently, only large potential benefits would allow early IFRS adoption from 2012 to be considered. Even then, a cocktail of implementation costs or uncertainties would threaten to overwhelm companies. In addition to the reasons above, the unusual situation, that no single Taiwanese listed company adopted IFRS early, may have resulted partially from the late decision made on IFRS adoption by the Taiwanese accounting regulators (Lu, 2009). This is a country-level factor which then substantially affects sampled firms' decision of IFRS early adoption. Specifically, the Taiwanese regulators hesitated about fully adopting IFRS because Taiwan had previously followed US GAAP (Ernst & Young, 2009; Lu, 2009). By 2007/2008, when US regulators had started to permit certain companies (e.g. foreign companies) to use IFRS, and when IFRS was more widely adopted, the Taiwanese regulators decided to adopt IFRS fully. By then, most Asian countries had already adopted IFRS or had fully prepared for its adoption (Daske *et al.*, 2008; Lu, 2009). This imposed acute time pressure on regulators to settle the new financial reporting framework, and eroded companies' precious preparation time. Our case studies show many regulations had not been clarified or finalized in a timely way, even by the middle of 2011. Early (and mandatory) adoption started from 2012 (2013), so these high uncertainties surrounding new regulations made early adoption extremely risky.

6. Conclusion

This paper investigates the unique happening that not one Taiwanese-listed company adopted IFRS early in 2012. Our case-studies, based on detailed fieldwork, help to reveal firms' actual decision-making processes, and how their perceived costs and benefits influenced early adoption choices. Such evidence is impossible to obtain, other than by the methods of our reported fieldwork. Thus, our paper fills a research gap (Christensen, 2012; Fields *et al.*, 2001; Schipper, 2010; Stadler and Nobes, 2014). It also adds to the existing IFRS literature, going beyond what quantitative analysis, on secondary data alone, has hitherto achieved.

Our findings are threefold. First, perceived adoption costs and benefits of IFRS significantly affected the decision to adopt IFRS early (or not). They were weighed in the balance by factors like the attractiveness to investors, operational planning, re-valuing of investment properties, and overseas trading. Second, decision-making was rational. It used sophisticated decision processes and took account of key elements like comparability across firms, preparation-time, feasibility of execution, and the time-difference between early and normal adoption. Third, the absence of early IFRS adoption in Taiwan had multiple reasons. Most obviously these were: Taiwanese GAAP being heavily influenced by US GAAP, frequent regulatory changes, poor anticipation of the resources and time required to implement a new standard. These circumstances are at the country-level and mainly result from the Taiwanese regulators' late decision on mandatory IFRS adoption which then heavily affects companies' decision of IFRS early adoption. More subtle effects included fears of non-comparability of financial reports, and the additional costs that applying for early adoption incurred.

From a practitioner viewpoint, our work aims to achieve a better understanding of the phenomenon of "policy reluctance" towards early adoption of IFRS in Taiwan. This could help to allay future delays in the implementation of emerging new features of this standard. Whilst IFRS is now widely adopted, the phenomenon of non-adoption, or adoption reluctance, has not disappeared, due to the high adoption costs and the ongoing development of IFRS (e.g. IFRS 17, on insurance contracts, as of June 2022). Recently, some countries that initially reject IFRS start making efforts to adopt IFRS (Song and Trimble, 2022). Thus, one hopes that accounting regulators may get insights from our paper into, for example, the appropriate design of standards, and the realism of their implementation (e.g. a better adoption timing as suggested by our findings in order to encourage IFRS early adoption). Furthermore, our results consistent with those in Hsu and Reid (2021b) show that investment properties are an important consideration in IFRS adoption decisions, and suggest that regulators who wish to further promote IFRS adoption may do so by carefully design the regulations related to investment properties.

This paper uses a small sample of Taiwanese firms and conduct case studies. Like other studies using case studies with a small sample size, our study may still suffer from certain limitations that it is difficult to duplicate our study and the generalization of results may be limited (Yin, 2018). Given the sensitivity of accounting decisions and information and the difficulty to obtain interview data from companies on these issues, our sample helps to provide valuable insights. To further understand how companies make decisions related to IFRS adoption and hence to further understand the ongoing phenomenon of rare voluntary IFRS adoption (Hsu and Reid, 2021b; Pownall and Wieczynska, 2018), future studies on this topic (e.g. using a different sample of Taiwanese firms or using fieldwork data from other countries with different institutional setting and accounting traditions) are suggested.

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[1] Please note that Company TE was not included here because it was relatively small among Taiwanese listed companies.

[2] Supplementary materials for the complete questionnaire and interview agenda were provided, and are available from the Strathclyde University Data Depository (https://doi.org/10.15129/fd9fbdcd-1852-4ad2-9403-23f4310ff600).

[3] A Depositary Receipt (DR) is a potentially tradable financial instrument involving a bank holding a proportion of companies' shares and allowing companies to trade in foreign markets.

[4] Eventually, there were no early adopters in Taiwan, although - initially - there were some companies keen to adopt IFRS early.

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