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The impact of IFRS adoption in a pocket multinational company

The case of Brovedani Group SPA

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Abstract

Due to globalization, international accounting is becoming increasingly important. Even a company, operating within the borders of its own country, is no longer isolated from the international accounting context. In the last three decades, a demand for a unique, well-recognized and high-quality international accounting framework has risen attention in order to overcome accounting differences originated by national accounts. After having understood that the environment is one of the main causes of these modifications, it is possible to classify the accounting systems. International Financial Reporting Standards (IFRS), developed and maintained by the International Accounting Standards Board, is the most famous and used set of rules and practices. Harmonization is the process of diminishing superfluous or contradictory standards. Obviously, the adoption of IFRS has both beneficial and detrimental effects: academia does not provide a clear answer. The concepts analysed in the first theoretical part are illustrated in an Italian medium firm called Brovedani SPA. A semi-structured interview and a simulation helped to access practically the impact of IFRS adoption, from the cultural point of view to the genuine accounting effects.

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Introduction

Accounting has gradually evolved with man. The Romans had developed very sophisticated forms of accounting in simple entry in order to calculate for example the profits of the farms. In the Middle Ages, especially in Italy, balance sheets were created in order to keep track of the assets. Furthermore, double-entry bookkeeping systems were invented: precursors of accounting were Fibonacci, Cotrugli, Fra Luca Pacioli, Crippa, Villa and Cerboni. In the seventeenth century, the first public subscription of equity capital took place in the Netherlands. In the nineteenth century, the audit profession was developed in England. Many countries contributed to the development of accounting: Germany, Scotland, Italy and France. The latter, during the period of Colbert, has pioneered the legal control of accounting practices, then including an obligation to draft financial statements for many industrial activities. During the twentieth century, the United States have given rise to consolidation, analytical and managerial accounting, leases' capitalization and deferred taxes' accounting. The evolution and the increasing globalization of financial markets in the last thirty years have led many countries, including the European Union and its member states to open discussions, converted subsequently into laws, about common international financial reporting standards. The process was done in order to ensure an increasing comparability of the companies' balance sheets as well as an efficient functioning of the capital markets. New regulations for listed companies have been provided. The accounting system that actually seems to prevail in the world scenario is called International Financial Reporting Standards: high-quality accounting standards provide transparency and comparability between financial statements in order to facilitate decision-making for operators in the capital markets. The Inter-Agency Standing Committee, later replaced by the International Standard Board, has now become the creator and the main promoting entity of IAS/IFRS. Since the late eighties, it has undertaken a process of negotiation with the main regulators of stock markets. In the EU, a lot of companies have set financial statements in conformity to IFRS. Despite the differences between countries, some organizations have been trying to harmonize (with a supranational legislation enacted in the EU) and to standardize (with IASB) the accounting practices. So as to interpret the impact that the adoption of international accounting standards led to the financial statements of European and Italian companies, it is necessary to emphasize the sources, the stages of their

application in Europe, the entities behind this accounting framework, the benefits and limitations highlighted in the literature. A combination of economic, historical, institutional and cultural factors originates every national accounting framework: the differences recorded in company accounting are mainly due to a variation in reporting requirements and in dissimilar rules. Environmental differences are, therefore, one of the main limitations of IFRS adoption: there have been anyway some moves to harmonize and converge accounting practices globally. Theoretical and empirical research have discovered the potential advantages and disadvantages faced by nations when they decide voluntary or not to adopt IFRS. By implementing them, firms can surely face a larger basis of investors due to the increased comparability reached. Additionally, multinational companies are helped because they can speak only one, well-recognized and high-value accounting language. Could, therefore, this framework truly overcome national accounting approaches? It seems that many researchers underestimate the limitations, the obstacles that a massive adoption of these new standards could provoke: a certain level of quality could be lost with a full acceptance of IFRS. Big multinational companies with strong ties in the international market of capitals and a solid culture closer to the Anglo-Saxon world are the target of this framework: an Italian economic environment, dominated by small and medium enterprises, civil law and historical costs is clearly very far. Thus, adopting a new set of accounting standards is not easy, due to the overcoming convergence and enforcement costs. In order to shed light the theoretical concepts, a case analysis has been done. The chosen target has been an Italian medium firm called Brovedani Group SPA. It lies in the north-east of Italy and it has become a pocket multinational company. It operates in the automotive sector and it has opened factories in Italy, Slovakia and Mexico. The impact of a possible IFRS adoption has been measured through a semi-structured questionnaire and an accounting simulation study linked to intangible assets. The methods have highlighted a reality very far from the one where IFRS were born, resistant to change due to strong environmental differences.

1 International accounting

Accounting is a vital framework for the daily society's preservation: the main role could be outlined as an information supplier for companies and their transactions in order to simplify their activities and the resource allocation assessments by their stakeholders. The consistency and effectiveness of the information disclosed by different lobby groups are positively associated with the resource allocations' efficacy. The function of international accounting, therefore, does not differ from the one just enlightened. The difference is located in the focus of its lenses. National accounting usually emphases on entities working inside national borders while international accounting deals with firms, connections and operations exceeding national borders, laws and accounting frameworks. Firms functioning in this background are named multinational companies (MNCs). They have to deal with more environment difficulties due to the obligation of reporting and adhering to different accounting standards and principles, dealing with different cultures and languages and following different laws and obligations.

The meaning of accounting could be depicted as a tool to measure, to disclose information and to audit. The first process could be summarized in the documentation, classification and quantification of the economic activities accomplished by the target firm. At first glance, stakeholders, due to accounting, could understand deeply how the firm's processes are cost-effective and the condition of the assets, liabilities, and equity, as reflected in its financial results. The second accounting function is related both on the information linked to the target stakeholders and on the way, it is displayed, managing to respond the w-questions: what, when, how much and to whom has to be reported. The third process, namely auditing, is an almost compulsory function in every accounting law. Financial statements become object of investigation and assessment by professionals which investigate if the records displayed denote impartiality and precision of the transactions and, more generally, the situation of the firm. Normally, auditing is done both internally by employees, responding to the management and the property, and externally by outside firms, responding to the law and its national standards and principles. Moreover, the auditors could attest the reliability of the communication, too.

Due to globalization, international accounting is gaining always more importance: even a firm functioning uniquely within the boundaries of its own country is no longer isolated. Suppliers and clients are usually international in order to contain costs and remain globally competitive. Anyway, accounting quantities may differ considerably according to the national GAAP used. Furthermore, differences are triggered by variations in culture, business practices, political and regulatory structures, legal systems, currency values, local inflation rates, business risks and tax codes: all of these variable influences multinational companies and how they conduct their activities. Since accounting has become the means of business, supranational economic connections denote that accounting reports prepared in one country must increasingly be used and understood by users of the others (CHOI MEEK, 2011, pp. 1-2).

Accounting can be appreciated as an institution, too. This term stands for an entity allowing less transaction information and coordination costs, less information asymmetry, more property rights enforcement and protection, more deadweight loss prevention and internalization of externalities. Therefore, accounting is also an institutional mechanism that mediates between firms and other contracting parties while facilitates more complex transactions in the global economy, a value facilitator in one word (WYSOCKI, 2011, pp. 311-312).

International accounting could be also interpreted as a framework created in order to describe and compare accounting in different countries. Obviously, the firms' connections are originated in a broad range of areas as finance, management, audit and taxation. In this paper, the focus is primarily on external financial reporting which can be depicted as:

- supranational accounting,
- company standards and guidelines,
- comparative accounting.

The first level deals with standards' compliance, guidelines and rules issued by supranational organizations. The goal is to create a universal accounting system shared and used by all countries in the world. The second level refers to all accounting transactions linked to foreign subsidiaries and parent companies, foreign investments and foreign currency. The third level describes rules, guidelines and standards existing

in different countries, created in order to compare and evaluate different national and supranational accounting frameworks (MCLEAY RICCABONI, 2012, pp. 343-344).
To conclude, the goal of international accounting systems is to provide an environment where similar accounting transactions are managed by companies all over the world in the same way, increasing consequently the comparability, the efficacy and the value-relevance of financial statements (JENO, 2010, pp. 1-2).

1.1 Accounting diversity and environmental influences

Every national accounting framework is originated by a composite interplay of economic, historical, institutional, and cultural factors: diversity among national generally accepted accounting principles (GAAPs) is, therefore, predictable. A variation in accounting requirements can result in significant differences being recorded in company accounting when they are required to report under the rules of different jurisdictions. Moreover, factors, leading these differences, are also recognized to be the needs for accounting information.
While there have been some moves to harmonize, and converge accounting practices and standards globally, there are still environmental factors which are likely to lead to diversity around the world. They are mainly country-specific, namely linked to the environment in which financial reporting is applied. In the last years, the aim of some researches and supranational organizations has been to harmonize this differences, trying to foster a unique framework.
In the literature, environment has played a major role in determining the causes of this differentiation. Environmental factors could be divided in:

- political system,
- economic system,
- legal and taxation system,
- business environment,
- professional environment,
- cultural environment,
- educational and international environment.

Figure 1: ENVIRONMENTAL INFLUENCES ON ACCOUNTING
Source: ALIA BRANSON, 2011, pp. 1-3

1.1.1 Economic environment

The economic environment impacts accounting diversity through the compulsory financial reporting frameworks' information. Therefore, the factors to be taken into consideration are the level of privatization and international trade, the economic openness, the stage of economic development and the inflation. The extent of the private sector is fundamental to access the state of health of the competitive scheme of a nation. More privatization demands more financial information to be disclosed publicly by the firms. In an open economy, firms compete to attract foreign investors: it is, therefore, required a proper financial reporting framework which guarantees the quality and the comparability of financial statements. The stage of economic development is a crucial factor because the more an economy is developed, the more capitals are needed, the more financial information is demanded. Furthermore, this factor influences which and how business transactions are managed and, therefore, the most prevalent ones (ALIA BRANSON, 2011, pp. 3-5).

To conclude, inflation deforms historical cost accounting by devaluing asset values, linked expenses, and exaggerating the income.

1.1.2 Political environment

The representatives of a country influence, with their choices, behaviours and interventions, the financial reporting framework and how the economic relations have to be managed. As a matter of fact, all developed countries have similar political environments: high levels of stability, freedom, democracy and accountability. Moreover, factors that are believed to be crucial to shape indirectly the national GAAPs are the political structure adopted by the country, the level of political and civil freedom, the political participation and the level of democracy (ALIA BRANSON, 2011, pp. 3-5).
Accounting concepts and know-hows are, therefore, transmitted through occupation, trade and similar connections. Many developing economies have adopted an accounting system that was created elsewhere, either because it was required by external forces (e.g., India) or by their own choice (e.g., countries of Eastern Europe that shaped their accounting systems with European Union guidelines). Economic integration through the development of international trade and capital flows is a powerful promoter for the accounting harmonization around the world (CHOI MEEK, 2011, p. 33).

1.1.3 Legal and tax environment

Legal and tax environment are believed to affect directly the financial reporting frameworks. The role of the former environment is to define the way in which individual entities and institutions should and could interact. The developed nations have mainly two models: code (or civil) law and common (or case) law. In code law countries, the systems derive from Roman law and the Code Napoléon: the government thorough laws try to codify every aspect of the life, creating an all-embracing set of requirements and methods. Accounting rules, therefore, tends to be highly rigid and bureaucratic. On the contrary, common law countries are inspired by the English case law and they have a less exhaustive and more adaptable law system, encouraging testing and judgments. Accounting law is developed by private sector professional organizations: in this way, it is possible to be more adaptive and pioneering.

To sum up, the focus of the former is on the legal form, the setting and the enforcement of national accounting standards through public entities while the focus of the latter is on the economic substance, fair presentation, transparency and disclosure.
In many countries, tax legislation governs accounting standards because companies must trace revenues and expenses in their accounts to claim them for tax reasons. Thus, financial and tax accounting are identical: this is the case of civil law countries where financial accounting brings into line itself to business and tax law, meaning an important influence of tax rules on accounting measures. However, in other countries, financial and tax accounting are two different worlds: taxable profits are, for example, essentially financial accounting profits rectify in order to adhere to determined tax laws. Of course, even where financial and tax accounting are independent, tax regulation could sporadically necessitate the application of certain accounting principles (CHOI MEEK, 2011, pp. 31-32).

1.1.4 Professional environment

Financial statements in every country are inclined by the degree of development of the accounting profession. More precisely, these indicators describe this relationship: the suitability of accounting standards, the presence and reputation of professional bodies (size and authority), the competence of accountants' qualifications (mainly experience) and the availability of legal and regulatory backing. Every factor is determined by accounting and economic traditions of the country and it defines in turn the ease or difficulty of IFRS penetration and convergence (ALIA BRANSON, 2011, pp. 8-9).

1.1.5 Business environment

The business environment is involved in the development of accounting system because it influences the information needed and the content of financial statements. To better comprehend this endeavour, it is possible to isolate three factors: firms' characteristics, the degree of capital market development and the prevailing type of financing system. Firms' characteristics could be summarized in size, industry sector, legal form, ownership concentration and listing status. Increasing the size of the firm turned out to increase the ownership base, resulting also in a larger demand of information. Each

industry sector has its own peculiarities such as diverse degrees of information needs, different accounting practices and standards. Moreover, a firm that decides to change its legal form, going public and increasing the number of stockholders, normally faces a higher demand of information disclosure. To conclude, more information is needed when firms are listed, especially if a cross-listing occurs. Since capital markets tend to influence accounting rules and enforcement practices, the degree of capital market development is a fundamental aspect to describe the influence of the business environment. The more the capital market is developed, the more information is disclosed by the companies (ALIA BRANSON, 2011, pp. 10-14).

The third and last determinant of business environment is the type of financing: equity or debt-systems. In nations with sturdy equity markets, characterized by a competitive and various investors' base, accounting profits measure how virtuous management is running the business. Accounting is created to aid investors judge the value of the firm through future cash flow and its related risk. Disclosures are widespread in order to meet the requirements of extensive public share ownership. On the contrary, in credit-based systems, where banks, through long-term debts and equity funds, are the leading source of finance. Accounting emphases, therefore, on creditor protection through conservative earnings measures in order to decrease dividend pay-outs and maintain sufficient resources for the security of lenders. Because financial institutions have direct entree to any data they want, broad public disclosures are not contemplated as necessary (CHOI MEEK, 2011, p. 31).

1.1.6 Cultural environment

Culture can be seen as a set of mind frameworks and it comprehends the principles and approaches shared by people. Cultural variables are inspired by nations' legal systems and by other institutional arrangements, defining different social groups and influencing people's perception of situations and institutions.

Very important in the academic world are the studies of Hofstede and Gray. The former has highlighted five cultural dimensions among countries' values related to financial reporting framework:

- *power distance*, the degree to which the less powerful entity accepts that power is irregularly concentrated;
- *individualism*, in individualistic cultures there are few bonds beyond those related to the nuclear family, whereas in collectivist societies people belong to sturdy and solid in-groups;
- *masculinity*, in masculine societies men are self-confident, strong and concerned with material success. Women are more unassertive, caring and interested in the quality of life. In feminine societies, both are equally concerned with quality of life;
- *uncertainty avoidance*, the level to which people feel endangered by uncertain or unknown situations. This is expressed in a need for formality, certainty and flawless rules;
- *long-term orientation*, the magnitude to which people favour a rational, future-oriented perspective-fostering qualities like determination and thrift-over short-term rational (HOFSTEDE, 1984, pp. 83-84).

The Gray's model has tried to define the relationships between international accounting differences and cultural factors, identifying four dimensions:

- *professionalism versus statutory control*, the inclination to choose between individual professional judgment and professional self-regulation or to comply with prescriptive legal requirements and statutory control;
- *uniformity versus flexibility*, an inclination for the implementation of uniform accounting practices between companies and for the reliable use of such practices over time in contrast to flexibility perceived in different circumstances for the companies;
- *conservatism versus optimism*, a predilection for a precautious attitude to measurement so as to handle with the improbability of the future as opposed to a more positive and risk-taking approach,
- *secrecy versus transparency*, a preference for discretion and the limitation of disclosure of information about the business only to those who are narrowly involved with its administration and its supporters as opposed to a more see-through, exposed, and publicly accountable approach (GRAY, 1988, pp. 1-15)

These two models have been merged and called the Hofstede-Gray model in order to capture the links between international accounting differences and national cultures. Factors forming cultural values can be more or less resistant to change: one of the most relevant in the former group is religion. This subset of culture can have a significant effect on business practice in some jurisdictions: particular attention has to be paid to Islamic nations, impacting directly in the way how accounting is pursued and how businesses are managed. Certain rules have, therefore, a direct impact on accounting practices: for example, the obligation to pay a religious levy and the prohibition of usury, in other terms the institution of an interest-free economic system (investors are compensated by other means). To conclude, also the language has been particularly crucial in order to access accounting harmonization due to possible translation problems of IFRS (DING JEANJEAN STOLOWY, 2005, pp. 333-335).

1.1.7 Institutional environment

National economic culture, through the mediating variable of institutions, have a great impact on accounting. Even with the same set of accounting rules and standards, the change in the way people think in a nation or how institutions are funded respected and operate is not automatic.

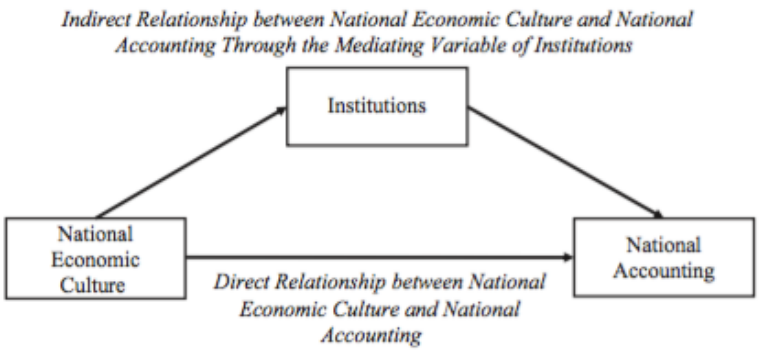

Figure 2: THE RELATIONSHIP BETWEEN INSTITUTIONS, NATIONAL ACCOUNTING AND NATIONAL ECONOMIC CULTURE

Source: CIESLEWICZ, 2014, pp. 515-516

Institutions are important in order to overcome problems of harmonization: it is very difficult to modify in the short term cultural factors, implying that culture influences mostly accounting practices. They are products of the national economic culture and they act as mediators between accounting and society. These relationships suggest that changing not just accounting, but also supporting institutions, should not be expected to be as simple as simply adopting codes or attempting to copy regulatory functions. This is true because economic culture will continue anyway to influence institutions, which they will continue to influence accounting. All of this only cause a facade adoption, in which the accounting frameworks will be changed but the difference that created different approaches will not.

1.1.8 Educational and international environment

Complex accounting standards and practices are unusable if they are misread and misused. Professional accounting education is problematic to accomplish where general educational levels are low.

To assess the level of education, it is possible to evaluate the general literacy rate, the level of accounting university education and the level of accountants' knowledge in practical and academic related issues. The financial reporting framework is influenced not only by internal inputs of a country but also by external ones: the international environment, therefore, contribute heavily in outlining accounting practices and standards. (ALIA BRANSON, 2011, pp. 16-20).

Big international accounting firms and international organizational such as the World Bank, the IMF and the WTO play important roles in affecting this environment and, more generally, shaping the main characteristics of the global economy: this is true especially in developing countries in which western countries' accounting frameworks are often adopted.

To sum up, environmental differences contributing to complexity in a company are:

- cultural (c),
- legal system (l),
- political risk (p),
- exporting/importing activities (x),

- subsidiaries operating in a different industry or with a different business model (related-unrelated diversification –r),
- geographic distance from parent and subsidiaries (g),
- information infrastructure/availability of news media (i),
- investors' sophistication (s),
- investors' nation (n),
- analyst representation (buy/sell – b),
- analysts' nation (n)

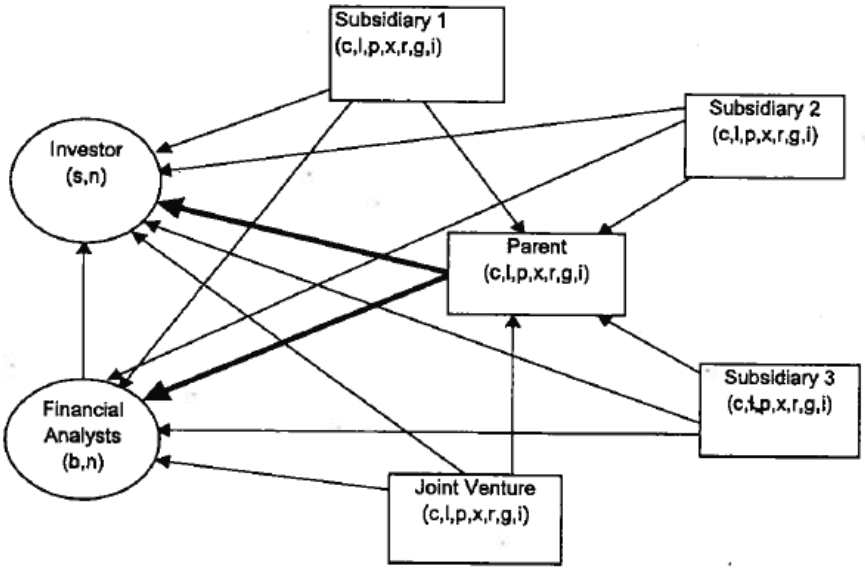

Figure 3: ENVIRONMENTAL DIFFERENCES CONTRIBUTING TO COMPLEXITY
Source: RUNYAN SMITH, 2007, pp. 574-575

The on-going globalization and the resulting complexity of business make financial reporting a technically challenging and overwhelming procedure. Across countries, accounting standards differ as a result of exclusive cultural, political, legal and economic factors. Effective and efficient functioning of the international market requires a certain standardization in accounting principles and practices. At the current period, entrepreneurs and investors must pay very much attention to the existing differences. Such dissimilarities, therefore, restrain the expansion of international business activities.

1.2 Different accounting classifications

"Classification is a basic intellectual ability which proceeds by ordering or dissecting complex phenomena (e.g., a set of objects described by high-dimensional data) into small and comprehensive units, classes, substructures, or parts which serve for better understanding or control, and to assign new situations to one of these classes on the basis of suitable information." (KLOESGEN ZYTKOW, 2002, p. 254)

Classifying accounting systems should, therefore, help firms' managers and researchers to have a better knowledge of the subject in order to find solution or to better conduct their business. The goals of this process could be summarized in defining:

- the extent to which national accounting systems are similar to or different from each other,
- the pattern of development of individual national systems with respect to each other and their potential for change,
- the reasons why some national systems have a dominant influence while others do not,
- the degree of usefulness for policymakers in the international harmonization debate,
- the effectiveness in developing countries, seeking to choose an appropriate accounting system,
- the level of accountants' and auditors' education.

International accounting categorizations comprehend very briefly two categories: judgmental and empirical. Judgmental classifications are based on knowledge, intuition, and experience while empirical classifications use statistical methods to build databases of accounting principles and practices around the world.

1.2.1 Accounting practices and environment

It is possible to classify accounting systems based on how they have treated real-world problems and which solutions they have developed, relying exclusively on knowledge, intuition and experience.

One of the first classification used in Western nations was focused on the purpose of accounting framework creation and development, inter alia:

- macroeconomic approach,
- microeconomic approach,
- independent discipline approach,
- uniform approach.

The macroeconomic approach affirms that accounting practices are originated to meet national economic goals: firms, therefore, align themselves to some sort of national economic guidelines. The focus of the microeconomic approach is exactly the opposite compared to the former: accounting development follows individual firms' ability to survive. Critical to the companies' life are the maintenance of the physical capital and a clear separation between capital and income in order to control as well as possible the core business activities. The best accounting dimensions, able to satisfy these needs, are the ones based on replacement cost. The third approach is characterized by a discipline originated from business practices and an ad hoc and trial & error logic. Thus, business created the accounting discipline as a service in order to disentangle real-world difficulties and ever-present ambiguities through knowledge, practice and awareness. Under the last approach, accounting is as more uniform as possible: the central government uses it when it is strongly involved in the economic organization as an administrative tool to stress, for instance, convergence for tax and planning purposes (CHOI MEEK, 2011, pp. 37-39).

Being inspired by the mid-1960s classification, Doupnik and Perera offered their re-elaborated version, dividing it in classes, sub-classes, families and connections. The aim of their work has been to insulate those countries' financial reporting aspects that could provoke significant long-run alterations between nations. Using this model, it has been possible to set apart nine accounting diversity's determinants:

1. target users' category of the listed companies' financial disclosure,
2. law's details and judgment orientation,
3. importance of tax rules in accounting measures,
4. conservatism/prudence (e.g. valuation of assets),

5. degree of historical costs' application (in the historical cost accounts),
6. susceptibility to replacement cost adjustments in main or supplementary accounts,
7. consolidation practices,
8. willingness to incite provisions (as opposed to reserves) and to smooth income,
9. uniformity between companies during the rules' application.

Classes:

- micro-fair-judgmental and commercially driven,
- macro-uniform government-driven and tax-dominated.

Sub-classes:

- business economics and extreme judgmental (Netherlands),
- business practice, professional rules and British origin.

Families:

- UK influenced and professional regulated (Australia, New-Zealand, UK, Ireland),
- US influenced and enforcement by SEC (Canada, Israel, USA).
- code-based and international influenced (Italy),
- plan-based (France, Belgium, Spain),
- statue-based (Germany, Japan),
- economic controlled (Sweden).

Connections:

- micro-fair-judgmental and commercially driven class covers two sub-classes:
    - business economics and extreme judgmental,
    - business practiced, professional rules and British origin,
- macro-uniform, government-driven and tax-dominated class contents four families:
    - code-based and international influenced,
    - plan-based,
    - statue-based,
    - economic controlled.

The figure comprehends three of the major accounting models: the Fair Presentation/Full Disclosure Model, the Legal Compliance Model and the Inflation-Adjusted Model (it distinguishes itself, however though the extensive use of adjustments for inflation, very common in South Africa).

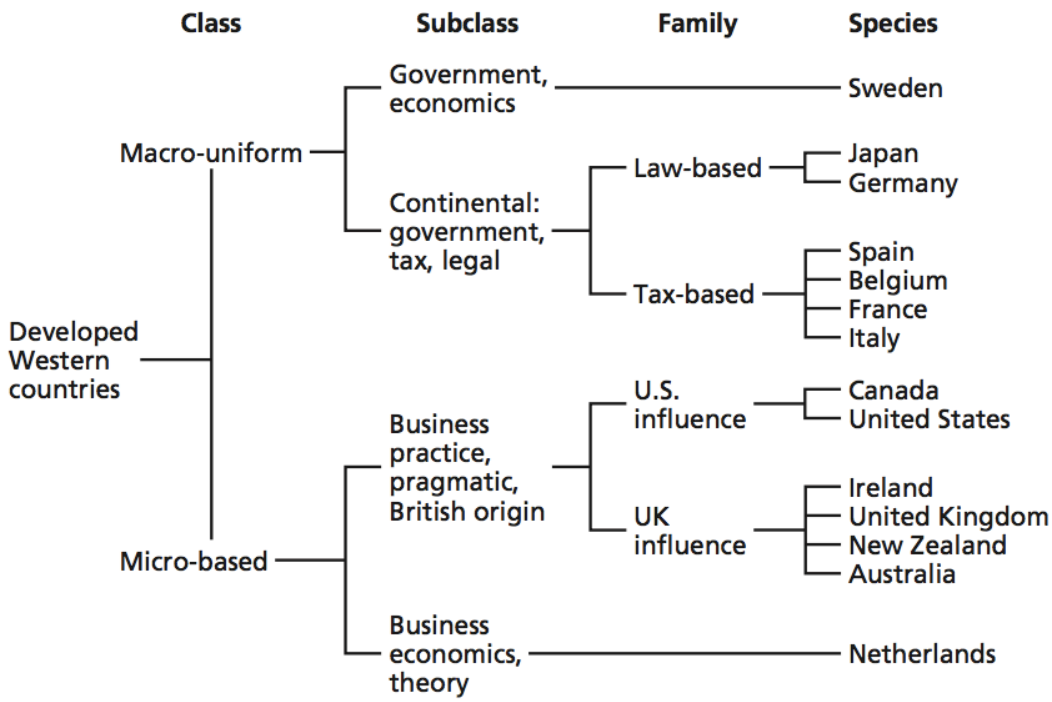

Figure 4: DOUPNIK AND PERERA'S ACCOUNTING MODEL

Source: DOUPNIK PERERA, 2007, p. 34

The expressions micro-based and macro-uniform label the Anglo-Saxon and Continental European Models, correspondingly. Each of them has two subclasses that are further split into families. The Netherlands is the only nation located in a micro-based subclass and inclined to follow heavily business economics and accounting theory: Dutch companies have the possibility to apply current replacement cost accounting to estimate assets in their primary financial statements. British environment has created the other micro-based subclass: it is characterized by a more pragmatism and business practices' orientation. Two families are originated by this British-origin subclass: the former governed by the UK and the latter influenced by the US. On the contrary, macro-uniform accounting has developed two ways of conceiving accounting process: the first based on

government and economics, the second relying on government, taxes and legality. Sweden has developed the former approach to accounting: for example, income smoothing is approved in order to foster economic stability while social accounting has been established to fulfil macroeconomic concerns. The latter is common among Continental European countries which could be divided in two additional families. Headed by Germany, the law-based family contains Japan. The tax-based family entails several Latin countries. The major difference between them could be traced back in the primary determinant of accounting practice: in the former it is the accounting law while in the latter tax law dominates (DOUPNIK PERERA, 2007, pp. 33-36).

This model, therefore, sheds light on the hierarchical links between countries, serving as a blueprint for the financial statement comparability's determination. To improve this classification, it is possible to insert developing nation (the classification was intended to analyse only developed nations): in order to do that, it may be proper to add other discriminating factors, such as the degree of development of economy or nature of economic systems.

One of the first attempts to classify nations analysing how they apply accounting in the real world was developed by Werner in 1973 using a database made by Price Waterhouse. 38 nations and 233 accounting principles and practices were analysed and classified as required, used by a majority of the firms in the country, used by about half of the firms, used by a minority of the firms, prohibited by law or professional pronouncement, not applicable because the specific types of transactions involved are not found in the country. Afterwards, a factor analysis was run: each country was assigned to the factor grouping on which it loaded the highest correlation.

Group 1	Group 2	Group 3	Group 4
Australia	Argentina	Belgium	Canada
Bahamas	Bolivia	Colombia	Germany
Ethiopia	Brazil	France	Japan
Eire	Chile	Italy	Mexico
Fiji	India	Spain	Netherlands
Jamaica	Pakistan	Sweden	Panama
Kenya	Paraguay	Switzerland	Philippines

New Zealand	Peru	Venezuela	United States
Rhodesia	Uruguay		
Singapore			
South Africa			
Trinidad & Tobago			
United Kingdom			

Table 1: PRICEWATERHOUSE'S DATABASE
Source: FRANK, 1979, p. 596

Some of the countries examined show not only a highly correlation with just one factor but also strong similarities to several groupings. The four-factor grouping can be viewed as accounting models: British Commonwealth Model, Latin-American Model, Continental European Model and United States Model. A reason why these groups have been formed could be traced back to environmental factors. In this study the country's official languages, a group of variables linked to the country's economic structure and one reflecting trade patterns between countries have been used to describe the similarities in accounting concepts (FRANK, 1979, pp. 600-601).

The inner limitations of judgmental grouping based on how accounting practices have varied internationally are the non-homogeneity linked to the attempts to cluster nations by their differences in accounting practices. Moreover, there is no consensus regarding national accounting clusters because temporal and unsystematic events can influence the results.

D'Arcy, using the TRANSACC Reference Matrix, developed clusters based on how several items are accounted. In this way, it has been possible to develop a method which sets out systematically the financial accounting rules and practices of several countries. Accounting professors and professionals have had the possibility to describe accounting problems and the related solutions for their respective countries in a systematic way. The most descriptive practices to appreciate accounting diversity turned out to be:

- recognition of assets and liabilities,
- valuation of assets and liabilities,
- revaluation accounting,

- full and proportional consolidation set,
- uniformity of accounts,
- foreign currency translation,
- consolidation of capital,
- debts and profits,
- equity method and deferred taxation (D'ARCY, 2001, p. 335).

The research has demonstrated that most pairs of the countries examined are neither extremely homogenous nor heterogeneous: Germany and Austria are very close, as Belgium and France. These four nations, together with others like Switzerland and Denmark create the continental European group. Spain, Japan and Sweden form a more heterogeneous group while merging with the first one. The IASC, US and Canada shape the North-American group. Typical characteristics that cause the main differences in the clusters of national accounting systems can become the vertical and the horizontal axis of a multidimensional scaling graph.

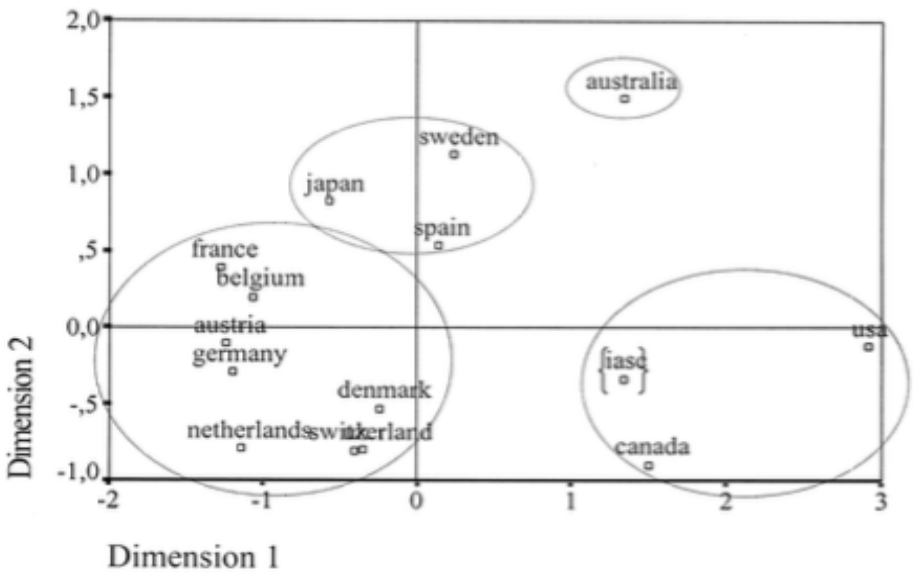

Figure 5: MULTIDIMENSIONAL SCALING, TWO-DIMENSIONAL SOLUTION
Source: D'ARCY, 2001, p. 343

The results have been scalded using two dimensions: Dimension 1 can be explained as the "quality of the presentation of the participation structure", showing clearly the differences between European and the North-American clusters (goodwill accounting,

the application of the equity-method or the full consolidation set). The first dimension could stand also for the level of the capital market orientation of a national accounting system. On the other hand, Dimension 2 describes certain types of provisions, their definitions and the rules according to the full consolidation set.

1.2.2 Legal system and culture

Another very common classification is the one originated by studying which form of legal system prevailed: common law nations have developed an accounting view based on fair presentation while civil law countries have a more legalistic approach to accounting. The former stresses the attention towards transparency, full disclosure, a separation between financial and tax accounting, external investors' protection and substance over form. Financial statements are, therefore, meant to support investors among the assessment of managerial performance and the forecast of future cash flows and profitability. Common law accounting is often entitled as "Anglo-Saxon" because it is peculiar of the United Kingdom and all the former Commonwealth countries. However, accounting developed in countries where the focus was more on accounting laws' adherence aims to protect creditors and fulfil government compulsory requirements, such as computing taxable income or observing the national government's macroeconomic guidelines: in one word, legal compliance. These types of accounting frameworks endorse conservative measurements in order to ensure prudent dividends to shareholders and cautious bonuses to managers and employees. Since firms use the same framework to inform stakeholders and to determine the taxable income, it is very common to appreciate smooth patter from year to year. This practice ensures more stable tax, dividend and bonus pay-outs. The accounting development process is often managed by public entities and called "Continental" because most of continental European nations and their former colonies adopted it successfully (NOBES, 1983, pp. 1-19).

Accounting differences due to this classification could be appreciate in these items:

- depreciation, among fair presentation it is based on the decline in an asset's utility over its economic useful life while among legal compliance it is used the amount allowed for tax purposes;

- leases, in common law countries prevails the substance over the form, meaning that leases are treated as purchases of property while in civil law countries they are treated as regular operating leases (it is accounted only the rent payed);
- pensions funds, pensions costs are accrued as earned by employees (fair presentation) or expensed on a pay-as-you-go basis (legal compliance);
- deferred income taxes, in systems based on legal compliance this topic never occurs because tax and financial accounting are identical;
- discretionary reserves, these items are often used to smooth income from one period to the next among civil law nations, making less informative the income presentation. (CHOI MEEK, 2011, p. 40).

Another focus of the analysis could be the culture: it has, therefore, an important influence on accounting, implying a direct relationship between cultural groupings and accounting systems' correlations. The latter are usually linked to accounting system characteristics or to the structure of standard setting process. One of the main limitation to groupings based on culture is the trouble to justify the subjectivity of the elements used to define cultural areas. Another one could be outlined as the toughness to describe punctually the function linking culture to accounting and which accounting aspects are more or less related to it.
Black, Gray and Radebaugh, starting from the theories of Gray and Hofstede, developed a classification based on physical regions and common cultural factors:

- Anglo-American culture area (United Stated, United Kingdom and British colonials),
- Nordic countries (The Netherlands, Sweden, Finland, Denmark),
- Germanic accounting (Germany, Austria, Israel, Switzerland, and former European colonies in Africa),
- Latin group (France, Italy, Brazil, Argentina, Belgium, Portugal, Spain, Chile, Columbia, Mexico, Peru and Uruguay),
- Asian accounting (China, Japan, India, Pakistan, Hong Kong, Singapore, Malaysia, and Philippines).

Anglo-American and Nordic areas are characterized by a low power distance, a weak uncertainty avoidance, a low level of bureaucracy, an economy based on free trade and

market exchange. German accounting is described by a low power distance, a strong uncertainty avoidance, a bureaucracy based on workflows. The Latin group, however, has a high-power distance, a strong uncertainty avoidance, a high level of bureaucracy and a pyramidal organization. To conclude, Asian area has a high-power distance, a weak uncertainty avoidance, an economy based on households and a bureaucracy heavily influenced by personalities (BLACK GRAY RADEBAUGH, 2006, pp. 17-35).
It has been shown that environmental factors are, therefore, important in pretty much every category developed by researchers. There is a strong connection between environment and accounting systems. Legal system, the providers of capital, the tax system, the influence of accounting profession, the importance of finance and capital markets, the standards, the political system are the most frequently mentioned and studied. Using them creates problems to be solved, anyway: for example, it is not clear the direction and the intensity of the factors' influence on accounting systems and the linked mechanism of causation. Even if a causal dependence would be accepted, it is not possible to compare different national accounting systems due to the assumption of the survival of the fittest (most efficient). Game theory has shown that inefficient equilibriums are also possible.

1.2.3 Geography and principles

A very simple classification could be traced back to the one that divides accounting systems belonging to the European Union and to the Anglo-American sphere of influence: the first group has been regulated by European Directives and dominated by the prudence principle, meanwhile the second has been influenced by the IASC and the fair value discipline. This notion, already successful in international accounting debates, has been confuted and judged as a myth: it only mirrors some historical findings linked to both the origins of the accounting professions in the English-speaking countries and certain important shared ideas and institutional characteristics. However, it fails to take into account the fundamental differences in both thought and, even more, practice. Similarities between UK and US could be viewed, for example, in the capital market-driven accounting, in the emphasis led on consolidated financial statements, investors' protection and capital market's needs, in the shared history, in the independent accounting discipline (from governments and economic theories) developed in business

and in the same legal system (common law). None of these four supporting theories withstands detailed examination: the first hypothesis underlines the substantial similarity between the English accounting principle, "true and fair view" (TFV), and the American counterpart, "fair presentation". UK courts have given a lot of importance on expert witnesses in developing accounting case law. TFV stands for whatever the pillars of accounting profession officially declare it to mean. Clearly this indicates that what is "true and fair" can change over time in order to facilitate the always evolving opinions and attitudes within the profession. In the European setting, this principle has been used to judge financial statements while, in the US, the governing criterion is "present fairly in accordance with GAAP" (it is not clear if this GAAP is the promulgated one). However, there is no literature explaining the definition of it, meaning that it was developed in the private sector, but never used by professional and regulatory bodies. Canada and SEC have expressed many times the intention not to use TFV as an override of their accounting principles. The second hypothesis stated that the same legal system adopted led similarities in the accounting system developed. This is not true: the same legal system has led different accounting approaches. In the UK accounting system is very flexible and responsive, meanwhile in the US it is very detailed and rigidly prescriptive. The third hypothesis was the same common predilection to develop conceptual frameworks in order to regulate accounting. This propensity is undeniably a shared feature of UK and US approaches to accounting but only ideologically: for example, in FRS 10 it is stated that the accounting of goodwill has to be reported on the balance sheet of an asset, even if it does not conform to the criteria for recognition of an asset given in the Statement of Principles (CF). Another example could be seen in SFAS 87 about pension funds: it is clearly stated not to follow the CF criteria. The fourth hypothesis affirmed that the Anglo-American group is originated by a similar process in the setting of accounting principles. In the US, the process is complex, involving heavy interactions among public and private regulators, companies, the public profession, investors' representatives of investors and other interested groups. Moreover, it seems that the US system is significantly more public than the English counterpart. The principal American enforcement agency is a body set up by a congress law with statutory powers to impose penalties, while in the UK it is a private-sector body closely associated with the accounting profession that needs to turn either to the government or

to the courts if companies refuse to do its building (ALEXANDER ARCHER, 2000, pp. 539-553).

The study of Da Costa supports the idea that the Anglo-American accounting cluster is just a myth. Using seven factors as proxies of his task (financial disclosure, company law's influence, stress of reporting practices on income measurement, conservatism, tax law's influence, inflation's influence, capital market users' orientation), he discovered three main areas of accounting influence: US, UK and EU group.

Countries	*Coefficient with*	
	Group 1	*Group 2*
Group 1		
Japan	0,95	0,28
Philippines	0,94	0,28
Mexico	0,93	0,32
Argentina	0,93	0,32
Germany	0,90	0,42
Chile	0,90	0,41
Bolivia	0,89	0,43
Panama	0,89	0,45
Italy	0,88	0,43
Peru	0,88	0,43
Venezuela	0,88	0,46
Colombia	0,86	0,50
Paraguay	0,86	0,48
United States	0,86	0,05
Pakistan	0,85	0,49
Spain	0,85	0,49
Switzerland	0,84	0,53
Brazil	0,83	0,51
France	0,83	0,53
Uruguay	0,82	0,52

Sweden	0,81	0,59
India	0,81	0,57
Ethiopia	0,81	0,57
Belgium	0,79	0,60
Trinidad	0,76	0,65
Bahamas	0,75	0,65
Group 2		
United Kingdom	0,004	0,98
Eire	0,19	0,96
Rhodesia	0,48	0,87
Singapore	0,50	0,86
South Africa	0,51	0,86
Australia	0,51	0,85
Jamaica	0,54	0,84
Kenya	0,57	0,81
New Zealand	0,62	0,78
Fiji	0,65	0,75
Unclassifiable		
Netherlands	0,66	0,74
Canada	0,66	0,47

Table 2: COUNTRIES RANKED ON THEIR DISSOCIATION FROM THE BRITISH MODEL
Source: BOURGEOIS DA COSTA LAWSON, 1978, p. 79

According to this study, the US are the nation more disassociated from the British model. The groups, therefore, mimic the three sphere of influence, determined by common history: similar economic direction, aid, trade, investments and socio-economic values.
Classifying accounting standards served also to shed light to accounting diversity and its linked problems, especially nowadays where the economy is largely globalised. The multinational companies are the most influenced entities because they have to adhere to

every national GAAP linked to the country in which they have a subsidiary. The main limitations, therefore, could be summarised in:

- access to foreign capital markets,
- comparability of financial statements,
- lack of high-quality accounting information.

The first problem is linked to the common company's desire to obtain more capital by selling stock or borrowing money in foreign countries. The heavy burden is represented by the obligation to draw up the financial statements according to every country in which the company wants to go public. The second problem is related to the lack of comparability of financial facts and figures between companies from different countries, causing an adverse effect on corporations when making foreign acquisition decisions. The third problem associated with accounting diversity is the lack of high-quality accounting standards in some parts of the world. For example, there is a general agreement that the failure of many banks in East Asian financial crisis in 1997 was due to three factors:

1. a highly leveraged corporate sector,
2. the private sector's reliance on foreign currency debt,
3. the lack of accounting transparency.

International investors and creditors were, consequently, unable to adequately assess risk because financial statements did not reflect the extent of risk exposure due to the following disclosure deficiencies:

- the actual magnitude of debt was hidden by undisclosed related-party transactions and off-balance-sheet financing,
- high levels of exposure to foreign exchange risk were not evident,
- information on the extent to which investments and loans were made in highly speculative assets was not available,
- contingent liabilities for guaranteeing loans, often foreign currency loans, were not reported,

- appropriate disclosures regarding loan loss provisions were not made (JENO, 2010, pp. 56-57).

2 IFRS adoption

Accounting represents for firms, stakeholders, governors a homogeneous approach to label the financial results of a target entity. Accounting standards offer to financial statements prepares a set of clear rules in order to comply to the regulations in force in the country(ies) analysed. Accounting framework is, therefore, a way to standardize the market, providing clear rules and practices.

International Financial Reporting Standards is a single set of accounting standards, developed and maintained by the International Accounting Standards Board (IASB): the goal is to improve, preserve and apply these standards on an internationally reliable basis, by industrialized, emerging and rising economies. Investors and other users of financial statements can, therefore, assess and judge better financial performances of publicly listed companies on a like-for-like basis with their international peers. On the other side, multinational companies, when they have to consolidate, can use a single set of accounting standards, saving time due to the lowered reclassifications and reconciliations.

IFRS are progressively accepted around the world and top accounting officers are very approving in order to implement them worldwide. They are now authorized for use by more than one hundred countries, including the European Union and by more than two-thirds of the G20. The latter and other international bodies have steadily sustained the work of the IASB: the standard-setting body of the IFRS Foundation and a public-interest organization with award-winning levels of transparency and stakeholder participation. The unit is responsible for all IFRSs technical matters comprising:

- full discretion in promoting and pursuing its technical program, constrained to the veto of the Trustees and the public;
- the preparation, issuing and drafting of IFRSs, always complying to the due process stipulated in the Constitution;
- the approval and issuing of Interpretations developed by the IFRS Interpretations Committee.

The IASB was born by the ashes of another private standard setting body called International Accounting Standards Committee (IASC): set up in 1973 at the initiative of

Henry Benson and of nine countries' professional accountancy bodies, this entity has promoted an approach alternative to the one highlighted in the European directives and more linked to the Anglo-American approach. Moreover, the body has close ties with the International Federation of Accountants and it meets only once every two and half years. The main task was the amendments' approval to the IASC constitution and appointing members of the IASC's Board. Each board member could vote one time but he/she can send up to two representatives and a technical adviser to the board meetings. It is very common that board members and their staff come from the "Big Six" accountancy firms. IASC had also some people working as a permanent staff in London. As the IASC and, consequently, the IASB are private bodies: their members do not represent any national government, but rather they come from various national professional accountancy bodies. However, depending on the nation, they are recognised more or less by their government (FLOWER, 1997, pp. 291-293).

On the contrary, the IASB is structured under an independent foundation called the IFRS Foundation, as follows:

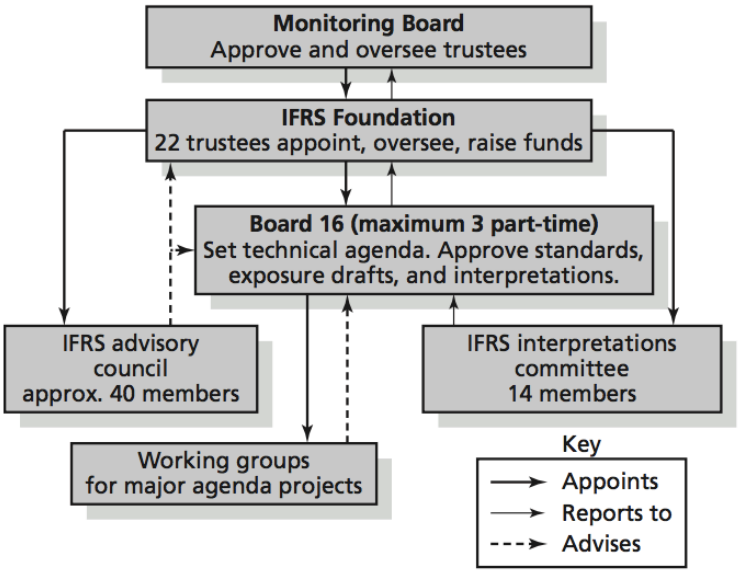

Figure 6: IASB STRUCTURE

Source: DOUPNIK PERERA, 2007, p. 76

The IASB and before the IASC have developed standards knowing that, without any conceptual framework, accounting standards would be created chaotically while bad accounting practices will overcome good ones. Moreover, an agreed and stable framework could fix the shared goals and aims of financial reporting, the type of entities

that should be accountable, recognition and measurement rules. The Framework for the Preparation and Presentation of Financial Statements was primary ratified by the IASC board in 1989 and was confirmed by the recently created IASB in 2001. Its goals are to define:

- objectives of financial statements and core assumptions;
- qualitative characteristics linked to the effectiveness of financial statements;
- explanation, classification and measurement of the financial statements elements;
- concepts of capital and capital maintenance.

The purpose of the Framework could be summarized in assisting the IASB among the development of future standards and the revision of the existing ones, helping the prepares and identifying stockholders, creditors, workers, suppliers, customers and government agencies as target users of financial statements. A special emphasis is placed among investors due to the primary use of IFRS: help firms to make investment decisions. The process is designed to increase understandability, relevance (used to make predictions), reliability (neutral, free of bias, substance over form) and comparability among financial statements adhering to IFRSs (DOUPNIK PERERA, 2007, pp. 80-82).

IFRS were published on August 2010, containing also 41 revised International Accounting Standards (IAS). Nowadays, approximately 30 IASs are still in force. IFRS comprises, therefore, a wide-ranging structure of financial reporting focusing from accounting for income taxes to the detection and from measuring financial tools to the provision of consolidated financial accounts. Since the IASB is an independent private body, it has no enforcement power among countries, its standards and principles are developed for the public good and adoptable by any country and firm and it applies a principles-based approach, rather than a rules-based one, when it creates new standards. This approach is more focused on both delivering recognition, measurement and reporting requirements for the transactions considered and limit guidance for applying general principles to typical transactions and encourage professional judgment (DOUPNIK PERERA, 2007, pp. 85-89).

The relative freedom inherent to IFRS could be outlined in the adoption modality:

- all companies could adopt it if the target nation decides to replace its national GAAP;
- parent companies could use it only when they have to consolidate while national GAAP remains and adopted in parent-only financial statements;
- IFRS could be used only when a company wants to go public and, therefore, listed in a stock exchange market, while non-listed companies continue to adhere to national GAAP;
- it is compulsory only for foreign companies that want to be listed on domestic stock exchange while domestic companies continue to use national GAAP.

This accounting framework has begun to raise importance among researchers, managers and standard setters while, at the same time, providing a major boost to the efforts and the goals of the IASB, because it received two fundamental endorsements: one for cross-listing purposes by the International Organization of Securities Commissions (IOSCO) and one from the European Union. The latter came from the EU's choice to oblige domestic listed corporations to adopt IFRS for consolidation, starting in 2005 (DOUPNIK PERERA, 2007, pp. 96-98).

Environmental differences among nations can explain not only international differences in accounting, but also why different degrees of IFRSs' convergence exist. In some jurisdictions, IFRSs are required for all corporate reporting for listed and unlisted entities. In others, IFRSs are required for consolidated reporting of listed entities, while unconsolidated one still can or has to follow national rules.

Jurisdiction	**Domestic listed companies**					**Domestic unlisted companies**
	IFRSs not permitted	**IFRSs permitted**	**IFRSs required for some**	**IFRSs required for all**	**Audit report states compliance with IFRS**	**Use of IFRSs by unlisted companies**
Abu Dhabi – United Arab Emirates				X	Yes	IFRSs required for all banks, permitted for other companies
Albania	No stock exchange in Albania					IFRSs required for financial institutions, subsidiaries of internationally listed parents, and large companies
Algeria	No stock exchange in Algeria					IFRSs not permitted
American Samoa	No stock exchange in American Samoa					IFRSs permitted
Angola			Financial Institutions from 2016			

Anguilla				X	Yes	
Antigua and Barbuda				X	Yes	IFRS for SMEs
Argentina			X			IFRSs not permitted
Armenia				X	Yes	IFRSs required for all
Aruba		X			Yes	
Austria				X	No. 'As Adopted by EU'	IFRSs permitted in consolidated statements, prohibited in separate statements.
Australia				X	Yes	Australian IFRS equivalents required for some large unlisted, permitted for others.
Azerbaijan				X	Yes	Separate IFRS financial statements required for banks (listed and unlisted) and, starting 2008, for large state-owned enterprises. For others, IFRSs permitted.
Bahamas				X	Yes	IFRSs permitted. IFRS for SMEs permitted for all companies that do not have public accountability
Bahrain				X	Yes	IFRSs required for all
Bangladesh				X		
Barbados				X	Yes	Companies may choose full IFRSs or IFRS for SMEs
Belgium				X	No. 'As Adopted by EU'	IFRSs required in consolidated statements of unlisted banks and credit institutions, permitted for other companies. IFRSs not permitted in separate company statements.
Belarus			Banks since 2008, all others from 2017 (with restatements of 2016 statements at that time)		Yes	IFRSs required for banks
Belize	No stock exchange in Belize					Unlisted companies may use IFRSs or other internationally accepted standards (particularly US GAAP or Canadian GAAP).
Benin	X					IFRSs not permitted
Bermuda		X			Yes	
Bhutan	X					
Bolivia		X			Yes	
Bosnia and Herzegovina				X	Yes	
Botswana				X	Yes	IFRSs required for some, permitted for others
Brazil				All listed companies and all financial institutions starting 2010. Optional for listed companies prior to 2010.	Yes, except undecided for unlisted banks for 2010 only because, for them, comparative IFRS financial statements for 2009 are not required	IFRSs not permitted
Brunei Darussalam	No stock exchange in Brunei					IFRSs are permitted but not often used
Bulgaria				X	No. 'As Adopted by EU'	IFRSs required in both the consolidated and separate company financial statements of unlisted financial institutions and all large unlisted limited liability entities. Other unlisted companies are permitted to use IFRSs.
Burkina Faso	X					IFRSs not permitted
Burundi	No stock exchange in Burundi					IFRSs not permitted
Cambodia				X		

Canada			X		Yes	IFRSs permitted (starting 2011)
Cayman Islands		X			Yes	
Chile				Starting in 2009	Yes	IFRSs required starting 2009.
China						
Cote D'Ivoire (Ivory Coast)	X					IFRSs not permitted
Colombia	X					IFRSs not permitted
Costa Rica				X	Yes	IFRSs required for all
Croatia				X	No. 'As Adopted by EU'	IFRSs required for all financial institutions and large unlisted companies, permitted for others
Cuba	X					IFRSs not permitted
Cyprus				X	No. 'As Adopted by EU'	IFRSs required for all
Czech Republic				X	No. 'As Adopted by EU'	IFRSs as adopted by EU permitted in consolidated statements. Companies that follow IFRSs as adopted by EU for their consolidated financial statements and companies that are part of a group which prepare their consolidated financial statements under IFRS as adopted by EU are permitted to use IFRSs as adopted by EU also for their separate financial statements.
Denmark				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements
Dominica		X			Yes	
Dominican Republic				X	Yes	IFRSs permitted
Dubai – United Arab Emirates				X	Yes	IFRSs required for all banks, permitted for other companies Note 23
Ecuador				Phase-in 2010-2012	Yes	IFRS required for some in 2011, all in 2012
Egypt	X					
El Salvador		X			Yes	
Eritrea	No stock exchange in Eritrea					IFRSs are required for Government-owned enterprises, newly privatised companies (large taxpayers, or 'LTOs'), banks, and insurance companies.
Estonia				X	No. 'As Adopted by EU'	IFRSs required in both consolidated and separate financial statements of financial institutions. IFRSs permitted in both consolidated and separate statements of other companies.
Fiji				X	Yes	IFRSs required for government majority owned, banking, financial institutions, medium and large, and others.
Finland				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements.
France				X	No. 'As Adopted by EU'	IFRSs permitted in consolidated statements, prohibited in separate company statements.
Gambia	No stock exchange in the Gambia, however, banks are required to apply IFRSs and all other companies may apply IFRSs					IFRSs are permitted
Germany				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements. Statutory accounts that conform to national GAAP are also required.
Georgia				X	Yes	IFRSs required in both consolidated and separate company statements.
Ghana				X	Yes	IFRSs required for unlisted banks, utilities, brokerage, insurance, government-owned businesses starting 2007. IFRSs will be required for all other unlisted

						entities starting 2009.
Gibraltar		X			Yes	IFRSs permitted except for some regulated companies that will prepare under UK GAAP
Grenada				X	Yes	
Greece				X	No. 'As Adopted by EU'	IFRSs permitted in audited consolidated and separate company financial statements.
Greenland	No stock exchange in Greenland					Danish Accounting Standards are normally followed, though IFRSs are permitted
Guam	No stock exchange in Guam					IFRSs not permitted. Unlisted companies follow US GAAP.
Guatemala				X	Yes	IFRSs required for all
Guyana				X	Yes	Companies may choose full IFRSs or IFRS for SMEs
Haiti		X			Yes	IFRSs permitted for all
Honduras				X	Yes	IFRSs required for all
Hong Kong				X	Yes for companies incorporated outside HK. HK incorporated companies refer to 'Hong Kong FRS'	Hong Kong IFRS equivalents permitted
Hungary				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements. Statutory accounts that conform to national GAAP are also required.
Iceland				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements
India		Permitted for consolidated financial results only			Yes	IFRSs not permitted
Indonesia	X					IFRSs not permitted
Iran	X					IFRSs not permitted
Iraq				X	Yes	All banks including unlisted.
Ireland				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements.
Israel			All except Banks		Yes	IFRSs permitted (except banks)
Italy				X	No. 'As Adopted by EU'	IFRSs permitted in consolidated financial statements except for very small companies. IFRSs permitted in separate company statements except for very small, insurance companies, and some regulated companies.
Jamaica				X	Yes	IFRSs required for all
Japan		X			Depends on the status of designation	IFRSs not permitted
Jordan				X	Yes	IFRSs required for some (banks, insurance companies), all other companies have the choice between IFRSs and the IFRS for SMEs
Kazakhstan				X	Yes	IFRSs required for all banks, joint stock companies, and other significant public interest companies, including extractive industry companies and companies with Governmental ownership)
Kenya				X	Yes	IFRSs required for all
Korea (South)				X	Yes	IFRS required for financial institutions and state-owned companies; IFRS permitted for

						other unlisted companies
Kuwait				X	Yes	IFRSs required for all
Kyrgyzstan				X	Yes	IFRSs required for all
Laos		X			Yes	
Latvia				X	No. 'As Adopted by EU'	IFRSs required for financial institutions, not permitted for others
Lebanon				X	Yes	IFRSs required for all
Liberia	No stock exchange in Liberia					IFRS required for all banks from 2012, most other companies use US GAAP
Liechtenstein				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements
Lesotho		X			Yes	
Lithuania				X	No. 'As Adopted by EU'	IFRSs required for some financial institutions, permitted for others
Luxembourg				X	No. 'As Adopted by EU'	IFRS permitted, subject to approval in most cases Note 22
Libya				X	information not available	IFRSs required for commercial banks Note 24
Macau	No stock exchange in Macau					IFRSs permitted
Macedonia				X	Yes	IFRSs not permitted
Madagascar	No stock exchange in Madagascar					IFRSs required for some
Malawi				X	Yes	IFRSs not permitted
Malaysia				X		Malaysian equivalent to IFRS for SMEs effective from 2016
Maldives		X			Yes	IFRSs permitted
Mali	X					IFRSs not permitted
Malta				X	No. 'As Adopted by EU'	IFRSs permitted for all
Mauritania	No stock exchange in Mauritania					IFRSs not permitted
Mauritius				X	Yes	IFRSs required for some, permitted for others
Mexico			X		Yes	IFRSs permitted
Moldova				X		IFRSs permitted
Mongolia				X	Yes	IFRSs required for all
Montenegro				X	Yes	IFRSs required for all
Morocco			Banks / financial institutions must use IFRSs starting 2008. Listed companies other than banks and financial institutions may choose IFRSs or Moroccan GAAP		Yes	
Mozambique		X			Yes	Required for banks (2007), large unlisted (starting 2010), and medium-sized unlisted (starting 2011)
Myanmar		X			Yes	
Namibia				X	Yes	
Netherlands				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements.
Netherlands Antilles		X			Yes	
Nepal		X			Yes	IFRSs permitted
New Caledonia	No stock exchange in New Caledonia					As a French Department, New Caledonia follows French accounting requirements. This means that, for unlisted companies, IFRSs are permitted in consolidated statements, prohibited in separate company statements.
New Zealand				X	Yes	New Zealand IFRS equivalents required for large unlisted,

						permitted for others
Nicaragua				X	Yes	IFRSs required for all
Niger	X					IFRSs not permitted
Nigeria				Starting 2012	To be determined	
Norway				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements.
Oman				X	Yes	IFRSs required for all
Pakistan			X			IFRSs not permitted
Panama				X	Yes	IFRSs required for some, IFRS for SMEs for others. However the law requiring IFRSs is under legal challenge.
Papua New Guinea				X	Yes	
Paraguay		X			Yes	IFRSs permitted
Peru				X	Yes	
Philippines	X					
Poland				X	No. 'As Adopted by EU'	IFRSs required for consolidated financial statements of banks, permitted in consolidated financial statements of companies that have applied for stock exchange listing or whose parent uses IFRSs. IFRSs permitted in the separate financial statements of companies that have applied for stock exchange listing or whose parent uses IFRSs, prohibited in the separate financial statements of other companies.
Portugal				X	No. 'As Adopted by EU'	IFRSs required in consolidated financial statements of banks and financial institutions, permitted for others. IFRSs permitted in separate company statements of a company that is within the scope of a consolidated group that uses IFRSs, not permitted for other companies.
Qatar				X	Yes	IFRSs required for all
Reunion	No stock exchange in Reunion					As a French Department, Reunion follows French accounting requirements. This means that, for unlisted companies, IFRSs are permitted in consolidated statements, prohibited in separate company statements.
Romania				X	No. 'As Adopted by EU'	IFRSs required for consolidated financial statements of banks, permitted in consolidated financial statements of companies that have applied for stock exchange listing or whose parent uses IFRSs. IFRSs permitted in the separate financial statements of companies that have applied for stock exchange listing or whose parent uses IFRSs, prohibited in the separate financial statements of other companies.
Russia				X		
Samoa	No stock exchange in Samoa					IFRSs are permitted
St Kitts and Nevis				X	Yes	
Saudi Arabia			X		Yes	IFRSs not permitted
Senegal	X					IFRSs not permitted
Serbia (Republic of)				X	Yes	IFRSs required for all
Sierra Leone				X	Yes	IFRSs required for some, IFRS for SMEs for others
Singapore	X					No. Singapore FRSs required Note 13
Slovenia				X	No. 'As Adopted by	IFRSs required for financial institutions, permitted for others

					EU'	
Slovak Republic				X	No. 'As Adopted by EU'	IFRSs required for all
South Africa				X	Yes	IFRS permitted or IFRS for SMEs
Spain				X	No. 'As Adopted by EU'	IFRSs permitted in consolidated statements, prohibited in separate company statements
Sri Lanka				X	Yes	IFRSs required for some, permitted for others
Suriname		X			Yes	IFRSs are permitted
Swaziland		X			Yes	
Sweden				X	No. 'As Adopted by EU'	IFRSs permitted in consolidated statements, prohibited in separate company statements
Switzerland		Multi-national main board companies must choose either IFRSs or US GAAP starting 2005			Yes	
Taiwan				X		IFRS required for some, permitted for others
Tajikistan				X	Yes	IFRSs required for all
Tanzania				X	Yes	IFRSs required for 'international companies'.
Thailand	X					IFRSs not permitted
Togo	X					IFRSs not permitted
Trinidad and Tobago				X	Yes	IFRS permitted or IFRS for SMEs
Tunisia	X					IFRSs not permitted
Turkey		X			Yes	IFRS required for some, permitted for others
Turkmenistan	X					
Uganda		X			Yes	
Ukraine			X			IFRSs permitted
United Kingdom				X	No. 'As Adopted by EU'	IFRSs permitted in both consolidated and separate company statements
United States	X					IFRSs permitted
Uruguay	X					
Uzbekistan	X					IFRSs not permitted
Vanuatu	No stock exchange in Vanuatu					IFRSs permitted
Venezuela	X					2004 IFRSs required starting 2007.
Vietnam	X					
Virgin Islands (British)		X			Yes	
Virgin Islands (US)	No stock exchange in Virgin Islands (US)					IFRSs not permitted. Unlisted companies follow US GAAP.
West Bank/Gaza				X	Yes	
Yemen	No stock exchange in Yemen					IFRSs permitted
Zambia				X		IFRSs permitted
Zimbabwe		X			Yes	

Table 3: IFRS adoption around the world

Source: Deloitte, 2016

In this table, we can see how countries compete in the capital global market: they are willing to "trade" their domestic standards for a more commonly used set. Countries can be divided in two groups, depending on different behaviour adopted during these years. The former is shaped by several lesser-developed countries (e.g., Nepal and Oman), which are perceived to have "low quality" domestic accounting standards. They have, recently, adopted IFRS in order to be on common ground with their more developed counterparts. The latter is composed by countries with perceived high-quality domestic accounting standards (e.g., Canada and Australia). They have either committed to adopting IFRS or significantly altered their domestic standards to better reflect IFRS.

2.1 Institutional theory and isomorphism

Studying the institutions involved in the global adoption of IFRS could be the right way to appropriately explaining and predicting what forces spur or constrain IFRS adoption. From an economic point of view, institutions are those entities that encourage the members of the society to engage economic activities that are either growth-enhancing or degenerative. Institutions could be formal (such as laws and regulations) or informal (such as norms and conventions) and together they influence social behaviour. On the other hand, sociologists have affirmed that organisations do not compete just for resources, but also for legitimacy and social acceptance. Moreover, they vary by function, size, structure, culture, and capacity for change and they all influence, and are influenced by, their organisational fields (similar organisations) and institutional environments, which are in turn affected by individuals or groups of institutional settings.

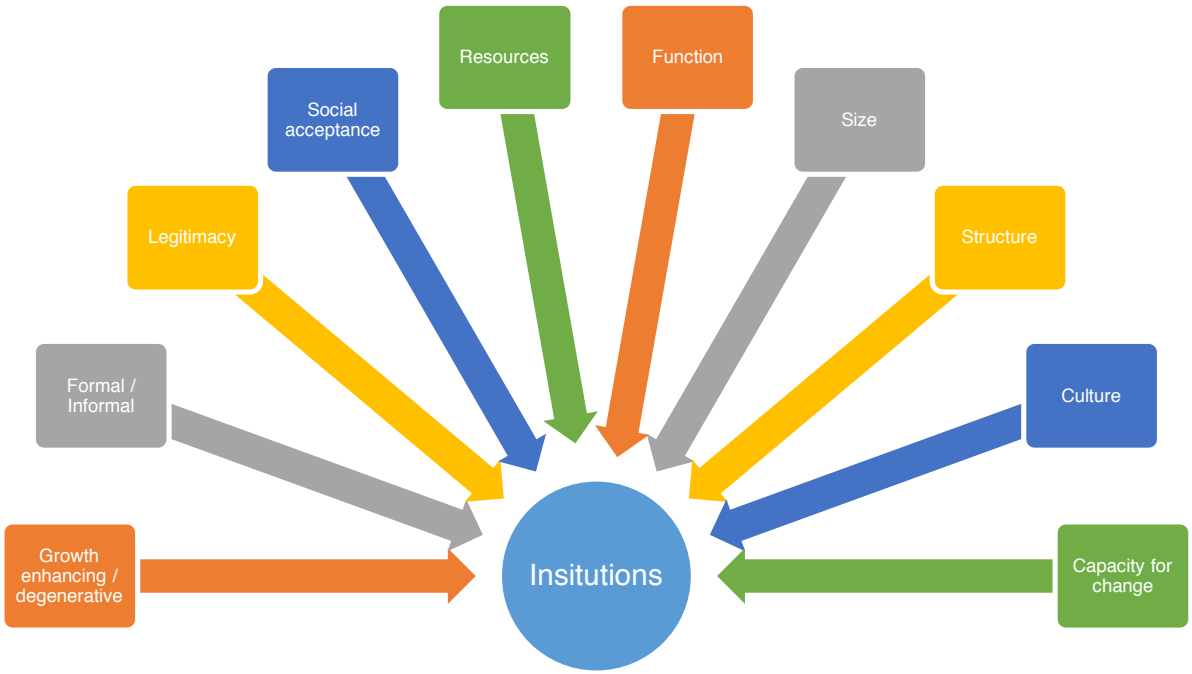

Figure 7: FACTORS AFFECTING INSTITUTIONS

Source: JUDGE LI PINSKER, 2010, pp. 162-163

The main assumption could be, therefore, described as the pursuit of legitimacy by all social actors within the institutional environment: a hidden force, called isomorphism, trying to create similarities. Since accounting information must be viewed as legitimate and trusted by its users, it is possible that institutional theory will be a useful framework for predicting the IFRSs' pattern adoption.

Isomorphism could be depicted in: coercive, mimetic, normative. The first one is originated by the need of resources and legitimacy. Nations, like any other organisations, can be forced to conform to international standards due to coercive institutions outside of the economy, mostly through foreign aid. The second form is originated by the inclination of social actors to be affected by others, such as individuals, organisations, nations, which are recognised to be at the top of some hierarchy. Thus, it is very easy to understand the fundamental role of successful multinational firms in the process of IFRSs acceptability and adoption worldwide. It has become the most favourable and used accounting system, pushing indirectly competitors to imitate them. The third and final form of isomorphism within institutional theory is called normative isomorphism, referring to collective values that bring about conformity of thoughts and actions.

Judge, Li and Pinsker checked, using a sample of 132 countries, which kind of isomorphism affects IFRS adoption. The control variables used have been market capitalisation and GDP growth because they are positively related with accounting quality and adoption of IFRS. The study tried to reveal which institutional factors can predict the adoption of international accounting standards: in particular, foreign aid, import penetration and educational attainment can explain coercive, mimetic and normative pressures.

Variables	**Mean correlation**
IFRS Adoption	2,75
Foreign Aid	-4,15
Import Penetration	3,74
Education Level	72,79
Market Capitalization	3,38
GDP Growth	0,14

Table 4: DESCRIPTIVE STATISTICS
Source: JUDGE LI PINSKER, 2010, p. 167

Moreover, normative pressure was the most convincing variable in order to explain why and how a country and its firms decided to adopt IFRS. The explanation of this predominance might be found in the marked relationship between accounting profession and normative forces: professional norms and practices are supposed to transcend national beliefs and common practices (JUDGE LI PINSKER, 2010, pp. 169 - 172).

2.2 Comparison between national GAAPs and IFRS

Some researches tried to compare domestic accounting standards (DAS) with IAS/IFRS in order to better understand why the latter has been adopted in so many countries around the world.

Ding, Hope, Jeanjean, Stolowy created two indexes to portrait differences between national GAAPs and IAS/IFRS: absence and divergence. The former captures the range to which the rules regarding certain accounting issues are missing in DAS but are covered

in IAS/IFRS. The latter describes a different approach used by IAS/IFRS and by DAS regarding the same accounting problem. Trying to investigate both the impact of cross-country variations in institutional frameworks on the differences between DAS and IAS/IFRS and the different impacts on financial reporting quality, the authors have proved that absence is linked to the importance of equity market and the related ownership concentration, while divergence is determined by the level of economic development, by the accounting's profession importance and by the equity markets' magnitude. The sample was built in order to include 30 countries for the year 2001 and in order to focus on five different institutional factors: legal origin, ownership concentration, economic development, importance of the accounting profession and importance of the equity market (DING HOPE JEANJEAN STOLOWY, 2007, pp. 1-4).

	Absence	**Divergence**
Importance of equity market	N	N
Ownership concentration	P	
Level of economic development		N
Importance of the accounting profession		N

P = positive relation

N = negative relation

Table 5: ABSENCE AND DIVERGENCE INDEXES

Source: DING HOPE JEANJEAN STOLOWY, 2007, pp. 31-32

It is possible to divide the behaviour of the countries regarding their stage in the economic development: developed nations have tried with more effort to personalize their accounting frameworks in order to search appropriate accounting options for their own context, without referring to IAS. All of this has been translated in more divergence between their DAS and IAS. On the contrary, developing country adopted international accounting standards in order to attract foreign investments. Furthermore, in nations where equity markets are developed it is likely to observe standards similar to IAS, confirming the idea that IAS has been developed mostly for publicly traded firms.

COUNTRY	***ABSENCE***	**COUNTRY**	***DIVERGENCE***
Greece	40	Germany	38
Austria	34	Italy	37
Denmark	31	Austria	36
Malaysia	30	United Kingdom	35
Thailand	29	France	34
Portugal	29	Ireland	34
Spain	28	Belgium	32
Pakistan	27	Finland	31
Italy	27	Spain	29
Philippines	24	Greece	28
Finland	22	Sweden	26
Belgium	22	Canada	25
Australia	22	Netherlands	25
France	21	Taiwan	23
Taiwan	19	United States	23
Japan	18	Japan	22
India	18	Portugal	22
Germany	18	Australia	21
Korea, Rep.	15	Denmark	21
Hong Kong, China	14	India	19
Indonesia	12	Norway	17
Sweden	10	Hong Kong, China	15
Netherlands	10	Pakistan	14
South Africa	7	Philippines	14
Norway	7	Singapore	14
United States	6	Malaysia	13
Singapore	4	Indonesia	12
Canada	4	Korea, Rep.	11
United Kingdom	0	Thailand	7
Ireland	0	South Africa	1
N° of countries	***30***	***N° of countries***	***30***
Average	***18.3***	***Average***	***22.6***

Table 6: NATIONS' BEHAVIOUR LINKED TO ABSENCE AND DIVERGENCE

Source: DING HOPE JEANJEAN STOLOWY, 2007, p. 9

As it is possible to appreciate in this chart, Italy has got one of the most divergent national accounting framework in respect to IAS/IFRS, meaning the existence of inconsistencies among Italian accounting rules regarding certain accounting issues.
On the contrary, regarding the absence of accounting knowledge among national accounting theory and practices, Italy got a score significantly higher than the average. The results mean that Italy and Italian firms, with adequate efforts of public institutions, could benefit a lot if IAS/IFRS is adopted systematically. To conclude, absence is positively related to earning management and negatively related to firm-specific information disclosure while divergence is linked to richer firm-specific information in capital markets (DING HOPE JEANJEAN STOLOWY, 2007, pp. 31-32).
Cultural values could be the most explaining environmental factors in order to describe divergence while absence does not seem to be significantly related with environment. Ding, Jeanjean and Stolowy used a sample composed of firms from more than sixty countries: they were asked to benchmark the local written accounting requirements against eighty measures, focusing on standards (both IAS/IFRS and national) in force for the financial reporting period ending 31 December 2001. To sum up, it is possible to say that the technical and the political dimensions of the international adoption debate, although fundamental, are not the only concerns involved. Obstruction to IAS/IFRS is, for example, not determined exclusively by contractual reasons or by a claimed practical supremacy but also by diversity in cultural factors (DING JEANJEAN STOLOWY, 2005, pp. 343-344).
If we deepen IFRS adoption analysis and the relative consequences in the economic national environments, it is possible to measure the impacts on several firms' entries. Capkun, Cazavan-Jeny, Jeanjean, Weiss, for example, have analysed a sample of 1.722 European firms during their mandatory transition from local GAAP to IFRS in 2004-2005. In order to access the change in accounting quality, financial statements from before, during and after the period of the change were used. This process has been very important for many reasons:

- IFRS offers many option during the firms' adoption, impairing the overall quality of first IFRS financial statements and affecting the quality of the accounts after the transition,
- if there are recognized earnings management (the act of purposefully modifying

the process of financial reporting to get some private benefit), it is possible to have an insight into managers' behaviour when they are faced with a major change in financial standards,

- earnings management can develop two different and opposite effects during the adoption year and after several years and they can decrease in the future if they are conveniently found during the transition,
- in order to better appreciate the market valuation of the earnings and book value reconciliations, it is important to analyse financial statements when they are prepared following both local GAAPs and IFRS (CAPKUN, CAZAVAN-JENY, JEANJEAN, WEISS, 2008, pp. 1-7).

More specifically, the researchers found that during the shift total liabilities (TL) and equity did not show any statistically significant change between local GAAPs and IFRS: the latter increased from 56,00% to 56,33% while the former decrease from 42,17% to 42,16%. Furthermore, goodwill (GW) increased on average from 13,02% to 13,63 % and intangible assets (INT) shifted from 16,06% to 16,94% of total assets, showing for both of the entries a statistically significance. Property, Plant and Equipment (PP&E) expanded from 25,01% to 25,50% while short term investments (STI) decreased from 4,53% to 4,23%. On the contrary, long term investments (LTI) increased from 1,05% to 1,30%. Cash assets and equivalents remained stable while short term debt (STD) experiences a statistically increase from 7,46% to 7,81% of total assets.

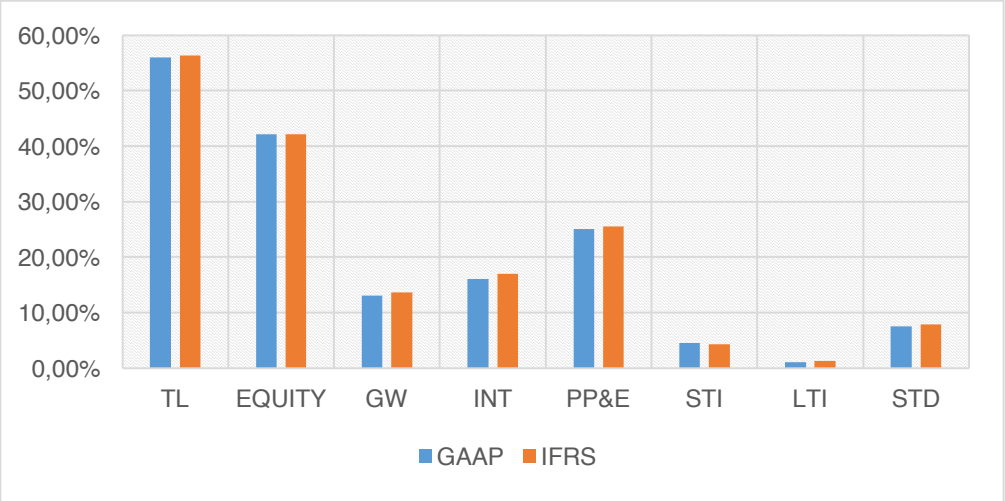

Figure 8: HOW ACCOUNTING ITEMS CHANGE ACCORDING TO NATIONAL GAAPS AND IFRS
Source: CAPKUN, CAZAVAN-JENY, JEANJEAN, WEISS, 2008, pp. 20-21

If we measure these changes scaling for Local GAAP assets, change in total assets accounted by 2.26% on average. Total liabilities increased by 1,93%, while equity by 0,76% on average. Intangible, PP&E and goodwill had the biggest variations: the first item increased by 1,28% while the others increased respectively by 1,05% and 0,55%. Current liabilities, short term debt and long term debt varied by 0,67%, 0,50% and 0,34%. To conclude, shifting from Local GAAP to IFRS has on average a small but significant positive impact on the firms' total assets and equity, with no impact on leverage (total liabilities and equity).

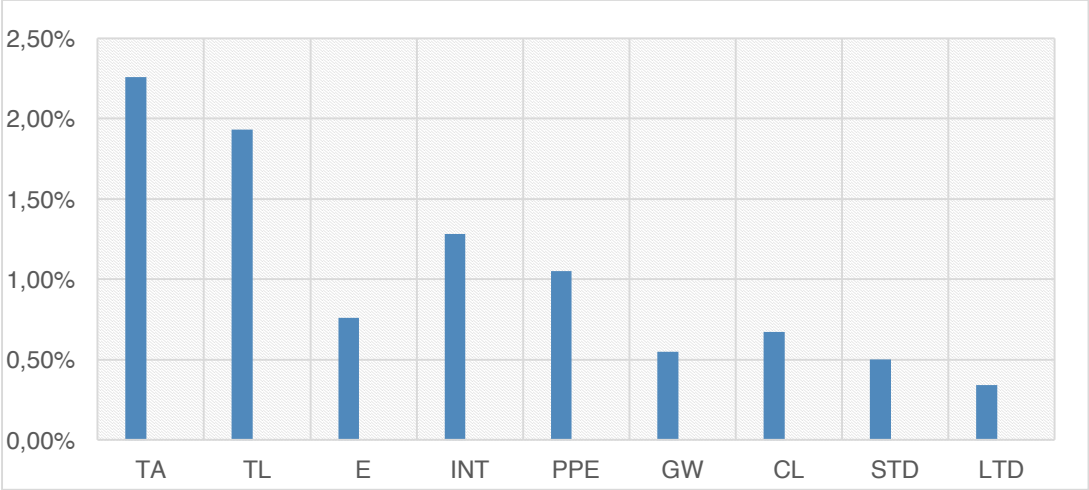

Figure 9: CHANGES SCALED BY NATIONAL GAAPS

Source: CAPKUN, CAZAVAN-JENY, JEANJEAN, WEISS, 2008, pp. 21-26

Many emerging nations have implemented IFRS with slight or no amendment as their national standards. For some of them, it may have been a less expensive option than developing their own standards. The need to attract foreign investment also may have been an influencing factor. Countries changing from centrally planned to market-based economies also have found IFRS attractive as they offer a ready-made set of standards to facilitate the development of a market system. Although many countries do not allow domestic listed companies to use IASB standards, some of these countries nevertheless allow foreign companies listed on domestic stock exchanges to use IFRS in accordance with IOSCO's recommendation. At the beginning of 2007, China introduced a completely new set of accounting standards that is intended to produce the same results as IFRS while Canada, India, Brazil, Korea and Japan adopted IFRS in 2011.

2.3 Transition to a new accounting framework

The transition from local GAAPs to IFRS has been supported not only by multinational companies but also by the European Union through its directives. One of the most important is the Company Law Directive (4th), enacted in 1978 and implemented by member states in 1991. The "true and fair view" (TFV) principle was introduced in order to give more flexibility among member states' different legislations and to portrait in the best way the particular circumstances of European firms. Its adoption as an overriding principle served as a promoter of more value-relevant accounting data. The Fourth Directive gives, therefore, detailed measurement rules, formats for the balance sheet and income statement and requirement for additional disclosure. On the contrary, the Seventh Directive, published in 1983, has been concerned on the preparation of consolidated accounts, the notion of group, the equity method; the TFV has become the overriding requirement of financial reporting in the EU (JOOS LANG, 1994, pp. 144-146). Even if there has been endorsement by important supranational entities, it is very unexpected that governments have been so fond to adopt IFRS, outsourcing the regulation and standardization of financial reporting to a detached, professionalized, private sector organisation. The last two decades have been the most important spreading period for IFRS because they have been characterized by globalization, depicted as:

- *internationality*, denoting the increased volume, intricacy and frequency of cross-border interactions in properties, services and people;
- *liberality*, resulting from the relative low level of statutory impediments to cross-border streams in the form of tariffs, foreign exchange guidelines, capital controls, visa requirements;
- *universality*, due to practice approaches, symbolic items and experiences diffused worldwide. Examples are Arabic numerals, McDonald hamburgers, Chanel perfumes;
- *supra-territoriality*, meaning the multinational driving force of climate change and telecommunications to connect people in ways that basically exceed regional layouts. Such connectivity and interdependence occurs with little regard to fixed

regional areas, boundaries and material spaces (CHUA TAYLOR, 2008, pp. 467-471).

Increased globalism led to an increased demand both for global governance and for collaboration between nations, regarding especially financial disclosure and company law: governments are required to cooperate not only on a localized regional basis (such as the European Union, ASEAN), but also on a larger one (for example, the United Nations and its associated agencies). Business globalization has created a larger demand of global standards: this necessity is beyond the jurisdiction of a single government agency, addressed more to a coalition of powerful interest groups which included regulators and the accounting and audit industry. The supplying forces involved could be traced back in the historical institutionalization of Anglo-Saxon accounting self-regulation backed by local accounting professional associations. In order to understand the IFRS diffusion, it is possible to access that just a combination of politics and economics seems to be a modest reply to the problem. Due to a severe currency crisis over a decade ago, the political response has been translated partly in the production of international best accounting practices and in the development of international accounting standards. The actors involved could be outlined as the finance ministers and central bank governors of the G7 countries and supra-state agencies. The latter seem to have played a main role in demanding that countries, perceived to own frailer forms of financial governance and surveillance, implement standards, possessing a globally acknowledged level of quality and rightfulness. The role of supra-state organizations in the diffusion of IFRS is clear in the 2002 pronouncement of the European Union: approximately 7000 listed companies in its member states could report using IFRS from 2005 onwards. This could have led a ripple effect: once influential first movers act to approve specific types of conduct, these can come to be treated as the field norm, while others have followed the leaders in order to gain social legitimacy within that field of action. Standards are not closely aligned with the economic or political institutions of any particular nation, meaning an independency from the political lobbies. IFRS are based strongly on investors' protection, and within a particular mix of regulatory mechanisms and institutionalized governance technologies. As a consequence, their efficacy differs regarding the operations of particular social, legal and political institutions. Moreover, it is possible to say that IRFS may be so diffused because it is a

principles-based set of rules, enabling local customization and local translation. Thus, this flexibility is either an advantage or a disadvantage because more freedom among nations could mean more consensus but also more problems of harmonization (CHUA TAYLOR, 2008, pp. 469-472).

2.4 Accounting harmonization

Worldwide accounting diversity imposes some sort of restraint linked to international business operations and investments: it is becoming very costly for firms to account for every national jurisdiction that are involved in and to compare their own financial reports prepared using different rules. The ever-increasing business globalization puts pressure on accounting standard setters and governments in order to reduce diversity and align accounting requirements worldwide: the complexity of commercial trading of companies and the concentration of business in global competition, therefore, has led to a greater need to raise funds with diversified investors. Governments, multinational companies and private standards setter have tried to solve this situation foster the adoption of IFRS and its linked harmonization in order to create one set of high-quality accounting rules. The importance of the latter is widely accepted due to:

- the rapid development of international capital markets strengthening their dominant role as an economic resource distributor and the correlated information disclosure trying to ensure market efficiency;
- the increase cross-listings of multinational, generating an urgent need for a single universal set of accounting standards. These firms can benefit because they can lower information production costs, sending out a unified, reliable message to investors;
- the activities internationalization of institutional investors, forcing domestic listed firms to play the accounting game by global rules (DING JEANJEAN STOLOWY, 2005, pp. 326-328).

It is very important to define two important terms, often used wrongly as synonyms: standardisation and harmonisation. The former is a process towards uniformity, implying the adoption of the same accounting framework by all member countries. The

latter is a movement toward harmony, suggesting a reconciliation of different points of view while allowing different requirements among countries and causing no logical conflicts (CANIBANO MORA, 2000, pp. 351-352).

Harmonisation is, therefore, used as a tool for reconcile different points of view: it is more practical than uniformity, which may impose one country's accounting point of view on all others. With the growth of international business transactions by private and public entities, the need to coordinate different investment decisions has increased. This would also lead to the reduction of the information diversity between managers and investors. The information diversity is costly and can be blamed for the decrease of the managers' bonuses, the increase of the equity's cost and the inaccuracy of the economical and the financial forecasts (JENO, 2010, p. 49).

Numerous international bodies were involved in harmonization efforts either locally or globally. One of the first attempt to harmonize accounting diversity worldwide was developed by the International Organization of Securities Commissions (IOSCO). It is a union of associations founded in 1974 which controls world's securities and futures markets. The entity is formed especially by accounting specialists, members of the Securities Commission and members of the national regulators who meet several times per year at different locations around the world. IOSCO proposes itself to support its associates to endorse high standards of regulation and act as a forum for national regulators to cooperate with each other and other international organisations. IOSCO, among its many goals, tries to empower cross-border securities submissions and listings by multinational issuers. Many times, it has promoted the implementation of a set of high-quality accounting standards for cross-border listings, supporting IASC's and IASB'S efforts, too. Very important to the harmonization debate has been the International Federation of Accountants (IFAC): founded in October 1977 at the 11th World Congress of Accountants in Munich, it represents 2.5 million accountants from 123 countries and employed in various fields: from public practice to industry, from commerce to academia. The goals could be summarized in consolidating the global accountancy profession, supporting the expansion of strong international economies by generating and endorsing observance to high-quality professional standards on auditing, ethics, education and training. IFAC endorsed accounting harmonization in two different moments precisely: in 1999, it created the International Forum on Accountancy Development (IFAD) in order to encourage transparent financial reporting,

appropriately reviewed to high standards by a strong accounting and auditing profession. Moreover, in 2000, it formed the Forum of Firms, designed to raise standards of financial reporting and auditing globally in order to defend the interests of cross-border investors and stimulate flows of capital worldwide. To conclude, also the European Union has contributed to the harmonization process of accounting standards and practices: the free flow of comparable financial information resulting from the harmonisation of accounting is, therefore, a necessary condition for achieving a common European market. The global capital market has created a force pushing to the direction of the international harmonisation: companies whose shares are traded in different markets are involved in this demand of more comparability and information disclosure among different accounting systems (DOUPNIK PERERA, 2007, pp. 67-71).

The EU has recognised that global players struggle to account with different sets of standards and principles: this situation has not been satisfactory; it is costly and the provision of different figures in different environments is confusing even for investors. The EU Commission decided to take action by developing the following strategy:

- the formal authority of the EU's accounting directives has to be preserved,
- new directives or amendments have to be limited in order to avoid renegotiations,
- the EU is the principal rules setter (FLOWER, 1997, pp. 286-288).

It has been decided not to set up a standard setting body because it could take too much time and resources: the EU Commission accepted to adopt the International Accounting Standards designed by the International Accounting Standards Committee. This international entity in 1998 has reached an agreement with the US Government in order to allow that the accounts, drawn up in accordance with IAS, should be accepted for foreign listings. The agreement was followed by a period in which the EU Commission searched for differences to be overcame and conflicts to be removed between the EU Directives and the existing IAS. The Commission has concluded that between these two accounting frameworks there are only irrelevant differences if all options are available (FLOWER, 1997, pp. 294-303).

The European Union, in order to endorse accounting harmonisation and to prepare itself to the subsequent IAS/IFRS adoption, has used mainly the Fourth and the Seventh

Directives as the main promoting instruments: the former attempted to harmonise the national laws on accounting regulations, to simplify the reliability, understandability and usefulness of the company accounts while promoting fair competition among European companies. The latter, contrariwise, concerned consolidated accounting in member states. The application of these two Directives caused a (beneficial) side effect: many member states change the aim of their accounting frameworks, from determining tax and dividend payments to providing timely and useful information to investors for their decision-making. Moreover, the Directives have had a positive but moderate impact in the quality of financial reporting due to the inclusion of numerous options leading different interpretations. The EU has, without no doubts, made improvements towards harmonisation, but its requirements through Directives are minimal and insufficient to achieve the desired comparability. The EU commission has, therefore, adopted the strategy in 2002 to oblige consolidated financial statements to be reported following IAS/IFRS frameworks. All EU listed companies must prepare their balance sheets and profit-loss reports in accordance with IFRS from the 2005 fiscal year onwards. As a consequence, about 7.000 EU listed companies were required to prepare financial statements according to IAS/IFRS. Additionally, EU countries have the option of requiring/permitting IFRS for unlisted companies and parent company (unconsolidated) financial statements, leading to heterogeneity in the status of the implementation of IAS/IFRS in the European Union (MARQUEZ-RAMOS, 2011, pp. 43-45).

Accordingly, to the literature, it is possible to outline two types of harmonisation: material and formal harmonisation. The former stands for the more comparability caused by more conformity in practices, while the latter refers to the harmonisation of regulations. Formal harmonisation could be followed by material harmonisation: this is not the rule by the way, because more harmonisation among regulation can lead also to more dis-harmonisation of the standards, allowing more options for companies. However, the other way around can occur: material harmonisation can be increased without an increase in the formal harmonisation. This phenomenon is called spontaneous harmonisation. Both formal and material harmonisation may refer to the degree of disclosure or to the accounting method selected. The former is called disclosure harmonisation and the latter measurement harmonisation (CANIBANO MORA, 2000, pp. 351-353).

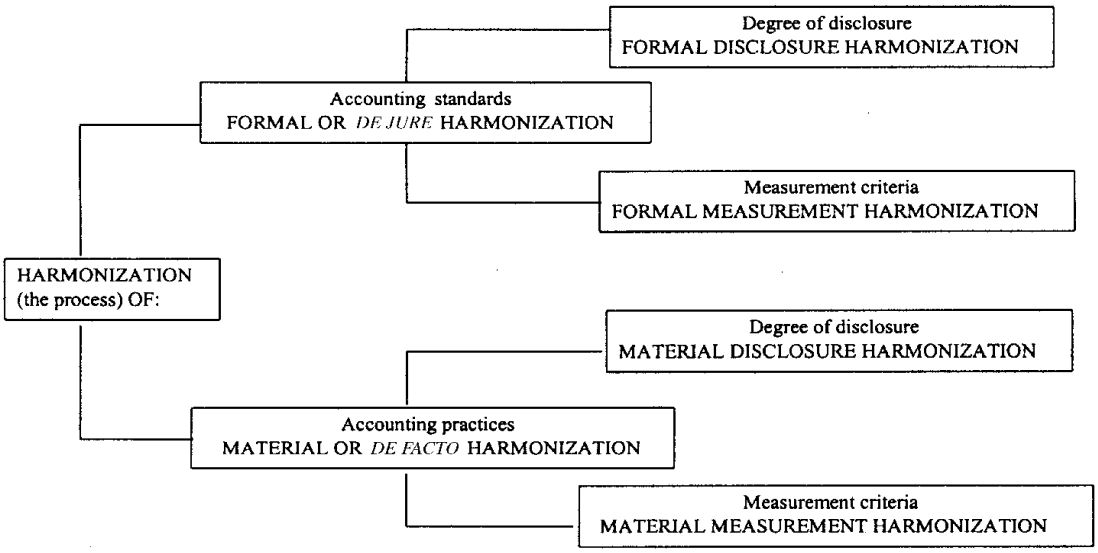

Figure 10: MATERIAL AND FORMAL HARMONIZATION
Source: CANIBANO MORA, 2000, p. 352

In the field of the measurement of harmonisation researchers, who studied formal harmonisation, used different statistical methodologies while empirical studies focus on de facto harmonisation.

The method used by Canibano and Mora is the C-Index: a measure developed in order to be able to include multiple reporting and reconciliation data in the notes of the financial statements. The purpose of the study is to focus the attention on the firms' behaviour regarding certain alternatives, trying to isolate the national context effect. After the calculation of the C index for four accounting issues in two periods (1991/1992 and 1996/1997), the changes have been analysed by using a bootstrapping procedure in order to understand if the changes are statistically significant. The sample used includes 85 companies from 13 European countries whose shares are traded internationally. The indices show a clear increase in the deferred taxation comparability, in the financial leases comparability, in the goodwill comparability (companies passed from writing off the goodwill in the year of acquisition against income or reserves to alternatives in order to amortise the goodwill in more than five years) and in the foreign currency translation (companies increased the practices of accounting exchange gains and losses as income/loss for the year). The results corroborate the evidence that the process of spontaneous harmonisation made by European global players is successful. The formal harmonisation through European Directives, on the contrary, is not sufficient for these

firms in order to reach the desired comparability and disclosure. The existence of this material harmonisation, however, puts pressure to achieve formal harmony, at least for those organisations less influenced by specific national factors (CANIBANO MORA, 2000, pp. 355-367).

2.5 Benefits and limitations of IFRS adoption

IFRS continues to be implemented by more than 12.000 firms in over 100 countries: thus, it is becoming the universal standard for that preparation of monetary and financial accounting reports of public companies. Lately, the G20 leaders have required substantial improvement towards shifting to one unique group of high-quality global accounting standards. Theoretical and empirical research have shed light to the possible advantages and disadvantages faced by nations when they decide to adopt IFRS. The results are not clear, anyway: more studies and approaches have to be developed.
By implementing IFRS, firms can show their financial statements on the same basis as their foreign competitors, making evaluations and comparisons easier. Additionally, companies with subsidiaries in nations requiring or permitting IFRS may be able to use only one accounting company-wide language. Companies also have the necessity to shift to IFRS because they have become subsidiaries of foreign companies, obliged to used IFRS by their stakeholders. Companies could be benefited by implementing IFRS if they have the intention to raise funds abroad, especially where IFRS are obliged or considered higher quality, anyway. The advantages could be briefly listed as follows:

- to improve a unified and more comparable set of accounting and reporting standards;
- to create a single, high quality, transparent, understandable, globally enforceable and accepted financial reporting language;
- to increase cross border transactions;
- increased access to international funds and investments;
- increased confidence of global stakeholders;
- to facilitate international acquisitions and mergers;
- the adoption, by developing countries in particular, of well-codified accounting standards,

- the enhancement of a more globalised capital market due to the increased comparability of financial statements and the decreased investors' risk through international diversification,
- firms could bear less costs of financial report preparation if they decide to cross-list in different stock market, increasing the ability to seek less expansive funds and the ability to reduce the costs associated with investors acquiring a company's shares,
- investors may be advantaged by the less transaction costs, by an increase of the companies' information disclosure and by a decrease in the asymmetry information in order to gather more accurate information on company profiles,
- in case of consolidated accounts book-keeping will be facilitated and will also result in reduced transaction costs. No more adjustments will be needed in order to make financial reports of companies internationally comparable,
- an increase in the division of labour,
- a decrease in the earnings management, more earnings and more value relevance of earnings.

Creating a single international and comprehensive set of standards could enable more precise cross-border evaluations of financial data, letting predictors and other stakeholders to better use their know-how to examine companies from other nations. Adopting a unique accounting framework should permit to lower accounting standard variances in financial reporting across nations while easing cross-border evaluations of financial figures. Additionally, the more inclusive disclosure requirements under IFRS relative to most local GAAPs make earnings easier to comprehend and forecast, which should persuade experts to cover more foreign firms (TAN WANG WELKER, 2011, pp. 1307-1309).

There are many researches useful to evaluate the positive impact of IFRS adoption: for example, Andrè P. and Filip A. have examined the impact of the mandatory change to IFRS in 2005 by European firms on the level of accounting conservatism: it has decreased after the adoption in many countries, even in code-law systems. Accounting conservatism, therefore, is an important measure of accounting within an international setting. It estimates the accountants' inclination to demand a higher degree of confirmation when recognising good news over bad news. In addition, conservatism is

linked to the efficiency of stakeholders' contracting. It limits managerial opportunism and counters managerial bias which is beneficial to firm value since it constrains opportunistic payments to management itself or other parties such as shareholders. Moreover, it can limit litigation costs which are more likely when overstating a firm's net assets and can reduce the present value of firm's taxes. To conclude, less conservatism can reduce the political costs to standard setters and regulators from criticism if firms overstate net assets. So, the main hypothesis of this study was to understand if the mandatory adoption of IFRS in 2005 led to an overall decrease in accounting conservatism and a decrease of differences in conservatism across countries and legal/institutional regimes post-IFRS. The sample used derives from the database Worldscope: 2477 European firms shifting from national GAAPs to IFRS in 2005 (ANDRE' FILIP, 2012, pp. 1-5).

In the table below, it is possible to appreciate where the accounting conservatism has been decreased after IFRS adoption. The model is composed by the net income of firm i in year t, scaled by beginning of the period market value, the expectation operator within two-digit industry code in order to compute unexpected earnings, the market return over 18 months' net of dividends and capital contributions. Moreover, a dummy variable indicating the firms' reaction over bad and good news, a dummy variable for IFRS adoption over the years and a dummy variable indicating if the firm belongs to the target country or not were used. To conclude, it is possible to say that accounting conservatism is decreased in the majority of the European members but, most important, differences among European nations are reduced considerably.

	Before	**After**	**Variation**
AUSTRIA	0,362	0,344	-0,018
BELGIUM	0,202	0,114	-0,088
DENMARK	0,165	0,176	0,011
FINLAND	0,061	0,152	0,091
FRANCE	0,365	0,148	-0,217
GERMANY	0,422	0,157	-0,265
GREAT BRITAIN	0,242	0,144	-0,098
GREECE	0,110	0,149	0,039
IRELAND	-0,107	0,082	0,189
ITALY	0,175	0,067	-0,108

NETHERLANDS	0,855	0,110	-0,745
NORWAY	0,139	0,171	0,032
PORTUGAL	0,639	0,167	-0,472
SPAIN	0,034	0,106	0,072
SWEDEN	0,144	0,125	-0,019
SWITZERLAND	0,616	-0,051	-0,667

Table 7: VARATIONS IN ACCOUNTING CONSERVATISM

Source: ANDRE' FILIP, 2012, pp. 50-52

Increasing comparability, transparency and disclosure of financial information could impact positively in the foreign activities, as descried well in this figure:

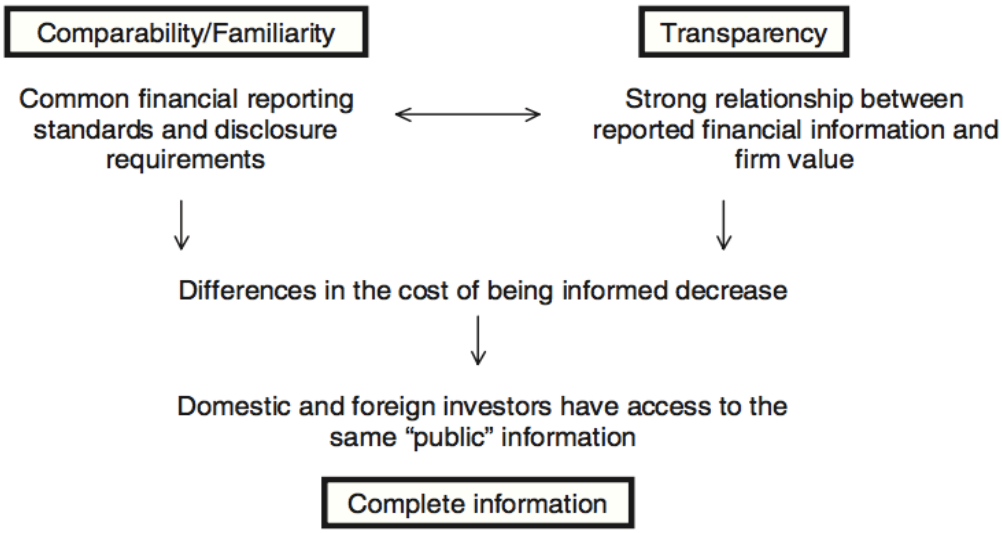

Figure 11: RELATIONSHIP BETWEEN COMPARABILITY, TRANSPARENCY AND DISCLOSURE

Source: MARQUEZ-RAMOS, 2011, p. 44

The figure sheds light on the two different effects originated by the IFRS adoption and the resulting decrease in country level information asymmetries: a transparency effect (i.e., compared to local GAAP, the transparency of financial statements increases) and comparability, and hence, familiarity effects of IFRS adoption (i.e., firms in countries *i* and *j* use the same accounting standards). The transparency effect, as a stronger relationship between reported financial information and the firm's value, implicitly assumes that accounting quality increases by switching from local GAAP to IFRS.

Additionally, it reinforces the comparability effect, which in turn increases the familiarity required to allow markets to operate more efficiently. Both the transparency and comparability effects decrease the informational differences of domestic and foreign agents and are expected to have a positive effect on foreign activities (MARQUEZ-RAMOS, 2011, p. 44).

Analysing data on bilateral exports of goods in the EU from 2002 to 2007 as well as data on bilateral foreign direct investments flows for the same period in the EU and in the most relevant countries around the world, the results indicate that the harmonisation process in Europe have led to a reduction in information costs and unfamiliarity between countries and an increase in international trade and foreign direct investments (FDI).

Variable	FDI_{BIA}	EQ_{BIA}	RE_{BIA}	$Loans_{BIA}$	FDI_{AIA}	EQ_{AIA}	RE_{AIA}	$Loans_{AIA}$
Exporter's income	0.35	0.31	0.42	0.28	0.29	0.14	0.43	0.17
	5.01	5.17	6.3	4.45	1.47	1.13	3.1	1.07
Importer's income	0.07	0.06	0.12	0.1	–0.01	–0.01	0.12	0.06
	1.21	1.18	2.2	2.08	–0.09	–0.14	1.21	0.51
Exporter's population	–0.08	–0.12	–0.15	–0.05	–0.07	–0.07	–0.21	0.06
	–2.68	–4.42	–5.1	–1.75	–0.68	–0.97	–2.86	0.65
Importer's population	0.09	0.06	0.02	0.05	0.09	0.05	0.04	0.08
	3	2.11	0.63	1.83	0.98	0.95	0.74	1.15
Comparability effect	0.09	0.19	0.2	0.21				

FDI = foreign direct investments

EQ = equity

RE = retained earnings

BIA = before IFRS adoption

AIA = after IFRS adoption

Figure 12: DATA ON BILATERAL EXPORTS OF GOODS AND ON BILATERAL FOREIGN DIRECT INVESTMENTS FLOWS

Source: MARQUEZ-RAMOS, 2011, p. 53

The regression used takes into account the problem of bias and inconsistency of the estimates in the presence of endogenous variables, as well as similarities in history, traditions, culture, and institutional relationships among countries by adding proper proxy control variables. For FDI regressions, the comparability effect of IFRS adoption is positive and significant for equity, retained earnings and loans. The comparability effect

of IFRS adoption has increased FDI in Europe by almost 22 percent. These results show, therefore, higher transparency in the targeted country (thus showing a shrinkage in the number of firms that account less sales for tax purposes), leading to an increase in investment flows from abroad. At the country level, the study tested the existence of a positive transparency and comparability effect. Furthermore, uncertainty-adverse countries benefit the most from IFRS adoption in terms of FDI. Therefore, accounting standard harmonisation can be considered a strategy to reduce the perceived risks of investing abroad. In summary, adopting a high-quality set of harmonised accounting standards fosters trade and FDI as the improvement in accounting information in turn fosters financial transparency and comparability and reduces information asymmetries and unfamiliarity among agents in different countries (MARQUEZ-RAMOS, 2011, pp. 52-56).

Other benefits linked to the IFRS adoption can be found in the increased market liquidity and equity valuation of the adopters: the study of Daske, Hail, Leuz and Verdi, for example, analysed a large sample of firms from 26 different countries from 2001 to 2005 in which IFRS have become mandatory. They found out that the value relevance of earnings increased while the cost of capital declined but only if the effect occurred before the official adoption date. The latter may suggest that the market predicts the economic consequences of the mandate. This means that the most benefits are addressed to the voluntary adopters and in an environment where firms have incentives to be transparent and where legal enforcement is strong. However, positive capital market effects are more significant in mandatory adopters than in voluntary ones: this is true just because the latter has benefited earlier the IFRS's switch. To sum up the findings, it is possible to say that:

- comparability benefits are fundamental because the increased comparability affects both the early and the late/mandatory adopters;
- capital-market effects for voluntary adopters are likely to be provoked by the collateral enforcement and governance changes that some countries introduce in order to maximize IFRS adoption's benefits. These changes should, therefore, affect all the firms in the environment, both mandatory and voluntary players;

- mandatory IFRS could spur early voluntary adopters to increase the commitment to them, thus eliminating dual reporting practices and the option to reverse back to local GAAP;
- liquidity improvements' results emerge only if the effects are considered to happen prior to the official IFRS adoption date, suggesting that the market anticipates the economic consequences of the mandate (DASKE HAIL LEUZ VERDI, 2008, pp. 1085-1095).

As the following figure shows, liquidity increased on average in IFRS adoption countries, especially during the year of the mandatory change. The mean proportion of zero return days in the preadoption period is 31.2% and decreases to 27.7% in 2005. Over the same period, the firms analysed encounter a decline in zero return days from 35.2% to 33.8%. However, the decrease in zero-return days is significantly larger (by 2.1%) for the IFRS adopters than for the benchmark firms.

Zero Returns		2004 (Preadoption Year) (a)	2005 (Adoption Year) (b)	(b) − (a)
Mandatory IFRS adopters $N = 2{,}696$	(i)	31.15%	27.66%	−3.49%***
Non-IFRS adopters (benchmark firms) $N = 3{,}987$	(ii)	35.18%	33.79%	−1.39%**
	(i) − (ii)	−4.03%***	−6.13%***	−2.10%***

Total Trading Costs		2004 (Preadoption Year) (a)	2005 (Adoption Year) (b)	(b) − (a)
Mandatory IFRS adopters N = 2,238	(i)	5.24%	4.59%	−0.65%***
Non-IFRS adopters (benchmark firms) $N = 3{,}271$	(ii)	6.19%	6.09%	−0.10%
	(i) − (ii)	−0.95%***	−1.50%***	−0.55%***

Figure 13: LIQUIDITY INCREASED IN IFRS COUNTRIES
Source: DASKE HAIL LEUZ VERDI, 2008, p. 1106

The overall results, however, vary a lot depending on the benchmark sample and the length of the sample period: this variance should be interpreted as the trouble to benchmark the economic consequences of a regulatory change that simultaneously affects all firms in an economy. However, even if the benefits are linked very strongly

with the implementation efforts of every nation, the financial information provided becomes anyway more useful to investors (DASKE HAIL LEUZ VERDI, 2008, pp. 1130-1132).

Christensen, Lee, Walker and Zeng corroborated the findings of Daske et al. (2008) by analysing the accounting quality in Germany, especially during the mandatory IFRS adoption imposed by the European Union. In order to find the change of accounting quality occurred using these new set of accounting standards and principles the researchers chose Germany because it is easier to identify managerial financial reporting incentives. Between 1998 and 2005, firms in Germany could choose to voluntarily adopt IFRS, and in 2005 compliance became mandatory. The main findings are related to the accounting quality's improvements made by voluntary adopters while the most resilient firms have strict relationships with banks and inside shareholders, consistent with lower incentives for more comprehensive accounting standards: IFRS per se does not improve accounting quality. Thus, accounting quality can be described by three dimensions:

- *earnings management*, the exploit of deliberately manipulating the process of financial reporting to get some advantage;
- *timely loss recognition*, the process to enable lenders, shareholders and boards of directors to better and faster recognise unprofitable projects in a timely way while supporting them to force managers to terminate such plans before large value losses;
- *value relevance*, the information capacity revealed by financial statements to seize and encapsulate firm value. It can be assessed by measuring the statistical relations occurred between information presented by financial statements and stock market values or returns.

Voluntary adopters are characterized by decreased earnings management, increased timely loss recognition and increased value relevance while mandatory adopters showed little or even no improvements. Adoption of IFRS does not, therefore, automatically lead to higher quality accounting, at least not when the preparers have no motivations to become more transparent in their reporting (CHRISTENSEN LEE WALKER ZENG, 2015, pp. 31-33).

	Voluntary adopters				Resisters					
	N	Mean	Median	SD	*N*	Mean		Median		SD
Test variables										
ΔNI	1028	0.0100	0.0050	0.0655	1223	0.0113		0.0036		0.0862
ΔCF	1028	0.0071	0.0054	0.0793	1223	0.0068		0.0024		0.0921
ACC	1028	−0.0487	−0.0416	0.0809	1223	−0.0479		−0.0459		0.0943
CF	1028	0.0695	0.0689	0.0800	1223	0.0542	***	0.0570	***	0.0938
SPOS	1028	0.1284	0.0000	0.3347	1223	0.1316		0.0000		0.3382
LNEG	1028	0.0311	0.0000	0.1737	1223	0.0540	***	0.0000	***	0.2260
R	1395	0.1043	0.0339	0.4209	1920	0.0617	***	0.0192	***	0.4122
NI/*P*	1395	0.0320	0.0484	0.1141	1920	0.0111	***	0.0374	***	0.1452
ΔNI/TA	1479	0.0094	0.0041	0.0622	2005	0.0096		0.0027		0.0787
P	1439	30.1860	16.7000	38.2403	2005	31.1864		12.7000	***	44.7562
BVPS	1439	14.2582	7.8980	17.6225	2005	14.1748		6.6200	***	19.0928
EPS	1439	1.0961	0.7200	2.0609	2005	0.8061	***	0.3900	***	2.5505
Control variables										
LEV	1028	3.2276	1.9676	4.1000	1223	3.5272		1.6940	**	4.8107
GROWTH	1028	0.1039	0.0669	0.2380	1223	0.0858	*	0.0298	***	0.2735
EISSUE	1028	0.2763	0.0000	0.4474	1223	0.1472		0.0000	***	0.3544
DISSUE	1028	0.1088	0.0397	0.3207	1223	0.0759	**	0.0110	***	0.3347
TURN	1028	1.1680	1.1696	0.6342	1223	1.0569	***	1.0576	***	0.6411
SIZE	1028	12.7176	12.4600	2.0608	1223	11.2673	***	10.9933	***	1.7466
CF	1028	0.0695	0.0689	0.0800	1223	0.0542	***	0.0570	***	0.0938
NUMEX	1028	2.2617	2.0000	1.3503	1223	1.7694	***	2.0000	***	0.8076
AUD	1028	0.7305	1.0000	0.4439	1223	0.4980	***	0.0000	***	0.5002
XLIST	1028	0.1012	0.0000	0.3017	1223	0.0319	***	0.0000	***	0.1758
CLOSE	1028	0.4272	0.4654	0.2935	1223	0.4611	**	0.5182	***	0.3524

ΔNI is the change in net income, scaled by end-of-year total assets.

ΔCF is the change in annual cash flow from operations, scaled by end- of-year total assets.

ACC is the earnings less cash flow from operations, scaled by end-of-year total assets.

CF is annual net cash flow from operating activities, scaled by end-of-year total assets.

SPOS is an indicator variable that equals one for observations where net income scaled by total assets is between 0 and 0.01.

LNEG is an indicator variable that equals one for observations for which annual net income scaled by total assets is less than 20.20, and zero otherwise.

R is the fiscal year return including dividend.

NI/P is the net income per share scaled by share price.

ΔNI/TA is the change in net income scaled by total assets.

P is share price 6 months after fiscal year end.

BVPS is the book value per share.

EPS is the net income per share.

LEV is the end-of-year total liabilities divided by the end-of-year book value of equity.

GROWTH is the percentage change in sales.

EISSUE is an indicator that equals one if the firm issued equity.

DISSUE is the percentage change in total liabilities.

TURN is the sales divided by the end-of-year total assets.

SIZE is the natural logarithm of end-of-year market value of equity.

NUMEX is the number of exchanges on which a firm's stock is listed.

AUD is an indicator variable that equals one if the firm's auditor is PwC, KPMG, Arthur Andersen, E&Y or D&T, and zero otherwise.

XLIST is an indicator variable that equals one if the firm is listed on any US stock exchange. CLOSE is the percentage of shares reported to be closely held in Worldscope.

* Significance at the 10% level (two-sided tests).

** Significance at the 5% level (two-sided tests).

*** Significance at the 1% level (two-sided tests).

Figure 14: DESCRIPTIVE STATISTICS OF ACCOUNTING QUALITY

Source: CHRISTENSEN LEE WALKER ZENG, 2015, p. 43

This figure shows descriptive statistics on all variables used in the analysis of accounting quality. The observations show important changes between voluntary adopters and resisters in operating cash flow (CF), proportion of large loss (LNEG), stock returns (R), net income divided by price (NI/P) and earnings per share (EPS). Returns and net income are on average higher for voluntary adopters than resisters, reflecting maybe industry variations. Meanwhile, the control variables indicate that, on average, the voluntary adopters have higher growth, issue more equity and debt securities, have greater sales, are larger and listed on more exchanges, are more likely to be audited by a large auditor and cross-listed in the USA, and have less closely held shares.

	Obs.							
Earnings management	Pre	Post	Pre-adoption	Post-adoption	Expected sign	Difference	%Difference	Level of significance
Variability of ΔNI	348	680	0.0030	0.0048	+	0.0018	60%	***
Variability of ΔNI*	348	680	0.0030	0.0046	+	0.0016	53%	***
Variability of ΔNI/ΔCF	348	680	0.4272	0.8345	+	0.4073	95%	***
Variability of ΔNI*/ΔCF*	348	680	0.5449	1.0651	+	0.5202	95%	***
Correlation between ACC and CF	348	680	−0.4882	−0.1994	+	0.2888	59%	***
Correlation between ACC* and CF*	348	680	−0.6702	−0.5690	+	0.1012	15%	*
Small Positive NI (SPOS) ($N = 1008$)				−0.1057	−			No
Timely loss recognition								
Large Negative NI (LNEG) ($N = 1008$)				0.1760	+			No
			β_2	$t(\beta_2)$	β_3	$t(\beta_3)$	Adj. R^2	N
Pre-adoption			−0.0009	−0.06	0.1690	5.00	5.05%	730
Post-adoption			0.0250	1.46	0.2890	7.59	18.11%	665
Expected sign			?		+			
Test of pre- and post-difference			0.0259		0.1200		13.06%	1395
Level of significance			No					
			λ_2	$t(\lambda_2)$	λ_3	$t(\lambda_3)$	Adj. R^2	N
Pre-adoption			0.0226	0.40	−0.4491	−4.99	4.38%	759
Post-adoption			0.1202	2.38	−0.8573	−9.59	13.23%	720
Expected sign			?		−			
Test of pre- and post-difference			0.0976		−0.4082		8.85%	1479
Level of significance			No		*			
Value relevance								
			δ_1	$t(\delta_1)$	δ_2	$t(\delta_2)$	Adj. R^2	N
Pre-adoption			1.7046	25.65	2.6141	4.58	64.70%	713
Post-adoption			1.2327	24.61	5.6811	13.38	72.63%	726
Expected sign			?		+			
Test of pre- and post-difference			−0.4719		3.0670		7.93%	1439
Level of significance			***		**			

ΔNI^*, ΔCF^*, CF^* and ACC^* are defined as the residuals from the regressions of ΔNI, ΔCF, CF and ACC.

Small positive NI and large negative NI are the coefficients on SPOS and LNEG in logistic regressions.

For the timely loss recognition are showed the good news (b_2) and incremental bad news (b_3) coefficients are reported.

For the earnings persistence regressions, only the positive income changes (l_2) and incremental negative income changes (l_3) coefficients are reported.

For value relevance regressions, there are showed coefficients on book value per share (d_1) and earnings per share (d_2).

Pre-adoption includes all observations before firms voluntarily adopt IFRS while post-adoption includes all observations after a firm adopts IFRS.

* Significance at the 10% level (two-sided tests).

** Significance at the 5% level (two-sided tests).

*** Significance at the 1% level (two-sided tests).

Figure 15: THE EVALUATION OF ACCOUNTING QUALITY BETWEEN THE PRE- AND POST-ADOPTION PERIODS FOR VOLUNTARY ADOPTERS

Source: CHRISTENSEN LEE WALKER ZENG, 2015, p. 45

This figure displays the evaluation of accounting quality between the pre- and post-adoption periods for voluntary adopters. The variability of earnings (ΔNI) growths considerably in the post-adoption period, which is coherent with reduced earnings management. The change in the variability of earnings could be motivated by underlying cash flows. The negative correlation between accruals and cash flows is also diminished significantly in the post-adoption period, which denotes less earnings management. The coefficient on small positive profits is negative, which would be dependable with less earnings management in the post-adoption period. Moreover, the positive coefficient on LNEG implies that firms are more likely to identify large losses in the post-adoption period, although this result is not statistically significant. The incremental timeliness of bad news increases significantly from pre- to post-adoption period, which suggests more timely loss recognition after firms voluntarily adopt IFRS.

Earnings management	Obs. Pre	Obs. Post	Pre-adoption	Post-adoption	Expected sign	Difference	%Difference	Level of significance
Variability of ΔNI	348	680	0.0030	0.0048	+	0.0018	60%	***
Variability of ΔNI*	348	680	0.0030	0.0046	+	0.0016	53%	***
Variability of ΔNI/ΔCF	348	680	0.4272	0.8345	+	0.4073	95%	***
Variability of ΔNI*/ΔCF*	348	680	0.5449	1.0651	+	0.5202	95%	***
Correlation between ACC and CF	348	680	−0.4882	−0.1994	+	0.2888	59%	***
Correlation between ACC* and CF*	348	680	−0.6702	−0.5690	+	0.1012	15%	*
Small Positive NI (SPOS) ($N = 1008$)				−0.1057	−			No
Timely loss recognition								
Large Negative NI (LNEG) ($N = 1008$)				0.1760	+			No

	β_2	$t(\beta_2)$	β_3	$t(\beta_3)$	Adj. R^2	N
Pre-adoption	−0.0009	−0.06	0.1690	5.00	5.05%	730
Post-adoption	0.0250	1.46	0.2890	7.59	18.11%	665
Expected sign	?		+			
Test of pre- and post-difference	0.0259		0.1200		13.06%	1395
Level of significance	No					

	λ_2	$t(\lambda_2)$	λ_3	$t(\lambda_3)$	Adj. R^2	N
Pre-adoption	0.0226	0.40	−0.4491	−4.99	4.38%	759
Post-adoption	0.1202	2.38	−0.8573	−9.59	13.23%	720
Expected sign	?		−			
Test of pre- and post-difference	0.0976		−0.4082		8.85%	1479
Level of significance	No		*			
Value relevance						

	δ_1	$t(\delta_1)$	δ_2	$t(\delta_2)$	Adj. R^2	N
Pre-adoption	1.7046	25.65	2.6141	4.58	64.70%	713
Post-adoption	1.2327	24.61	5.6811	13.38	72.63%	726
Expected sign	?		+			
Test of pre- and post-difference	−0.4719		3.0670		7.93%	1439
Level of significance	***		**			

Figure 16: ACCOUNTING QUALITY BETWEEN THE PRE- AND POST-ADOPTION PERIODS FOR RESISTERS
Source: CHRISTENSEN LEE WALKER ZENG, 2015, p. 47

This figure, however, illustrates the accounting quality's association between the pre- and post-adoption periods for resisters. The changeability of earnings (ΔNI) decreases meaningfully in the post-adoption period, which is linked to an escalation in earnings management. The variability of earnings relative to the variability of cash flows (ΔNI/ΔCF) means that the variation's predominance in earnings is attributable to underlying cash flows. The coefficient on small positive profits is positive and significant, which denotes more earnings management towards a target after IFRS adoption. The appreciably negative coefficient on LNEG implies that firms are less likely to identify large losses in the post-adoption period. The incremental timeliness of bad news is also lowered in the post-adoption period. Furthermore, the results display a reduced persistence of losses in the post-adoption period. However, the difference in loss persistence is small and not statistically significant. A weakening in the value relevance of earnings per share from the pre- to post-adoption period occurred, although the difference between the two periods is not significant. Overall, the results for resisters generally denote marginally more earnings management, less timely loss recognition and even reduced value relevance in the post-adoption period although

most changes are statistically insignificant. These conclusions diverge severely to those stated for voluntary adopters that revealed a decline in earnings management and an intensification in timely loss recognition. To conclude, it is possible to say that, while the decreased earnings management occurred normally during the post IFRS adoption period are linked to an increased variability of earning and to a decrease in the negative correlation between accrual and cash flows, the increased timely loss recognition is connected to an increase in timelines of bad new after the adoption and a decrease in the persistence of losses (CHRISTENSEN LEE WALKER ZENG, 2015, pp. 47-58).

Other researchers focused more on increased comparability caused by IFRS adoption: Wang, for example, analysing market reactions for a sample of 575 earnings announcements from global industry leaders for the period 2001-2008, tried to prove that transnational information transfer is not only facilitated by international harmonization but also it increases comparability among financial reporting information: mandatory IFRS adopters have empirically showed that they possess faster market reactions to the release of earning compared to pre-mandatory adoption. This, however, has not occurred to non-adopters over the same period. More specifically, firms reporting in the same accounting framework have higher price and volume reactions to a foreign firm's earnings announcement: higher correlation between measurement processes for accounting earnings imply more comparability. Stakeholders can, therefore, evaluate better the information linked in the foreign firms' earnings signals. To access that IFRS has effectively increased comparability, a new measure was defined and built: a statistical definition of comparability, able to capture the relationship between the measurement errors from information signals across two firms. The context is useful because it is a straight, short-window analysis of how one firm's information signal biases the other firm's assessment. The non-announcing firm's market reactions to the announcing firm's earnings report increase with the correlation between the measurement errors, as a higher correlation allows investors to infer more information from the announcing firm's earnings signal when valuing the non-announcing firm. The results from cross-sectional analyses showed that to reach this results a proper legal enforcement and reporting incentives for accomplishing the required transnational comparability have to be developed: in fact, firms domiciled in countries with stricter enforcement regimes and stronger reporting incentives show the most significant information transfer effect (WANG, 2014, pp. 1-6).

Increased comparability given by IFRS adoption and accounting harmonization is also linked to financial analysts. Many studies demonstrated that IFRS attracts this particular group of financial statement users, in particular those from countries that are concurrently implementing IFRS and those with prior IFRS understanding. The reason why this happens is linked to the increased accuracy of foreign analysts' forecast due to IFRS adoption. The magnitude is related to the distance between local GAAP and IFRS: the more dissimilar they have been, the more analysts will be attracted. This increase is as high as the distance between local GAAP and IFRS prior to the mandatory adoption. This process attracts local analysts, too: in particular, those with prior IFRS experience. These modifications in foreign financial analysts' market could be, therefore, connected to an increased effectiveness of accounting data after the IFRS adoption because they can more accurately forecast earnings for the foreign firms they follow. Analysts are, indeed, linked to financial disclosure and transparency: the results documented by Tan, Wang & Welker, analysing a sample of almost 40.000 equity analysts and 22.000 firms, lead unequivocally to a positive relation between IFRS adoption and the reduction of information acquisition and processing costs for analysts (TAN WANG WELKER, 2011, pp. 1307-1309).

Foreign analyst following in pre– and post–IFRS adoption periods

	Voluntary Adopters						Mandatory Adopters					
	Post–IFRS (n = 1,137)		Pre–IFRS (n = 1,054)		Difference		Post–IFRS (n = 4,874)		Pre–IFRS (n = 4,945)		Difference	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
all	2.610	0.000	2.241	0.000	0.369	0.000	1.127	0.000	0.988	0.000	0.139	0.000
ctry25	2.536	0.000	2.194	0.000	0.342	0.000	1.084	0.000	0.949	0.000	0.135	0.000
nctry25	0.074	0.000	0.047	0.000	0.027	0.000	0.042	0.000	0.039	0.000	0.003	0.000
ifrsexp	2.165	0.000	1.612	0.000	0.553	0.000	0.830	0.000	0.638	0.000	0.192	0.000
nifrsexp	0.445	0.000	0.629	0.000	−0.184	0.000	0.296	0.000	0.350	0.000	−0.05	0.000

Foreign analyst forecast accuracy in pre– and post–IFRS adoption periods

	Voluntary Adopters						Mandatory Adopters					
	Post–IFRS (n = 3,068)		Pre–IFRS (n = 3,122)		Difference		Post–IFRS (n = 5,758)		Pre–IFRS (n = 6,534)		Difference	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
all	−1.650	−0.597	−2.323	−0.919	0.673	0.322	−1.492	−0.570	−2.667	−1.015	1.1	0.445
ctry25	−1.666	−0.599	−2.319	−0.920	0.653	0.322	−1.494	−0.567	−2.649	−1.015	1.1	0.448
nctry25	−1.060	−0.547	−2.501	−0.771	1.441	0.224	−1.437	−0.745	−3.227	−0.986	1.7	0.241
ifrsexp	−1.690	−0.602	−2.260	−0.570	0.583	0.307	−1.527	−0.560	−2.716	−1.056	1.1	0.496
nifrsexp	−1.481	−0.558	−2.487	−0.954	1.006	0.396	−1.406	−0.589	−2.577	−0.944	1.1	0.355

Figure 17: FOREIGN ANALYST BETWEEN PRE- AND POST-ADOPTION PERIODS

Source: TAN WANG WELKER, 2011, p. 1314

The sample was divided in different groups, which are:

- all, foreign analysts from all of the 34 countries that have already adopted IFRS;
- ctry25, foreign analysts who are located in the 25 sample countries supporting IFRS adoption during the period analysed (1998-2007);
- nctry25, foreign analysts not included in the 25 sample countries requiring IFRS adoption;
- ifrsexp, foreign analysts with prior IFRS experience;
- nifrsexp, foreign analysts with no previous IFRS knowledge.

The numbers of foreign analysts from all of the 34 analyst countries, from the 25 countries that mandate IFRS adoption and those with prior IFRS experience, have all improved from two years before the IFRS adoption date (pre-adoption) to two years after the IFRS adoption date (post-adoption) for mandatory adopters: this is true looking at the mean values of the chart. Similar growths are spotted for voluntary adopters. On the other hand, the average number of foreign analysts without prior IFRS experience has diminished from two years before the IFRS adoption to two years after the IFRS adoption date for both voluntary and mandatory adopters. At the bottom, there are the changes in earnings forecast accuracy. As we can see from the mean values, in the totality of the samples the foreign analyst increased after the IFRS adoption while decreased the number of foreign analysts with no IFRS skill. The same reasoning can be done taking into consideration foreign analysts' accuracy: it has increased for the totality of the samples. To sum up, embracing a unique and worldwide accounting framework means less frameworks to study, follow and, for the foreign analysts, more firms able to cover. In addition, their accuracy in forecast earnings increases because accounting harmonization reduces forecast errors triggered by dissimilarities in accounting standard (TAN WANG WELKER, 2011, pp. 1314-1328).

To conclude, other studies underlined the benefits of increased comparability: Brochet, Jagolinzer and Riedl, for example, analysed if IFRS compulsory implementation produces capital market benefits through improved financial statement comparability. All UK listed and domiciled firms from 2003 to 2006 were used as a sample because English GAAP is the most similar to IFRS, trying to isolate the advantages caused just by increased comparability rather than to changes in core information quality. In this way,

it is possible to insulate modifications in the accuracy of across-firm reporting signals (i.e., comparability) from changes regarding the exactness of information specific to the company (i.e., core information quality). Increasing comparability means, therefore, decreasing the information competitive advantage possessed by the insiders, originated from the access to firm-specific information about choices that may have affected business results and to a complex understanding of how firm performances are connected to the results of other firms. Comparability enhancements should, therefore, increase stakeholders' skills to comprehend firm's comparative performances and, simultaneously, reduce insiders' informational benefits. In specific, the researchers have found that abnormal returns in the pre-IFRS period are higher relative to those in the post-IFRS period: mean abnormal returns decrease after IFRS adoption from 2,08% to 0,68% for the one-month return window, 4,01% to 1,23% for the three-month window, and 6,75% to 2,09% for the six-month window. Then, four different proxies were built in order to classify which companies had ex ante high quality core information and which had not. Low change in accruals, low reconciling items between UK standards and IFRS, low closely held shares and high analyst following, exhibiting that advantages to IFRS adoption are not restricted to nations showing large variances between domestic standards and IFRS, or to firms displaying low information quality. On the contrary, enhancements can also take place in locations where information quality is already high-pitched and compulsory local GAAP are already analogous to IFRS (BROCHET JAGOLINZER RIEDL, 2013, pp. 1373-1383)

Some researchers believe that national GAAPs remain the best fit because a certain level of quality will be lost with full acceptance of IFRS. Certain issuers, without significant customers or operations outside the national borders, may resist IFRS because they have not a market incentive to prepare financial statements according to IFRS principles. As a matter of fact, they may believe that the significant costs associated with adopting IFRS outweigh the benefits. Some other limitations, challenges and disadvantages could be listed as follows:

- IFRS are designed for big internationalized companies while in many nations, Italy included, small and medium firms create the most part of GDP,
- stated that IFRS are not rule based, it may cause problems during the implementation phase, a strong enforcement is therefore needed,

- first time adoption needs to be planned quite in advance, any delays will delay deployment.

Adopting a new set of accounting standards is not easy, especially because environmental differences exist among nations. This is true not only for the magnitude, but also for the overcoming costs involved (when it is possible) through convergence. Furthermore, difficulties could arise when, due to the adoption of IFRS, firms decide for example to use the fair value method in nations where asset pricing markets are not able to generate a reliable fair value measure. In this case, artificial approaches are used, leading the production of figures that lack in comparability. Moreover, IFRSs are heavily based on the current financial reporting regulations of countries and markets that are designed toward outside capital providers: these countries have enforcement and other entities that complement the reporting regulations developed. As a matter of fact, it is not enough adopting a uniform set of accounting standards to ensure comparability and disclosure among accounting standards and practices. This situation is generated by the variation of incentives across firms, industries, stock exchanges, countries and political regions. To overcome the problem, it is necessary a convergence not only among accounting practices but also on national institutions.

The international accounting convergence could be beneficial for large multinational entities and institutional investors while it could be harmful for entities operating only in one jurisdictions and not seeking international sources of funds through global markets. In this case, the increased costs of compliance could outweigh the benefits of convergence (WYSOCKI, 2011, pp. 321-322).

This is especially true for small and medium-sized enterprises (SMEs). To overcome adoption problems due to the lack of funds and/or know-how the IASB issued a framework especially designed for them on the 9th of July 2009 after a five-year consultation. It is possible to go deeper and isolate pros and cons of the use of a different reporting framework for SMEs: in favour, there are differences in user's needs, access to internal information, complexity of transactions and higher costs for small companies relative to their benefits. On the contrary, limits for a unique set of accounting standards could be seen in the fear of reducing the credibility, confusion among the statement users, difficulties of defining the small businesses, the lack of consistency and comparability. The development process was inspired by the idea to develop an IFRS

expressly designed to meet the financial reporting needs of entities that do not have public accountability and/or publish general purpose financial statements for external users as owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.
The Board firstly developed a discussion paper, inviting the surveyed entities to comment and suggest the approach to the project: the replies have shown undoubtedly that most of the SMEs demand clearly an IFRS and prefer to adopt global private entity standards rather than locally or regionally developed standards. All this material was discussed from 2005 to 2006 and, in 2007, an Exposure Draft (ED) was published by the IASB. In 2009, finally, a final version of IFRSs for SMEs was published. One of the entities that has expressed major doubts about this new set of standards is the European Financial Reporting Advisory Group (EFRAG). Its basic remarks and objections on the ED concerned:

- size criterion,
- users' needs and cost-benefit considerations,
- modifications of full IFRS.

The size criterion, noted the EFRAG, can create misunderstandings: this label is widely used internationally to refer to the size of entities in general. The common definition collides heavily with the ED because it is impossible to find references linked to the size criterion, but only linked to public accountability. Therefore, the solution proposed by EFRAG was to change the standards' label to non-publicly accountable entities (NPAE). User's needs of NPAEs are clearly different from the ones taken as a model for normal IFRS: these differences needed to be reflected in different recognition and measurement principles. SMEs financial statements need to be easily understandable and every unnecessary complexity or variety in accounting treatments must be eliminated.
The main simplification could be summarised in:

- reinstating the amortisation of goodwill and other intangible assets,
- promulgating only one cost model and one revaluation model for non-financial assets,
- eliminating the reference to the name fair value,

- eliminating the recognition of equity settled share-based payments.

According to the research performed by the European Community, 13 member states (Cyprus, Czech Republic, Denmark, Estonia, Greece, Spain, Ireland, Malta, Netherlands, Poland, Portugal, Sweden, United Kingdom) thought that the IFRS for SMEs are feasible for application, while 9 member states (Austria, Belgium, Bulgaria, Germany, Finland, France, Italy, Slovakia, Slovenia) have not considered them applicable in financial reporting of their SMEs. This debate complicates the cost evaluation for the IFRS adoption, especially in a small or medium enterprise: more research has to be done in order to evaluate the material and non-material impact of adopting a new accounting framework (BALDARELLI DEMARTINI MOSNJA-SKARE PAOLONI, 2012, pp. 1-12).
It is, therefore, possible to affirm that international harmonization could not be useful and desirable because GAAP are country-specific and developed within a political process, involving economic environments, users and objectives.
Some researchers have demonstrated that capital markets effects exist but could be negligible because too modest to have a real impact. The application of IFRS assumes a lot of judgment and private information, causing an increase in firms' discretion. The problems, therefore, shifts to how these firms use the discretion. It could depend on their reporting incentives, which are shaped by many factors, including countries' legal institutions, various market forces, and firms' operating characteristics. For many reasons a firm could be opposed to an accounting framework's shift: this behaviour is likely to be translated in no material changes to its reporting policies. Thus, even if the standards themselves mandate superior accounting practices and require more disclosures, it is not clear whether firms implement these standards in ways that make the reported numbers indeed more informative. Moreover, in many cases, it is difficult to isolate the IFRSs effect in the increase of a firm's transparency and disclosure. Some firms could, indeed, adopt IFRS as part of a broader strategy that increases their commitment to transparency. For example, they may hire higher quality auditors, improve corporate governance, change ownership structures, or seek cross-listings in stricter regimes, along with IFRS adoption. As a result, the capital-market effects around voluntary adoptions are likely to be larger but they cannot be attributed to IFRS alone. That is, the effects might reflect differences in the incentives for credible reporting, the circumstances that lead to IFRS adoption in the first place, and a firm's entire

commitment strategy. Additionally, effects on increased liquidity and valuation effects have to be mitigated and separated by self-selection. This happening is linked to firms that switch to IFRS reporting shortly before doing so becomes mandatory. More specifically, mandatory adopters do not gain just because they have adopted a new accounting system: mandatory adopters confer positive externalities on voluntary adopters by increasing the set of comparable firms, which in turn could lead to improved risk sharing across a larger set of investors. Besides, voluntary adopters likely have better reporting incentives to begin with and, hence, should be more responsive to such institutional changes, which could explain stronger treatment effects (DASKE HAIL LEUZ VERDI, 2008, p. 1129-1132).

It is by now established that voluntariness and enforcement are key points in the correct IFRS adoption and its linked benefits. Christensen et al. corroborate this assumption by finding little evidence of accounting quality improvements for firms that are forced to adopt IFRS. The results of their research, focused on German firms and IFRS adoption, suggest that adoption of IFRS does not necessarily lead to higher quality accounting, at least not when the preparers have no incentives to become more transparent in their reporting. The main reasons are twofold: in the state of art, IFRS provides too much flexibility, rendering ineffective earnings management of firms with low incentives to comply. Secondly, the observed accounting quality improvements effects observed are not linked to IFRS but to changes in reporting incentives of these firms around the time of their adoption. Normally, firms resistant to changes are those with closer relationships with banks and, therefore, with less demand of company information disclosure. For such firms, financial reporting may primarily serve the purpose of contracting with known insiders rather than relatively anonymous outsiders. Anyway, it is not so clear if firms adopt IFRS voluntarily because they want to increase their accounting quality and, thus, their ability to attract investors. In order to attract external financing, there are essentially two explanations shedding light the reason why a firm may voluntarily adopt IFRS in the process. The first implies that IFRS has an incremental effect on accounting quality while the second suggests that it is a manifestation of other underlying factors. The voluntary IFRS adoption could be beneficial because it can reduce earnings management and increase timely loss recognition. This may happen because IFRS limits the options available to managers. The alternative explanation

suggests that voluntary IFRS adoption may simply correlate with other managerial motives:

- firms could reach the same level of information using local GAAP but this would involve changing accounting choices and implicitly accepting that previous practices were less informative. Differently, adopting IFRS allows firms to adopt new practices without having to acknowledge "the sins of the past";
- adopting voluntarily a new set of financial reporting standards could open higher profile stock exchange segments, signalling a change in financial reporting incentives;
- before 2005 firms could shift to IFRS because they know that in the future IFRS will become mandatory. This adoption can be seen as a long-term cost decreasing response for firms that are undergoing change in their financial reporting anyway since they know IFRS would be mandatory as of 2005.

Earnings management	Obs. Pre	Obs. Post	Pre-adoption	Post-adoption	Expected sign	Difference	%Difference	Level of significance
Panel A: One year before and after adoption								
Voluntary adopters, one year before and after adoption:								
Variability of ΔNI	98	98	0.0045	0.0045	+	−0.0000	−0.1%	No
Variability of ΔNI/ΔCF	98	98	0.6288	0.8843	+	0.2555	40.6%	No
Resisters, one year before and after adoption:								
Variability of ΔNI	164	164	0.0090	0.0063	+	−0.0027	−30%	*
Variability of ΔNI/ΔCF	164	164	0.7658	0.8230	+	0.0572	7.5%	No
Panel B: Two years before and after adoption								
Voluntary adopters, two years before and after adoption:								
Variability of ΔNI	162	162	0.0036	0.0027	+	−0.0009	−25%	No
Variability of ΔNI/ΔCF	162	162	0.5399	0.6655	+	0.1256	23.2%	No
Resisters, two years before and after adoption:								
Variability of Δ*NI*	298	298	0.0094	0.0056	+	−0.0038	−40.4%	***
Variability of ΔNI/ΔCF	298	298	0.8262	0.7799	+	−0.0463	−5.6%	No

Panel C: Change for resisters relative to voluntary adopters around 2005

	Obs. Pre	Obs. Post	Post−pre resister	Post−Pre voluntary	Expected sign	Resister−voluntary	Level of significance
One year before and after 2005							
Variability of ΔNI	328	252	−0.0027	−0.0003	+	−0.0024	N/A
Variability of ΔNI/ΔCF	328	252	0.0572	0.0249	+	+0.0323	N/A
Two years before and after 2005							
Variability of ΔNI	596	324	−0.0038	−0.0009	+	−0.0029	N/A
Variability of Δ*NI*/Δ*CF*	596	324	−0.0463	0.1257	+	−0.1720	N/A

∗ Significance at the 10% level (two-sided tests).

∗∗ Significance at the 5% level (two-sided tests).

∗∗∗ Significance at the 1% level (two-sided tests).

ΔNI is the change in net income, scaled by end-of-year total assets.

ΔCF is the change in annual cash flow from operations, scaled by end- of-year total assets.

Figure 18: EFFECTS OF THE IFRS ADOPTION ON THE RESISTERS

Source: CHRISTENSEN LEE WALKER ZENG, 2015, p. 53

The observations are limited to firms that have an equal number of pre- and post-observations. In Panel A, there are firms that have data the year before IFRS adoption and the year after, while in Panel B, there are firms that have data in the two years before IFRS adoption and the two years after. In Panel C, the difference in the post-IFRS accounting quality changes of resisters against those of voluntary adopters as a control group are showed. It is possible to appreciate how the benefit, especially for resisters of IFRS adoption, are not very significant. Hence, it is possible that the quality improvements are at least partly driven by changes to financial reporting incentives rather than IFRS per se. Adopting a new set of standards could be very costly for firms, especially for the compliance: it is worth nothing if the organization does not incorporate in the right way the new set of accounting principles. IFRS is considered embedded if it is used for internal reporting and if systems are adapted to automatically generate required information. Similarly, the degree to which IFRS is integrated in the organization is likely to affect compliance costs. Changing internal reporting and adapting IT systems are potentially costly. It is plausible that voluntary adopters that perceive net benefits of IFRS are more likely to embed IFRS in the organization than resisters that are forced to comply with IFRS. Overall, the results for resisters generally indicate marginally more earnings management, less timely loss recognition, and even reduced value relevance in the post-adoption period although most changes are statistically insignificant. These findings are in sharp contrast to those reported for voluntary adopters that showed a reduction in earnings management and an increase in timely loss recognition (CHRISTENSEN LEE WALKER ZENG, 2015, pp. 57-59).

Some academics, given the weak results of the empirical research about the benefits of IFRS adoption, have developed hypothesis explaining the wide use of this accounting framework and, mostly, the strong support received by many governments and supranational entities.

Chua and Taylor, for example, stated that the most important reasons for IFRS spreading around the world have not been economical, rather social and political. IFRS confers institutionalized legitimacy because it possesses three characteristics required for a global governance tool: sponsorship by powerful interest groups/regulators, internationality and plasticity. Three key reasons for IFRS adoption are usually employed: transparency, (increased) quality and comparability. On the first point, the authors noted that periodic financial statements are just one factor of the information

sets used to assess the performance of publicly traded firms. Indeed, the most important source of demand for financial reporting is likely to be the contracting role of accounting, rather than a key tool for investment evaluation by outsiders. For the second term utilized, the quality of the financial reporting process has usually more to do with the approach of standards' enforcement than variation in the standards themselves. It is also tough to prove the outcomes of a change in accounting standards if the implementation is not compulsory. Finally, the same reasoning could be used for comparability: lots of practical studies focused on the comparability of other properties (e.g., value relevance and conservatism) rather than trying to outline and measure comparability per se (CHUA TAYLOR, 2008, pp. 464-467).

To sum up, the researchers have noted that the main economic justifications underlining IFRS diffusion and adoption lack practical support. The emphasis was, therefore, addressed to the role of social and political factors. They have been playing an important role in clarifying the accountability for creating a set of international accounting standards, as well as their diffusion. It seems that global governance technologies such as IFRS persist as an instable and delicate combination of diverse governing manners. So, while governments seem gradually willing to authorize compulsory adoption of IFRS in their areas, they want to remain the final deus ex-machina of the IFRS adoption process. Strong nation and supra-state agencies as the EU have already appropriated this right, implying that administrations could outsource the creation of IFRS if they have in their hand the final voice among their jurisdictions. The struggle between different regulatory groups probably confirm IFRS as a tool developed by political interest of different stakeholders and by the governors of global business (CHUA TAYLOR, 2008, pp. 471-472).

A better accounting quality is perceived as one of the main benefit if a unique set of accounting worldwide is adopted. Some researchers are, however, sceptical about these "real" benefits, affirming that cross-country dissimilarities in accounting quality will persist due to the accounting quality's characteristics perceived as a function of the firm's overall institutional setting. Soderstrom and Sun have tried to summarize the improvements made by adopting IFRS in two factors:

- changing accounting framework will increase accounting quality,
- the accounting system is complementary to the nation's institutional system, determined by firms' motivations for financial reporting.

The interdependence between economic and institutional factors will, therefore, differ through countries (SODERSTROM SUN, 2007, pp. 675-684).

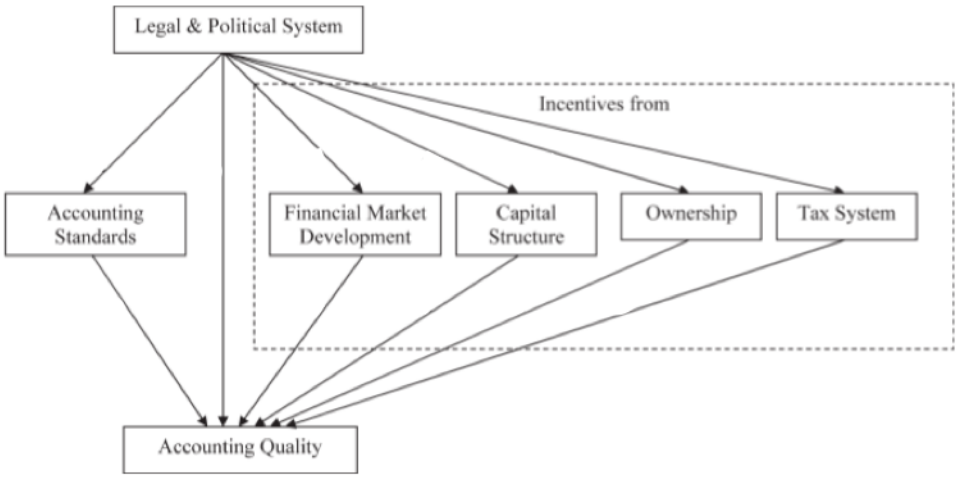

Figure 19: DETERMINANTS OF ACCOUNTING QUALITY
Source: SODERSTROM SUN, 2007, p. 688

The image shows a schematic framework describing determinants of accounting quality. IFRS adoption is going to affect financial reporting, but only due to one of these determinants. The others will, therefore, continue to differ across countries, limiting the international harmonization and lowering the economic benefits brought by a new and higher quality set of accounting standards and principles. The image makes clear that accounting harmonization has to be followed by changes in other environments than just IFRS adoption. However, reporting under a unique accounting framework makes investors more aware of the advantages and disadvantages of the companies. The latter are, therefore, pushed to report truthfully because their information becomes more value relevant. This process does not produce uniform results because supplementary influences such as legal and political systems and incentives of financial reporting may influence earnings quality. Legal and political systems could affect accounting quality indirectly through accounting standards. The latter are produced by a political process, where standard setters are heavily influences by accounting users (tax authorities,

banks, shareholders, managers and labour unions). The legal framework used in a nation affects in turn accounting standards: in common law countries, they are set mostly by private organizations in order to satisfy private investor needs for information. This process was developed by the idea of law based upon issues from the common people. Code law countries follow, however, information demands of the government, reflecting the attitude of the administration to control the setting and the interpretation of laws. This extreme diversification of legal systems caused in the EU, especially, different accounting systems and, consequently, different perceived accounting quality. Political systems influence, straightforwardly, accounting quality, too: political rent-seeking is very common where political systems are corrupt. Businessman and entrepreneurs have reasons to bribe politicians to seek favourite treatment and, consequently, this motivates them to omit such behaviour from financial statements in order to elude political and social scrutiny. Moreover, companies in nations with a greater likelihood of government intrusion are likely reluctant to show high profits in an effort to avoid government expropriation. Indirectly legal and political system are linked to accounting quality through financial reporting benefits: they regard both supply and demand for information. One of them could be outlined as financial markets: the demand is originated by market participants and their need to reduce information asymmetry. If they cannot overcome these problems, they simply raise their interests causing higher investment costs for firms. Stock markets could be beneficial for investors because they protect the latter against firms with poor information disclosure. Firm managers are, therefore, obliged to improve the quality of financial reporting. Moreover, legal and political systems affect accounting quality indirectly through:

- financial market development, rules made up by financial market permit to attract more investors;
- capital structure, firms with different financing needs have different incentives for financial reporting. For example, divergence between control rights and cash flows, linked to concentrated ownership, discourages new stakeholder to invest in a company. This happening is caused by an agency problem between controlling and minority stakeholders, generating incentives to lower disclosure and to hide problems. In addition, controlling shareholders have incentives to smooth earnings, because they invest with a longer-term view;

- ownership structures, legal system could be replaced by ownership concentration. If the ownership is less concentrated, especially minority shareholders have not to keep an eye on majority shareholders and their lust to expropriate rights and, therefore, they are more likely to invest. Governments' behaviour could also influence concentration of the property, especially trying to rent-seek;
- tax system, accounting quality could be influenced by the relation between financial accounting income and taxable income.

To sum up, accounting quality after IFRS adoption is based on three factors: the quality of the standards, a country's legal and political system and financial reporting incentives. These relations could hide the real economic benefits of IFRS adoption solely. Nowadays, no research, comprehending all of these factors, has been carried out (SODERSTROM SUN, 2007, pp. 688-695).

Adopting a unique accounting framework will for sure increase worldwide integration of both markets and politics pushed by drops in communications and information processing costs. However, most market and political forces will remain local for the expected future, so it is very hard to forecast the convergence reached by accounting standards and practices. Despite that a broad set of high quality IFRS standards has been developed in order to encourage almost one hundred countries to implement them and to converge with essential non-adopters such as the US, problems with fair value accounting are foreseen. Moreover, there will be troubles especially with the implementation, meaning that the expected uniformity achieved will be very weak: the notion that uniform standards alone will produce uniform financial reporting seems naive. Potential problems linked to fair value could be outlined as:

- spreads caused by liquid markets could adversely influence the value relevance of financial statements;
- illiquid markets can be easily controlled by managers, especially on prices and fair value estimates;
- fair value accounting has not been already tested in situations of serious crisis. Specifically, it has not been well tested the reaction of lenders when they discover that fair value could mean "fair weather value";

- fair value accounting, when it deals with non-available liquid market prices, introduces estimates and imperfections;
- fair value accounting increases opportunities for manipulation when "mark to model" accounting is used to mimic market prices, because managers can affect both the models' choice and the parameter estimates (BALL, 2006, pp. 12-13)

For what concerns the implementation and the linked uniformity, the motivations of managers and enforcers persist mainly at a domestic level. Furthermore, powerful local economic and political forces regulate how managers, auditors, courts regulators and other stakeholders impact the rules' implementation. Reaching uniformity in accounting standards appears to be easy if it is compared to uniformity accomplishments in actual reporting performance. The latter would require fundamental modifications in the underlying economic and political forces that regulate actual conduct. Significant dimensions, which are still substantially more national than global, incorporate:

- the magnitude and the environment of government contribution in the economy;
- the politics of government involvement in financial reporting practices;
- the legal systems and the securities regulation and regulatory bodies;
- the depth of financial markets and the financial market structure;
- the press' role;
- the financial analysts and rating agencies;
- the size of the corporate sector and the structure of corporate governance;
- the extent of private versus public ownership of corporations, the extent of family-controlled businesses, the extent of corporate membership in related-company groups, the extent of financial intermediation;
- the role of small shareholders vs. institutions and corporate insiders;
- the use of financial statement information in management compensation;
- the status, independence, training and compensation of auditors.

Even if the economy goes always more global, most of the economic and political activities involved in IFRS adoption remain confined in national borders for the predictable future. Moreover, troubles are originated because the IASB is only a standard-setter, not having both an enforcement mechanism to its standards and the

willingness to find a solution. Individual countries persist to be supervisors of their own financial markets, EU member countries too. That lets IFRS to the danger of implementation in name only. Worldwide regulatory bodies, as the IAASB, IFAC, IOSCO, PIOB and CESR, are seen just as toothless watchdogs, despite recent attempts to strengthen them (BALL, 2006, pp. 14-17).

Supporters of IFRS have not considered that some of the benefits analysed are not intended, caused by luck or by chance. As a matter of fact, Brueggeman, Hitz and Sellhorn stated that unintended effects, rarely studied and quantified, are originated because national GAAPs cannot be fully reconciled with IFRS regulation. The difference lays down to the distinction between the information (or valuation) and contracting (or stewardship) roles of accounting. It is, therefore, difficult to appreciate clearly an increase in the comparability or transparency of financial statements. The positive effects on capital markets and at the macroeconomic level are easier to evaluate. However, unintended results of IFRS adoption lack support and significant researches. Then, the authors provide two possible explanations about the warm intended results of IFRS adoption. An underestimation is likely to occur because the accounting effects of mandatory IFRS adoption relate only on aggregate measures that capture a partial class of potential variations in financial reporting. Furthermore, there is likely to be an overestimation among capital market and macroeconomic effects because it is difficult to detach them from outcomes unconnected to financial reporting (BRUEGGEMANN HITZ SELLHORN, 2013, pp. 1-12).

Two limitations, not regarding solely IFRS adoption but more the assessment of real direct benefits, can be spotted in different firms' incentives and environments. It has been observed that, during the voluntary application of IFRS, the incentives could have changed between the pre- and post-adoption periods. The fact that firms might have adopted IFRS as part of their response to changes in incentives could indicate that either domestic standards did not permit them to reveal their higher accounting quality, or they adopted IFRS to signal their higher accounting quality because they believed that the market perceived IFRS as higher quality than domestic standards. Both of these explanations are consistent with IFRS being associated with higher accounting quality. Anyway, regarding economic environment, firms may have adopted IFRS only to anticipate a mandatory adoption in the near future (BARTH LANDSMAN LANG, 2008, pp. 467-472).

IFRS offers some flexibility in application, assumed the clear and implied options encompassed in the standards, discretion in interpretations, and need for estimates to companies. Subsequently, the application of IFRS may differ from one company to another, or from one nation to another. Thus, it is uncertain whether IFRS are applied reliably, i.e. whether the harmonization of accounting guidelines in the EU also has led to harmonized accounting practices. Country-specific factors affect the application of IFRS in consolidated accounts for several reasons (HALLER WEHRFRITZ, 2013, pp. 39-41).

Examining whether publicly traded German and UK companies preserve national accounting traditions when picking IFRS options in their consolidated accounts in 2005 and 2009 have provided noteworthy confirmation that, when organizations embrace IFRS, they tend to endure with accounting policies needed or mostly chosen under national GAAP. Furthermore, the study implies that accounting policy choice under IFRS differs between Germany and the UK for questions where their own national GAAP is dissimilar. Lastly, there has been no sign in most cases that either industry or early IFRS adoption (in Germany) drive policy choice considerably. These results denote that in spite of harmonized accounting standards, comparability of financial reporting of publicly traded firms across the EU may be adversely influenced by the continued effect of country-specific factors. Standard-setters should, consequently, tackle this harmonization matter to develop comparability of financial reporting across nations. Eliminating or diminishing explicit options comprised in IFRS would be a political option to lessen variances and endorse comparability (HALLER WEHRFRITZ, 2013, p. 55).

3 Brovedani Group SPA

Figure 20: THE HEADQUARTERS OF SAN VITO AL TAGLIAMENTO (PN), ITALY
Source: http://www.ilfriuli.it/writable/images/brovedani.jpg

This chapter introduces the case study of Brovedani Group SPA. After a brief overview on company's history, it will be analysed the internationalization path of the group. Finally, the work will focus towards financial reporting and the impact of a possible IFRS adoption.

3.1 History of the group

1947
Silvio Brovedani founded a small workshop in Pordenone.

1972
Benito Zollia and Felice Macuz took over the company.

1978/1979
Entry into the automotive industry.

1980/1985
Micro-mechanics with IBM and Olivetti.

1995
New site: Modugno (Bari) plant.

1998/2000
Leader in diesel Common Rail components.

2001
SAP – Process Management and new technologies.

2004
A factory in the Eastern Europe: Brovedani Sk starts of operations.

2009
A factory for the NAFTA market: Brovedani Reme Mexico.

2011
Brovedani SK plant explantion.

2011
Brovedani MX new building.

2016
Leader in gasoline direct injection components.

Figure 21: HISTORICAL KEY POINTS

Source: Brovedani internal materials

In 1947, in Pordenone, Silvio Brovedani founded a small workshop. Local firms as Zanussi and knives' manufacturers of Maniago (PN) were the main customers. The guidelines, since its foundation, were related to the pursuit for high-precision mechanical solutions. In 1972 the little company was bought by a society founded by Benito Zollia and Felice Macuz. They wanted to give a new impulse to the company through the combination of their personal assets and experiences gained during the previous activities. In 1975 Brovedani became a leading components' manufacturer for heating elements while, the next year, the company moved to San Vito al Tagliamento (PN) to improve its customer base and its production capacity. In 1978 the company started the production of automotive components and the following year became a provider of Piaggio. Since the 80's, the company has the opportunity to put into practice its technological expertise, becoming the components' supplier of IBM: for two

consecutive years, the company received from IBM the certificate of best supplier. In the second half of the eighties Brovedani started an intense collaboration with producers of components for the automotive sector, which have been playing an increasingly important role in the worldwide economy. To support these relationships, it was decided to invest heavily in order to create dedicated and automated production lines. The importance of the relationship with the automotive industry is also linked to the profound and radical changes of the computers' industry. The electronic components were becoming more and more important than mechanical ones, pushing Brovedani in a marginal role. The household appliances' sector, therefore, provided little guarantee of lasting profits because it could be easily attacked by competitors. it was not placed in the first firms' targets. The strategy adopted has led to great results nowadays:

- 40% of the 75 million Common Rail Diesel systems produced worldwide contain Brovedani components;
- 50% of the cars produced in Europe are equipped with Brovedani's motor shafts.

In the nineties, the company began to change its management and production philosophy: the new motto is "quality is created and it is not controlled". This shift has permitted Brovedani to acquire many important certifications as ISO 9002, QS 9000, VISION 2000, ISO TS 16949 and ISO 14001. In the same period, its customer base increase: having close ties with Magneti Marelli, Siemens and Bosch, the company began the production of the first module for Common Rail Diesel systems in 1998. Furthermore, Brovedani had to open two new plants to meet the ever-growing demand: Bari and Pisa were chosen in order to strengthen ties with Bosch and Magneti Marelli. In 2000 components for the Common Rail Diesel started to be produced also for other groups around the world. In these years, new technologies were developed. Some production lines were moved from San Vito al Tagliamento to Bari, especially components of common rail injection pumps. In 2001, the productivity was increasing so much to force the company to acquire Depoisier Gervex (Marnaz-France), a specialized in mechanical components located in "the valley of machining" and to move the plant from Pisa to Guasticce, Livorno. Even in San Vito another plant specialized mainly in the production of trees was opened. In addition, Brovedani was chosen by Eaton as a strategic supplier for the outsourcing of automotive components. In 2004

Brovedani became a Diesel steering systems' supplier of Delphi, pushing the company to increase their investments. In 2005 a new plant in Galanta (Slovakia) was opened in order to meet the ever-increasing demand of Eastern Europe. Four years later, Brovedani decided to create a joint venture with the Mexican company Reme (Brovedani 75%, Reme 25%). The new company was created to respond to the growing demand in the field of precision mechanics in the American market. Nowadays, Brovedani Group comprises 3 companies and 6 production units: it functions in accordance with shared guidelines and well-known values, resulting from a common culture and history.

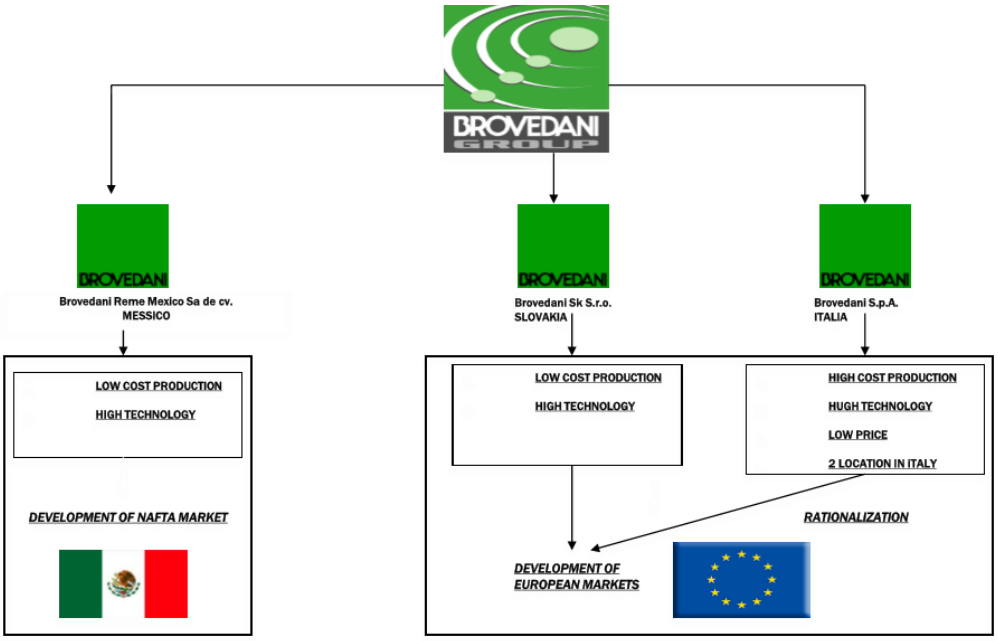

Figure 22: BROVEDANI GROUP TODAY

Source: Brovedani internal materials

Figure 23: BROVEDANI'S PRODUCTION FACILITIES

Source: Brovedani internal materials

The most important key values are its organization and its creativity, as demonstrated by the extraordinary improvements the group has brought to the field of mechanics for B2B, from the idea to the final product and from the team development of production processes to their industrial applications. This innovative spirit has contributed to the success of the Brovedani Group, which has become an essential supplier for multinational firms such as Bosch, Continental, Daimler, Delphi, Eaton, Magna, Magneti Marelli, Sanden, VCST and others. The Group has invested heavily in advanced manufacturing and control systems for the mass production of technologically sophisticated mechanical components with high standards of quality. What's more, the Group's advanced engineering services develop dedicated product-processes in areas that include the design and construction of custom-built machines with integrated multiple technologies and the management of production lines for outsourced products. As a result, Brovedani is a reliable, world-class partner offering a problem-solving approach to meeting the customer's needs. Brovedani's vast experience serves a worldwide market of prestigious customers with flexibility and constant innovation. The Group's products embrace a range of applications that include automobiles, electrical appliances, motor vehicles, building construction materials, hardware, and others. At

present, its core business is the production of high quantities of components for automotive use, including specialized solutions for injection pumps and for both gasoline, direct injection and diesel common rail systems.

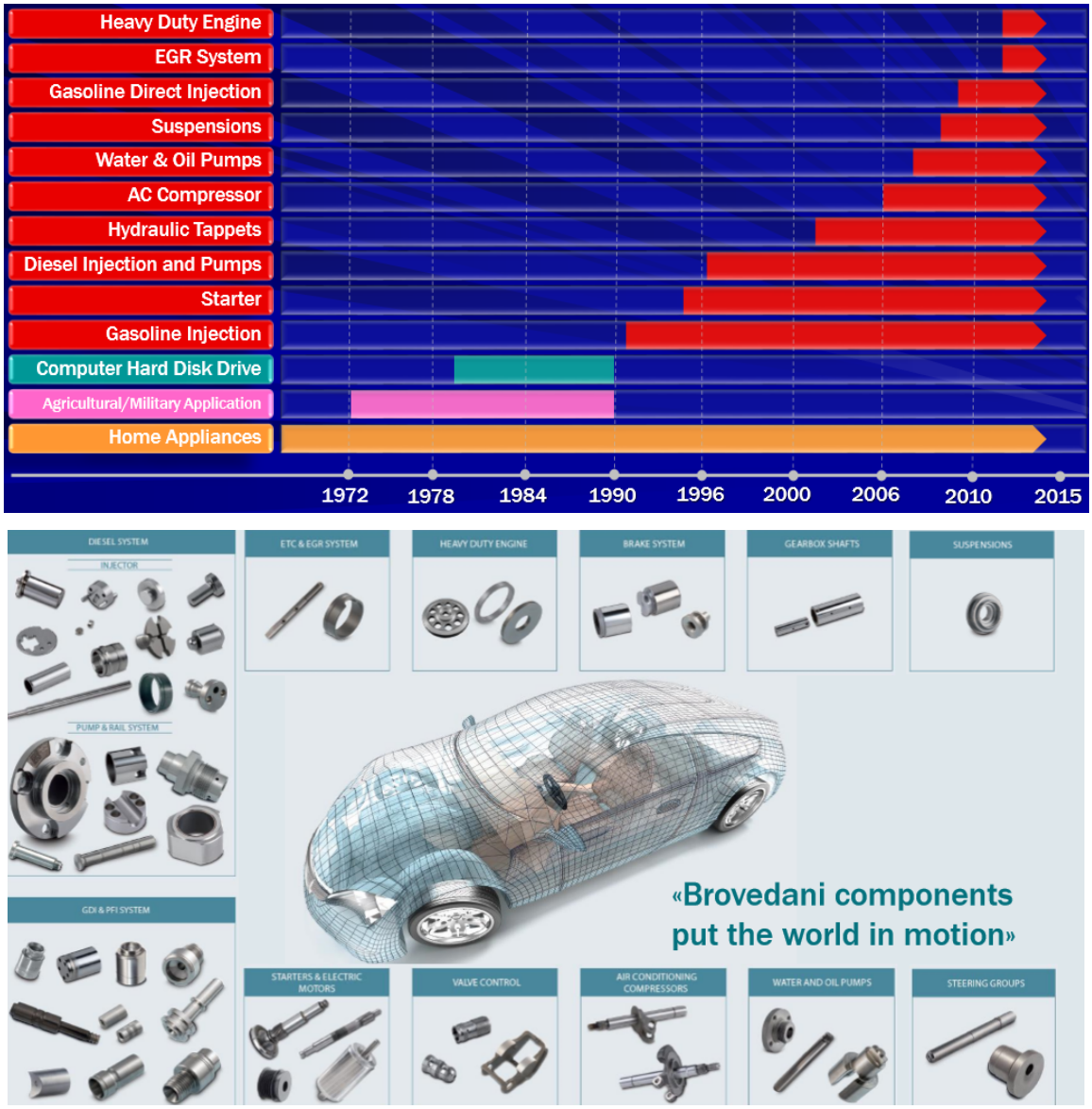

Figure 24: BROVEDANI'S PRODUCTS

Source: Brovedani internal materials

The mission could be summarized as:

> "We are able to apply excellence methodology to realize high precision mechanical parts and assure the highest quality standards to produce low and high volumes. Our flexibility, willingness to grow, interdisciplinarity, sharing of values and presence in

many parts of the world assure a borderless partnership for our customers" (http://www.brovedanigroup.com/?page_id=455).

While the vision is:

> "A leading company supplying solutions based on state of the art technologies, present all over the world where precision mechanics is a critical success factor. A company firmly rooted in its history and proud of its values, made up of people able to grow and join, open to new experiences and cultures to win the future" (http://www.brovedanigroup.com/?page_id=455).

Clients and value chain Customer satisfaction are centrals point on which the company focuses its interests and energies, representing the reason behind its quest for continuous improvement.

Figure 25: THE ACTUAL CUSTOMER BASE

Source: Brovedani internal materials

The dedication, creativity, innovation and professional ethics in which it intends to progress, with the fullest involvement of its suppliers, is the basis of its Total Quality project, aimed at bringing a constant series of advantages to the entire value chain in a spirit of true partnership. Every employee is offered the possibility of expressing his/her cultural, intellectual and human potential in a context of equal opportunities and where

differences are respected. This means encouraging teamwork between people and groups and the development of individual leadership, with a human resource policy focused on listening to people, on confidentiality, on the quality of work, on training, on professional and career development, on evaluation and recognition, making it possible to delegate ever more responsibility to the most competent and motivated resources. The organizational context should constitute the most congenial background for the smooth integration of functions and skills oriented towards shared objectives.

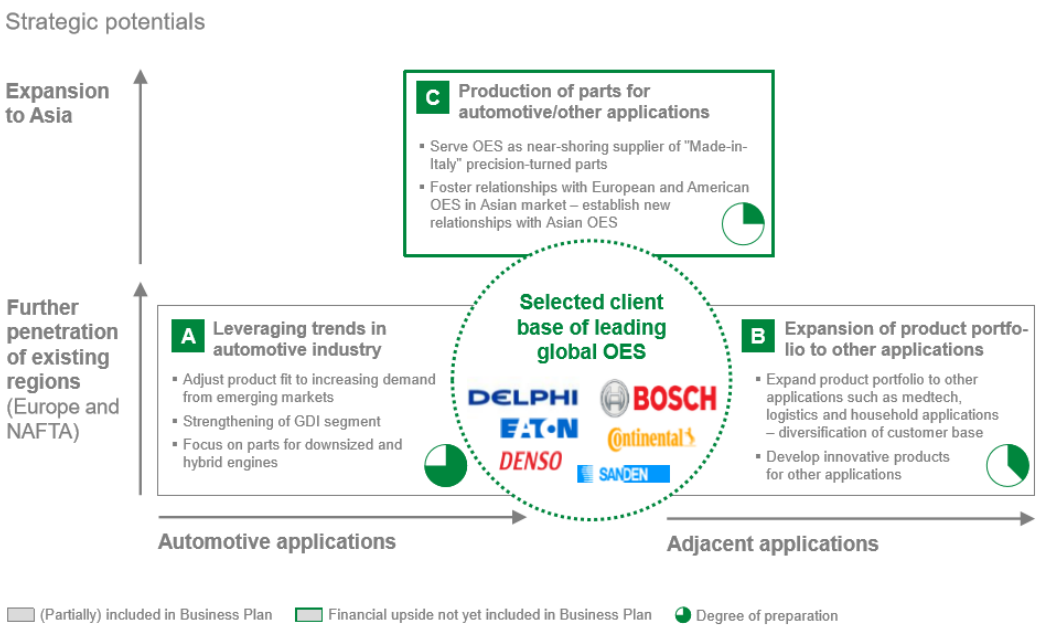

Figure 26: BROVEDANI STRATEGY

Source: Brovedani internal materials

3.2 Path to internationalization

In the previous section, the path, leading Brovedani to be a global company, was presented. This section will, instead, explain the reasons behind the company strategies and location choices. It is important to denote that the company has adopted an internationalization strategy and not of relocation. This choice has brought advantages not only in countries where the company has invested (Slovakia and Mexico), but also in Italy: both sales and hiring rates have steadily increased.

Figure 27: SUPPLY CHAIN AUTOMOTIVE INDUSTRY

Source: Brovedani internal materials

The evolution of the automotive industry has led to the natural division into three main areas: Asia, Europe, America. The latter could be divided at the micro level in low-cost and high-cost countries. Tier-1 has adapted itself in order to follow the worldwide development of OEMs, forcing Tier-2 to adopt a model in which the components' supply takes place exclusively at the local level while the market of finished goods and raw materials have remained globally. So, while the transfer of a component takes place locally, i.e. inside the macro-areas, that of finished products and of raw materials it occurs, as seen in Figure, even globally, including macro-areas.

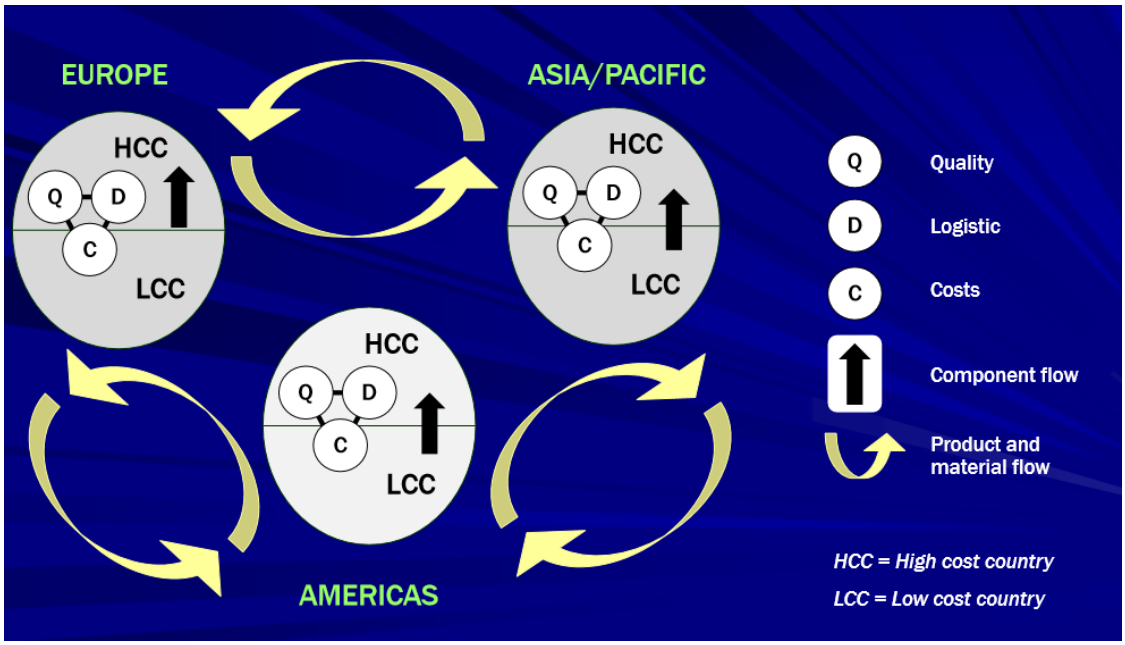

Figure 28: THE GLOBAL PRODUCTION TRIAD

Source: Brovedani internal materials

A components' supplier, as Brovedani, must have a physical presence in every macro area if it intends to develop itself outside of Europe in order to meet the needs of customers operating on different continents and to penetrate new markets. Often, the customers encourage suppliers to position themselves close to them. Bosch is the largest customer of Brovedani. Its strategy is to acquire almost 70% of the volumes to preferred suppliers, pushing Brovedani to remain one of the top suppliers of this huge German multinational. In recent years, the automotive industry's value chain has undergone several changes. The OEMs have changed their needs, outsourcing some of their activities to their suppliers. In addition, more skills, investments and capitals are required: only those, who can handle these requirements, are able to survive. Tier-1 and Tier-2 suppliers are increasingly becoming more fundamental: they are decreasing continuously, providing in 2015 a decrease of 50% of the suppliers compared to 2000's numbers. The last two pictures suggest that a components' supplier, wanting to survive and to prevail, must firstly be competitive in its domestic market, and then it has to choose in a low-cost country's location in order to exploit the advantages offered. Afterwards, it has to head to the global market, choosing and locating in those new markets where it is possible to consolidate the relationships with their old clients and to meet the needs of new ones.

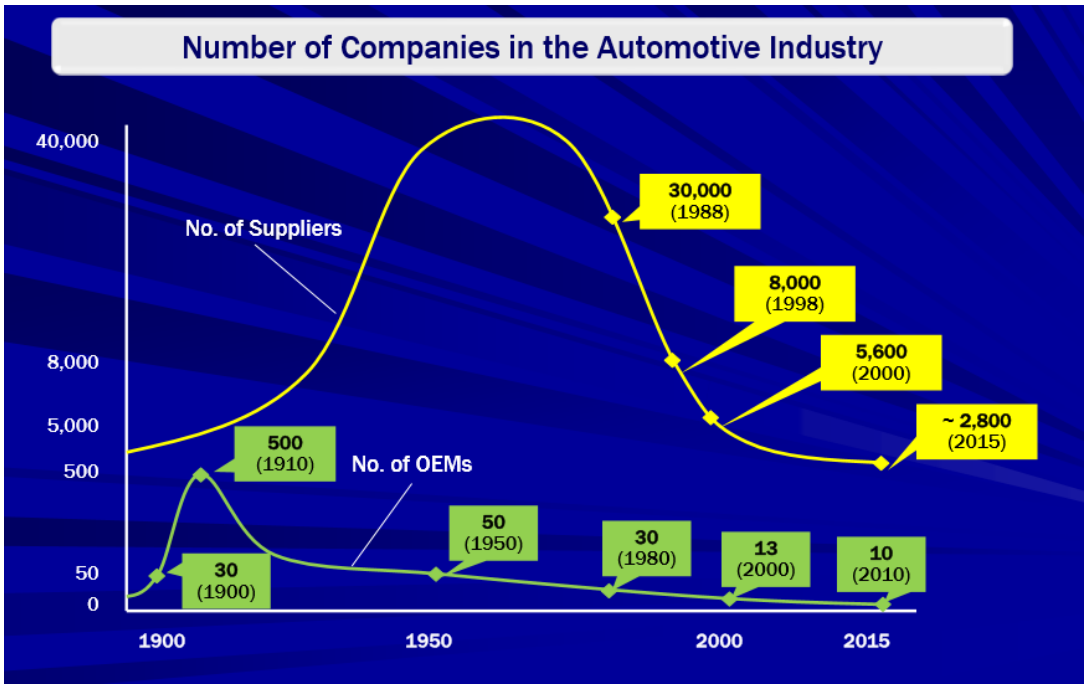

Figure 29: THE AUTOMOTIVE INDUSTRY'S NUMBERS

Source: Brovedani internal materials

3.3 INTANGIBLES' RECLASSIFICATION

Brovedani has become a well-known supplier in the automotive industry, trying to use its know-how and competencies also in other sectors (this is very clear while observing its history). Even if it suffered the financial crisis especially in 2009 (the purchasing of autos are closely related to the consumers' income), it has been able to recover and to become more powerful and conscious of its abilities. In 2015, it surpassed the psychological barrier of 1.000 employees and 100€ Million of turnover. As it is possible to appreciate from the picture below, even if Brovedani operates in a mature market the turnover has been always moderately growing. Investments have, however, been fluctuating because they are related mainly to business changes (for example, after the Diesel-Gate, the production of injections' systems shifted from Diesel to gasoline) and to customer orders (in order not to lose the status of "preferred provider" the suppliers are almost obliged to accept every project the clients ask).

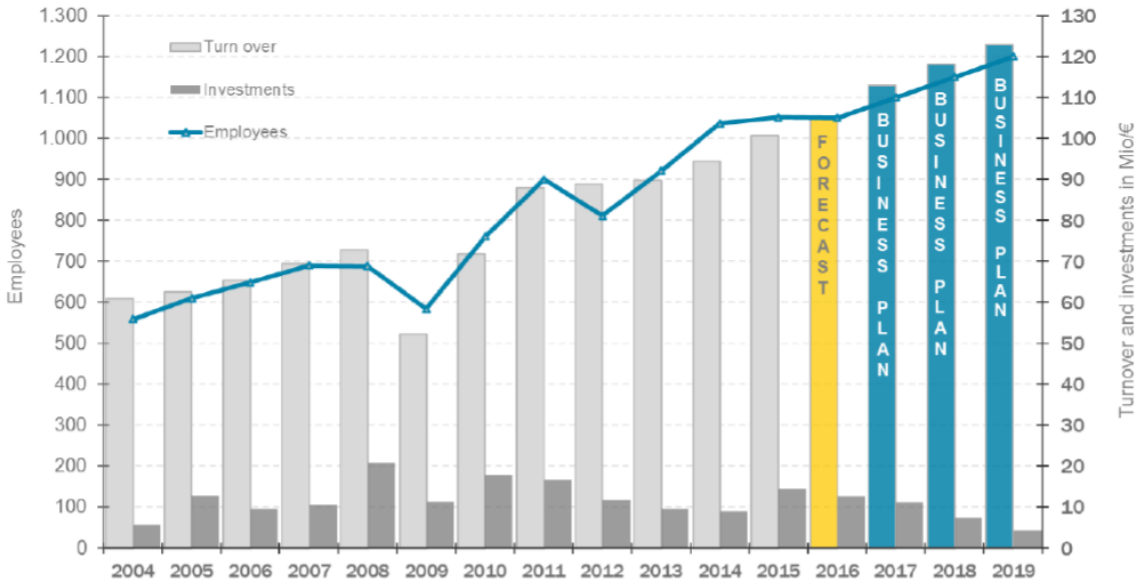

Figure 30: BUSINESS OVERVIEW

Source: Brovedani internal materials

The organizational chart used in Brovedani is one of the most popular model among management: the hierarchical structure. Employees are gathered having one clear supervisor. The grouping is done based on:

- function, employees are clustered according to the function they deliver. Examples could be finance, technical, HR, sales, supply chain etc.;
- geography, employees are gathered based on their area/country (Italy, Slovakia, Mexico);
- product/client, especially due to production requirements, some offices are gathered in order to follow one or more products/clients (sales, purchase).

This is the dominant approach among large organizations. There are, however, many challenges with this model. Communication, typically, flows from the top to the bottom which means innovation stagnates, engagement suffers and collaboration is virtually non-existent. This type of environment is riddled with bureaucracy and is extremely sluggish. The greatest strength and, at the same time, the greatest limitation is the strong resilience: it is very reliable in order to maintain the status quo, but also so embedded when a company decides to get rid of it. This is why, Brovedani is trying to

empower every company leaving always more power locally to the three societies and embracing the lean strategy.

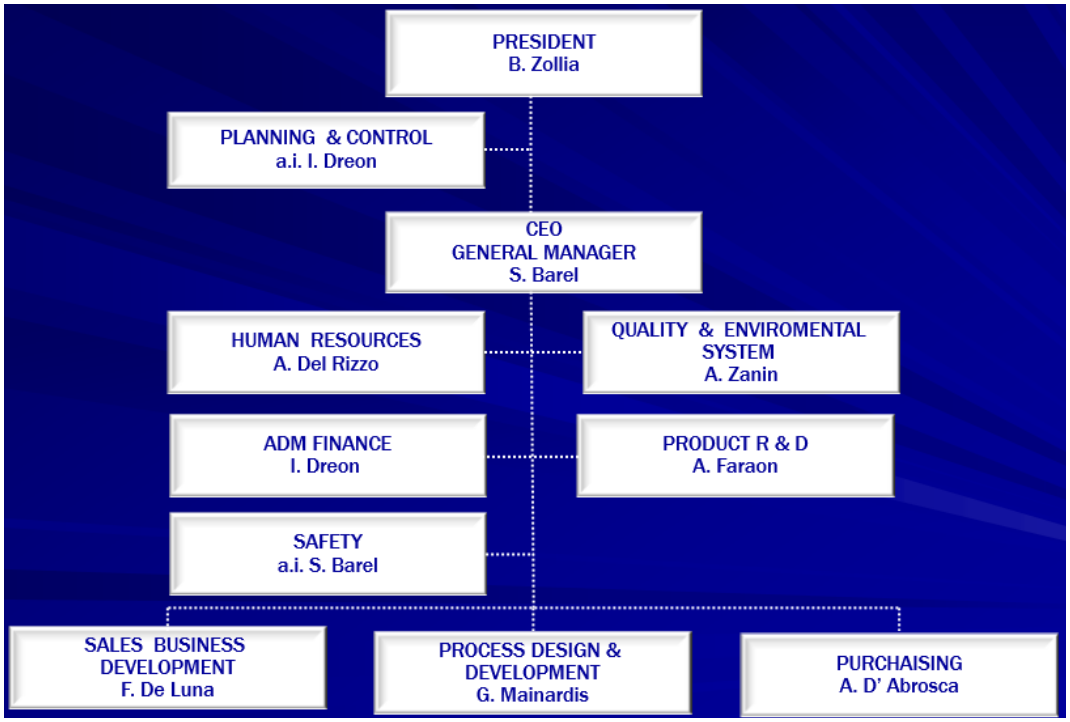

Figure 31: ORGANIZATIONAL CHART

Source: Brovedani internal materials

The organizational chart is following a reshoring strategy: the aim is to produce locally the products. Italy will serve clients in Western Europe, Slovakia in Eastern Europe and Mexico in the Americas. The reason behind this choice could be traced back to the willingness to be closer to its customers, to have production facilities adjacent to core markets, to secure short lead times and to offer world-class service to consumers. The most compelling reasons for doing so are, therefore, to gain market access, proximity to demand and more R&D. Brovedani will only add production capacity in certain locations if it makes sense for customers and for the business, changing the strategy from "Local for Global" to "Local for Local".

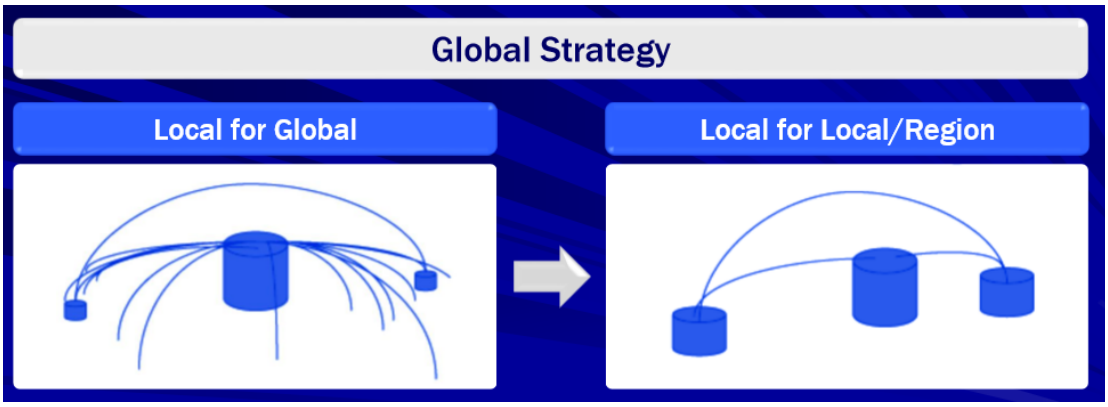

Figure 32: GLOBAL STRATEGY

Source: Brovedani internal materials

One way to support achieving these goals is to adopt a new, high valued and international accounting framework. Before starting to forecast possible effects of this shift in a medium multinational firm as Brovedani, it is important to outline the accounting flows:

- every society has one financial controller who supervises management flows;
- every society has its own administrative office, managing the invoices' flow and preparing the financial statements according to its national accounting criteria;
- the Chief Financial Officer works in Italy, being responsible to coordinate the societies and the information flows between the Group and the stakeholders;
- the consolidated financial statement is prepared by the CFO following the Italian GAAP; the data is gathered using an enterprise software (ESP), adopted in the mid-2000s in order to manage business operations and customer relations. The system provides data in Euro while intracompany sales and purchases are deleted. The consolidation adjustments are, therefore, made both by the ESP and both, manually, by the CFO.

In order to esteem the impact of IFRS adoption, it was decided to reclassify the item "intangibles" and to compare them with national and international benchmarks. Intangibles were chosen because, especially for Italian accounting environment, are very sensible to principles and standards changes. The analysis, obviously, takes into account that Brovedani Slovakia and Brovedani Reme Mexico are not fully owned. The

companies included in the consolidation and, in addition to the parent company, for the period ended 31 December 2015 are the following:

- "Brovedani - S.p.A. -" 100% owned;
- "Brovedani Slovakia s.r.o." 75% owned;
- "Brovedani Reme Mexico S.A. de C.V." 66.26% owned.

The application of international accounting standards for intangible assets may trigger significant changes. Intangible assets may be incurred if, and only if, they are attributable to future economic benefits. The consequence of this new valuation principle is the movement of such items as the "installation costs" from the category of long-term costs to the operating costs because they lack clear "future economic benefits". It is preferred, therefore, the market correlation.

BROVEDANI GROUP - S.p.A.
BILANCIO CONSOLIDATO (in unità di Euro)

				A T T I V O	*31.12.2015*	*31.12.2014*
A)				**CREDITI VERSO SOCI PER VERSAMENTI ANCORA DOVUTI**	-	-
B)				**IMMOBILIZZAZIONI**		
I				**Immateriali**		
	1)			Costi di impianto e ampliamento	3.243,36	5.540,71
	2)			Costi di ricerca, di sviluppo e di pubblicità	1.888.419,98	1.377.141,24
	3)			Diritti di brev. ind. e di utilizzazione delle opere dell'ingegno	6.720,08	1.937,57
	4)			Concessioni, licenze, marchi e diritti simili	75.390,76	88.572,46
	5)			Avviamento e differenza di consolidamento	234.702,04	312.936,05
	6)			Immobilizzazioni in corso e acconti	626.661,94	289.874,41
	7)			Altre immobilizzazioni	386.916,56	1.538.549,02
				Totale Immobilizzazioni Immateriali	**3.222.054,72**	**3.614.551,46**
II				**Materiali**		
	1)			Terreni e fabbricati	16.105.027,49	16.749.729,06
	2)			Impianti e macchinario	44.231.820,13	41.381.865,89
	3)			Attrezzature industriali e commerciali	1.154.480,21	1.289.359,80
	4)			Altri beni	454.074,45	589.743,53
	5)			Immobilizzazioni in corso e acconti	5.782.961,41	6.595.238,77
				Totale Immobilizzazioni Materiali	**67.728.363,69**	**66.605.937,05**
III				**Finanziarie**		
	1)			Partecipazioni:		
		a)		- in imprese controllate non consolidate	-	-
		b)		- in imprese collegate	411.166,67	411.166,67

			- in imprese controllanti	-	-
		d)	- in altre imprese	12.621,25	10.621,25
	2)		Crediti		
			- verso imprese controllate non consolidate	-	-
			- verso imprese collegate	-	-
			- verso imprese controllanti	-	-
		d)	- verso altri	-	-
			Totale Immobilizzazioni Finanziarie	**423.787,92**	**421.787,92**
			Totale IMMOBILIZZAZIONI	**71.374.206,33**	**70.642.276,43**
C)	**ATTIVO CIRCOLANTE**				
I			**Rimanenze**		
	1)		Materie prime, sussidiarie e di consumo	6.082.545,21	6.394.632,55
	2)		Prodotti in corso di lavorazione	3.408.460,52	2.489.656,39
	3)		Lavori in corso su ordinazione	348.852,56	138.401,16
	4)		Prodotti finiti	2.839.143,56	2.657.974,74
	5)		Merce in viaggio	108.891,00	498.014,90
			Totale Rimanenze	**12.787.892,85**	**12.178.679,74**
II			**Crediti**		
	1)		Verso clienti (esigibili entro l'esercizio successivo)	7.759.127,08	5.105.798,83
	2)		Verso controllate non consolidate (esigibili entro l'esercizio successivo)		1,00
	3)		Verso collegate (esigibili entro l'esercizio successivo)	-	-
	4)		Verso controllanti (esigibili entro l'esercizio successivo)	-	-
	4)-bis		Tributari	1.713.269,07	1.791.209,36
	4)-ter		Per imposte anticipate	2.426.015,72	1.847.820,85
	5)		Verso altri		
			- esigibili entro l'esercizio successivo	667.893,49	581.519,91
			- esigibili oltre l'esercizio successivo	247.659,44	178.934,43
			Totale Crediti	**12.813.964,80**	**9.505.284,38**
III			**Attività finanziarie che non costituiscono immobilizzazioni**		
	6)		Altri titoli	-	-
				-	**-**
IV			**Disponibilità liquide**		
	1)		Depositi bancari	24.188.833,45	17.657.799,48
	2)		Cassa	8.496,31	16.698,14
			Totale Disponibilità liquide	**24.197.329,76**	**17.674.497,62**
			Totale ATTIVO CIRCOLANTE	**49.799.187,41**	**39.358.461,74**
D)	**RATEI E RISCONTI**				
I			Ratei attivi	202,37	873,52
II			Risconti attivi	513.949,78	369.629,57
			Totale RATEI E RISCONTI	**514.152,15**	**370.503,09**
			TOTALE ATTIVO	**121.687.545,89**	**110.371.241,26**

		PASSIVO	*31.12.2015*	*31.12.2014*
A)	**PATRIMONIO NETTO**			
I		**Capitale sociale**	**8.736.000,00**	**8.736.000,00**
II		**Riserva da sopraprezzo delle azioni**	**9.334.000,00**	**9.334.000,00**
III		**Riserve di rivalutazione**	**-**	**-**
IV		**Riserva legale**	**801.895,95**	**655.995,01**
V		**Riserve statutarie**	**-**	**-**
VI		**Riserva per azioni proprie in portafoglio**	**-**	**-**
VII		**Altre riserve**	**-2.996.800,57**	**-1.825.505,70**
		Riserva oscillazione cambi	-	-
		Riserva straordinaria	-	-
		Riserva utili su cambi	-	-
		Fondo contributi statali e regionali	-	-
		Altre riserve	-	-
		Totale Altre riserve	**-**	**-**
VIII		**Utili (perdite) a nuovo**	**6.845.040,07**	**5.946.131,25**
IX		**Utile (perdita) dell'esercizio**	**1.251.580,18**	**746.864,16**
		Totale PATRIMONIO NETTO DEL GRUPPO	**23.971.715,63**	**23.593.484,72**
X		**Capitale e riserve di terzi**	**5.875.000,00**	**4.849.700,00**
XI		**Utile (perdita) dell'esercizio di terzi**	**-**	**-**
		Totale PATRIMONIO NETTO DI TERZI	**5.875.000,00**	**4.849.700,00**
		Totale PATRIMONIO NETTO	**29.846.715,63**	**28.443.184,72**
B)	**FONDI PER RISCHI ED ONERI**			
	1)	Fondo trattam.to fine mandato Amministratori	456.592,16	437.992,16
	2)	Fondo per imposte, anche differite	1.478.461,89	1.329.988,09
	2)	Fondo rischi su cambi	-	-
	3)	Altri fondi per rischi	621.399,00	324.700,00
		Totale FONDI PER RISCHI ED ONERI	**2.556.453,05**	**2.092.680,25**
C)	**TRATTAMENTO DI FINE RAPPORTO LAVORO SUBORDINATO**		**2.437.767,96**	**2.619.012,35**
D)	**DEBITI**			
	1)	Obbligazioni		
		- con scadenza entro l'esercizio successivo	-	-
		- con scadenza oltre l'esercizio successivo	-	-
		Totale Obbligazioni	-	-
	3)	Debiti verso banche		
		- con scadenza entro l'esercizio successivo	20.433.408,17	19.080.521,19
		- con scadenza oltre l'esercizio successivo	35.026.110,88	22.190.451,16
		Totale Debiti verso banche	55.459.519,05	41.270.972,35
	4)	Debiti verso altri finanziatori		
		- con scadenza entro l'esercizio successivo	2.021.527,88	1.876.300,30
		- con scadenza oltre l'esercizio successivo	3.524.833,23	5.852.521,17
		Totale Debiti verso altri finanziatori	5.546.361,11	7.728.821,47
	5)	Acconti		
		- con scadenza entro l'esercizio successivo		

6)	Debiti verso fornitori:		
	- con scadenza entro l'esercizio successivo	20.677.510,33	22.028.534,43
8)	Debiti verso imprese controllate non consolidate:		
	- con scadenza entro l'esercizio successivo		
9)	Debiti versi imprese collegate:		
	- con scadenza entro l'esercizio successivo		
10)	Debiti versi imprese controllanti:		
	- con scadenza entro l'esercizio successivo		
11)	Debiti tributari		
	- con scadenza entro l'esercizio successivo	856.524,43	1.233.683,10
	- con scadenza oltre l'esercizio successivo	-	-
	Totale Debiti tributari	856.524,43	1.233.683,10
12)	Debiti verso istituti di previdenza e sicurezza sociale		
	- con scadenza entro l'esercizio successivo	1.040.848,38	1.065.306,54
	- con scadenza oltre l'esercizio successivo	-	-
	Totale Debiti verso istituti di previdenza e sicurezza sociale	1.040.848,38	1.065.306,54
13)	Altri debiti		
	- con scadenza entro l'esercizio successivo	3.188.325,51	3.784.278,40
	- con scadenza oltre l'esercizio successivo		-
	Totale Altri debiti	3.188.325,51	3.784.278,40
	Totale DEBITI	**86.769.088,81**	**77.111.596,29**
E)	**RATEI E RISCONTI**		
	Ratei passivi	72.677,48	104.721,37
	Risconti passivi	4.842,96	46,28
	Totale RATEI E RISCONTI	**77.520,44**	**104.767,65**
	TOTALE PASSIVO	**121.687.545,89**	**110.371.241,26**

Table 8: BROVEDANI'S CONSOLIDATED BALANCE SHEET

Source: Brovedani internal materials

The work was focused on reclassifying intangibles following IFRS and OICC (national Italian GAAP) in order to appreciate the change.

B)	ASSETS		OICC	Reconciliation	IFRS
I		**Intangibles**			
	1)	Expansion costs	3.243,36	(3.243,36)	-
	2)	Research, Development and Advertising costs	1.888.419,98	(276.502,23)	1.611.917,75
	3)	Intellectual property	6.720,08	-	6.720,08
	4)	Grants, licenses, trademarks and similar rights	75.390,76	-	75.390,76
	5)	Goodwill and consolidation differences	234.702,04	-	234.702,04
	6)	Assets in construction	626.661,94	(12.147,24)	614.514,70
	7)	Other assets	386.916,56	(227.833,80)	159.082,76
		Total Intangible Assets	**3.222.054,72**	**(519.726,63)**	**2.702.328,09**

Table 9: INTANGIBLE ASSETS FOLLOWING ITALIAN GAAP AND IFRS
Source: Brovedani internal materials

In order to reclassify the items, SAP transactions as "ZCESPITI" and "S_ARL_87012284" were used in order to dig into the asset book (libro cespiti) and to show the consolidated balance sheet.
IAS 38 regulates intangible assets: to be defined as intangible and non-monetary, an asset without physical substance has to be identifiable, controlled and capable of generating future economic benefits. Identifiably is the ability of an intangible asset to be clearly distinguished from goodwill, namely to be:

- separable, be unbundled from the entity and, therefore, sold, licensed, rented, etc.;
- arising from contractual or other legal rights.

The second ability is called control because the entity has to prove that with the target asset it could obtain future economic benefits. It is generally evidenced by the presence of a legal protection activity. The third ability may include revenues from the sale of products/services and/or cost savings. IAS 38 does not provide a classification of intangible assets nor a rigid scheme of classification. The only indication is provided by IAS 1: the minimum content of the company's financial position is to report separately tangible and intangible assets. Expansion costs do not meet the requirements to be considered as intangible assets and they have, therefore, to be expensed in the income

statement. Thus, they are deleted from the Brovedani's balance sheet. Following IFRS discipline, advertising and research costs must be expensed in the income statement when they are incurred. For the former costs, it is very easy because Brovedani does not bear any advertising costs while the latter costs have been deleted from the balance sheet: the amount reconciled refers to the research of a hypodermic nebulizer, a drug delivery device used to administer medication in the form of a mist inhaled into the lungs. The remaining costs are all linked to development in which it is possible to demonstrate the technical feasibility, their intention and their economic and financial capacity to complete the intangible asset so that it is available for use or sale, their ability to use or sell the intangible asset and how the intangible asset will generate probable future economic benefits. Moreover, they are distinguishable from the research phase: on the contrary, all costs must be expensed in the income statement.

Definizione del cespite	**Valore contabile residuo**
SVILUPPO BOSCH MANTELLO 2.5	17.438,90
SVILUPPO BOSCH PISTONE POMPA CP4	3.740,66
SVILUPPO SPESSORI SCANIA	11.891,49
SVILUPPO ALBERO DI LANCIO C7X	26.891,92
SVILUPPO FITTING RAIL BOSCH	4.503,73
SVILUPPO NUCLEO INTERNO BOSCH	39.721,76
SVILUPPO SU MOTORE ENDOTERMICO	395.328,59
SVILUPPO SU LETTO FLUIDO	179.220,38
SVILUPPO DENSO NOZZLE	259.023,62
SVILUPPO BOSCH CR CAPPELLOTTO	181.629,17
SVILUPPO MAGNA ROTORE POMPA OLIO	6.986,01
SVILUPPO NEBULIZZATORE IPODERMICO	276.502,23
SVILUPPO DELPHI IB INJECTOR BODY	140.250,75
SVILUPPO HIDRIA MEMBRANA	10.092,69
SVILUPPO TAPPO PIATTO PCRs5	86.050,19
SVILUPPO PISTONE POMPA MARELLI	188.921,03
SVILUPPO O-RING ADAPTER CONTINENTAL	31.020,84
SVILUPPO SISTEMI DI PULIZIA E LAVAGGIO	29.206,02
	1.888.419,98

Table 10: RESEARCH AND DEVELOPMENT COSTS

Source: Brovedani internal materials

On the left side, it is possible to see the assets' definition, while, on the right side, their residual book value. In red, nebulizer costs are displayed. Brovedani bears development

costs because the projects are all agreed with the customers and are improvements of other products.

No problems have arisen from the reclassification of intellectual property, grants, licences and trademarks. They could be accountable as intangible assets if they follow the general requirements: identifiability, control, future economic benefits and determinability of the cost. Moreover, trademarks could be accountable only if they are purchased.

Goodwill, if it is generated internally, has to be deleted from the balance sheet and expensed in the income statement. In the Brovedani's balance sheet, goodwill is generated by the purchase of Brovedani Reme Mexico and its competencies: since it is generated by a business combination, it may be included in the balance sheet as a tangible asset (IFRS 3). Assets in construction are mainly development and research costs: research costs have been eliminated.

Definizione del cespite	**Valore contabile residuo**
Sviluppo Progetto Hidria	9.577,74
Sviluppo Progetto Delphi Armature BR01	2.194,61
Sviluppo Progetto CBI Pistone APB-Mi	3.669,05
Sviluppo Progetto Delphi Outlet Fitting	2.277,62
Sviluppo Progetto Hidria BR02	104.474,64
Sviluppo Prog. Pole Piece Kovomo BR01	85,70
Sviluppo Progetto Pintel Delphi BR02	3.520,26
Sviluppo Progetto Valve Body Thick	1.669,21
Sviluppo Progetto Mando Pistoni ant.BR04	400
Adeguamento Sala Riunione BR05	136.141,53
Risanamento area cromatura mq 85	323.336,13
Implementaz. funzionalità SAP SEPA	39.315,47
	626.661,94
Development costs	614.514,72
Research costs	12.147,24

Table 11: ASSETS IN CONSTRUCTION

Source: Brovedani internal materials

On the left side, it is possible to see the assets' definition, while, on the right side, their residual book value. In red, research costs are displayed. To conclude, the residual item "other assets" has been analysed:

Brovedani SPA	
7) Altre	
ONERI PLURIENNALI	22.221,96
SPESE RINNOVO SU BENI DI TERZI	175.675,16
RICERCA FONTI DI FINANZIAMENTO E APPROV.	11.581,38
Brovedani Group (holding)	
7) Altre	
SPESE RINNOVO SU BENI DI TERZI	13.424,90
RICERCA FONTI DI FINANZIAMENTO E APPROV.	27.152,36
Brovedani Slovakia	
7) Altre	
SOFTWARE APPLICATIVI	7.716,60
Brovedani Reme Mexico	
7) Altre	
ONERI PLURIENNALI	129.144,20
Reconciliation	227.833,80
Other assets (after reconciliation)	159.082,76

Table 12: BROVEDANI'S OTHER INTANGIBLE ASSETS

Source: Brovedani internal materials

Oneri pluriennali are deferred charges linked to development costs:

Brovedani SPA	
Definizione del cespite	***Val.cont.res.***
SERVIZIO EDI FATTURAZIONE AI CLIENTI	2.144,26
ESTENSIONE CONTR. BOSCH DE MANTELLO 101 2015-2017	20.077,70
	22.221,96

Brovedani Reme Mexico	
Definizione del cespite	***Val.cont.res.***
RESEARCH AND DEVELOPMENT MAGNET CUP BOSCH	11.171,97
RESEARCH AND DEVELOPMENT THROTTLE SHAFT MARELLI	1.358,19
RESEARCH AND DEVELOPMENT THROTTLE SHAFT MARELLI	4.264,57
IMPLEMENTACION FACTURADOR AUTOMATICO TRALIX	214,22
RESEARCH AND DEVELOPMENT OUTER ARM EATON	8.214,78
RESEARCH AND DEVELOPMENT OUTER ARM EATON	9.365,48
RESEARCH AND DEVELOPMENT OUTER ARM EATON	20.347,09

RESEARCH AND DEVELOPMENT FITTING RAIL BOSCH	20.120,24
RESEARCH AND DEVELOPMENT FITTING RAIL BOSCH	8.629,17
RESEARCH AND DEVELOPMENT THROTTLE SHAFT COOPER	8.281,36
PROJ.DEVELOPMENT CONNECTION PLATE CONTINENTAL	6.232,24
PROJ.DEVELOPMENT CAM IDLER NEXTEER	835,63
PROJ.DEVELOPMENT FITTING PUMP BOSCH	20.033,73
SPRING DISK BOSCH PROJ.DEVELOPMENT	10.075,54
	129.144,20
Deferred charges linked to development costs	151.366,16

Table 13: DEFERRED CHARGES LINKED TO DEVELOPMENT COSTS

Source: Brovedani internal materials

Since all deferred charges follow the IFRS requirements, they can be capitalized. Spese di rinnovo su beni di terzi are maintenance costs linked to leaseholds: IFRS permits their capitalization as tangible assets. They have been, therefore, deleted from other intangible assets. To conclude, ricerca fonti di finanziamento e approvigionamento have been deleted, too: they are linked to expansion costs, forbidden in the IFRS discipline. Software applicativi are costs linked to application software's licences: they follow the general capitalization rules (identifiability, control, future economic benefits, determinability of the cost). The next table compares the percentage change of Brovedani's intangibles due to IFRS adoption: the numerator is composed by all the reconciliations carried while the denominator by the pre-adoption intangible assets' value. Goodwill has been deleted from the denominator in order to increase comparability: European and Italian studies treat goodwill separately from the intangibles mainly because its discipline does not fall into IAS 38 and because it is not amortized but tested for impairment.

	Actual	Mean	Max	Min
Brovedani case	-17,40%			
European database (Capkun et al., 2008)		+1,28%	+11,44%	-5,00%
Italian database (Marchi et. al, 2012)		-11,78%	+59,60%	-75,39%

Table 14: INTANGIBLES' VARIATIONS DUE TO IFRS ADOPTION

Source: CAPKUN, CAZAVAN-JENY, JEANJEAN, WEISS, 2008, p. 19, MARCHI LUCIANO LUCIO POTITO, 2012, pp. 98-136

The European analysis of Capkun et al. took place during the compulsory shift of publicly traded European firms between 2004 and 2005. The database is composed of 1.722 European firms' balance sheets: Italian firms represent 13% of the sample. The second study was developed taking into account ten publicly traded Italian firms during the same period. It is possible to discern that Brovedani's intangibles variation is very similar to the mean of the study focused on Italian firms, rather than the one focused on European firms. The results among intangibles allow us to have a glimpse on how far the Italian accounting framework is from the other European systems and how delicate should be a voluntary adoption in this environment. Brovedani's percentage change falls in the range of the second example: this can be linked to a specific strategy in order to slowly approach IFRS (Brovedani is conscious that the environment where IFRS were born is very far from the Italian accounting logic, meaning that an adoption could mean more costs that benefits). It can be said that also the OICC, the Italian accounting standards, in a way are becoming more similar to IFRS. For example, from 2016 research costs cannot be capitalized anymore.

The study is still not free from limitations, making us aware of how the research in this field is still in its infancy. The biggest limitation of the second study is the fact that all the analysed firms are service companies while Brovedani is a manufacturing one. Furthermore, the database is very little, including almost ten companies. The comparison between these two studies and the percentage change measured in Brovedani highlights a certain lack of microeconomic research. Italy confirms to have one of the most divergent national accounting framework in respect to IAS/IFRS, meaning the existence of inconsistencies among Italian accounting rules regarding certain accounting issues. Italy and Italian firms could benefit from IFRS only with adequate and systematic efforts of public institutions.

The reconciliations are originated because international standards, normally, focus on current values in the accounting estimates, while the Italian Civil Code provides, generally, historical values. Furthermore, many of the valuations adopted by the IAS/IFRS are related to expected cash flows' forecast based on predictions made during the evaluations. In the accounting science, the concept of "income", in particular "realized income", has lost gradually importance, in spite of the financial aspect of actual or worse probable generated cash flows. The adoption of international accounting standards may conduct to a model substantially different from the one used by Italian

companies, both in terms of information purposes and with regard to the drafting patterns and criteria of evaluation of individual items. There is no doubt that the conceptual framework of the IFRS balance sheet is very far from the one developed in Italy following the adoption of the Fourth Directive: the latter, therefore, defines the principles of clarity and true & fair view as a general purpose of the financial statements, deriving the principles for drawing up the various accounts and the evaluation criteria of its accounting items. Thus, the provisions of the Civil Code and the national accounting standards present a historical cost model whose values do not represent the future utility of the balance sheet item, rather the sacrifice incurred by the company at the time of its acquisition. The IASB model, on the contrary, is characterized:

- by a lower level of prudence, the fair-value recognition eliminates value reserves;
- by the ability to distribute unrealized but recognized profits, accounted depending on the current value of a readily realizable asset;
- by a greater variability of financial results and the equity amount, as closely associated with fluctuations in the market value of the assets expressed in current values;
- by a greater subjectivity, and, consequently, by a lower verifiability of the assessments made by directors.

Consequently, it can be said that the transition to IAS/IFRS has not only formal effects but it has a strong influence on the economy of the firms, too. The shift may affect the size of the equity, the income configuration resulting from the financial statements, the different possibilities of the operating performance's appreciation and, ultimately, the wealth distribution among stakeholders. All these aspects in turn affect the firm's credit abilities (MARCHI LUCIANO LUCIO POTITO, 2012, pp. 28-47).
Excluding the paper of Capkun et al. (2008), it is not easy to find data obtained by large databases about accounting items and how (much) they change relative to a different accounting framework: if it is hard among European studies, it is harder among Italian ones. Some academics are very proactive towards an IFRS implementation but, even if advantages exist, they seem or to be too modest to proceed in this direction or to lead to results that need further (empirical) analysis. This is especially true because a real cost-benefit analysis has not been yet developed. Nobody has settled a framework in which

quantify the cost for a change of these proportions, trying to make tangible the intangible costs, too. It is clear that if a firm wants to search new investors, increasing cross border transactions and access to international funds and investments, facilitating international acquisitions and mergers (for example in Asia), a way could be surely adopting a single, high-quality, transparent, understandable, globally enforceable and accepted financial reporting language.

3.4 Semi-structured interview

To develop the Brovedani case, semi-structured interviews have been chosen in order to investigate the impact of IFRS adoption and its possible effect in an Italian medium company, beyond the simple accounting effect. The qualitative research is a very broad family of research techniques, aiming to analyse everything that is non-numeric: texts, dialogues, interviews, audio clips, movies, images. It is suitable to be applied to real, observable, micro-relational situations, imposing a face-to-face scheme. The researcher has to dive, becoming an active spectator but remaining well aware that his/her subjectivity will influence the data collection. Interviewing is the most widespread tool for collecting information in the social sciences. The word comes from the French verb "entrevue", past participle of the verb "entrevoir", to foresee. Like many other terms, such as classification, measurement, observation, science, it means either a task, a process, or the product of that activity, meaning that not necessarily to an interview-process corresponds an interview-product. Furthermore, it could be defined as a form of conversation in which two or more people are engaged both in a verbal and nonverbal interaction in order to reach a goal previously defined. The interview aims to detect personal situations, behaviours, opinions and attitudes, which they cannot, for definition, be considered right or wrong. In the interview, therefore, you have no intention to change opinions, attitudes, or conducts of the subject(s) studied. In fact, though a well-conducted one, the individual's awareness of some aspects of him/herself and his/her relationship with the environment could increase. The interview does not usually originate from a request of the subject. To sum up, the tool has the following characteristics:

- it is aimed at the detection of situations, behaviours, attitudes, opinions,
- it plans to acquire, not alter, the status of the respondents;
- it takes place in a research's framework.

The voluntariness with which the interviewee is prompted to share information has to be considered an essential requirement. The interviewer should not, in any way, compel the respondent to accept the interview, nor propose fees for its service. Whether to accept the interview depends only on the willingness of the interviewee. Generally, the interviews are divided based on two criteria:

- the presence or absence of a direct visual contact between the interviewer and the interviewee,
- the degree of freedom approved by the actors involved.

According to the first criterion it may be distinguished the personal interview (face to face) from the phone calls while, according to the second, there are three main forms of interview: non-structured, semi-structured, structured. They are characterized from a minimum to a maximum structuring of both the questions and responses. In this case, the semi-structured method has been chosen: a method, originating from the ethnographic anthropology tradition, in which the interviewer has a list of topics set in advance on which he/she collects all the required information with the ability to adapt to individual respondents both questions and the order in which they are put. The researchers, using qualitative analysis, collect impressions, individual or collective representations of specific human facts and experiences. Their analysis is a breakdown in order to shed light on the immediately visible facts or to discover hidden paths, under the immediate world of everyday perceptions. Usually large numbers and mathematical tools are not used, focusing on a little number of cases, in the enucleation of the greatest number of aspects and information derived from a single context. Qualitative research cannot be opposed to quantitative one: based both on empirical evidence, the difference lies in the fact that the data collected is not numerical, requiring, therefore, interpretative rather than statistical analysis. In addition, in a quantitative research, the aim is to find a consistent and sufficiently representative random sample while, in a qualitative one, the purpose is to find a small specific sample in order to produce an

acceptable and consistent explanation of the phenomenon studied. Therefore, the selection of the sample of the latter takes place according to the criteria of relevance and quality consistency in relation to the object of study. The use of the in-depth interview has been designed to reveal in detail the subject of the study. The scheme could be summarized as a trace of open-ended questions in order to focus the topic. The goal is to find out what is the structure of the meanings attributed by the interviewee in a specific subject while the researcher's task is to avoid, as much as possible, to impose its structure and its opinions. The researcher must remain as neutral as possible in front of opposite positions to his/her beliefs and values. It is evident that a bias is produced due to the inevitable presence of the researcher. In summary, given the track of interview, the examiner is free to define the order of questions, to investigate or take a few themes, to contain any irrelevant digressions by the interviewee, to bring him/her back on the interview topics and to facilitate any feedback. The lack of standardization is both the strength and weaknesses of qualitative interviews. It could be a weakness because it is more difficult to compare, count, infer from sample to population. It could be a strength because it allows you to go deep, discover the hidden and unforeseen, access a vision from within (FIDELI MARRADI, 1996, pp. 71-82).

Semi-structured in-depth interviews are the most commonly used questioning set-up for qualitative research and may be done either with one or more interviewees. They usually last from thirty minutes to several hours to be accomplished. The individual in-depth interview permits the interviewer to explore deeply into social and private matters, while the group interview consents examiners to develop a broader range of understanding but, due to the public nature of the procedure, avoids digging as profoundly as the individual one. The semi-structured interview could be divided in three phases: the initial apprehension phase, the exploration phase and the co-operative phase. The first phase is depicted by insecurity originating from the abnormality of an environment in which the interviewer and interviewee are new. During this phase the aim is to get the interviewee talking. The second phase is when the interviewee start to be involved in a profound conversation. This development is done by learning, listening, testing and bonding together. The final phase, the co-operative one, can be described as the cosiness reached by the members. As a matter of fact, they are not scared to upset themselves, they even find gratification both in questioning and being questioned. This should be the perfect occasion to ask questions that were too delicate to demand at the

beginning. To conclude the method description, the data analysis happens simultaneously with data collection so that investigators can generate an emerging understanding about research questions, which in turn updates both the sampling and the questions being requested. This iterative procedure of data gathering and evaluation ultimately leads to a point in the data collection where no new groupings or matters transpire. This could be called saturation, indicating that data collection is finished (CRABTREE DICICCO-BLOOM, 2006, pp. 314-318).

The objective of the semi-structured research has been to examine the predisposition towards the IFRS adoption in the Brovedani Group. All the interviewees hold position among middle and top management, having a good knowledge of national accounts either because they come from economic studies or they work daily with company accounts. The chosen respondents were the global operations manager, the chief operation manager, the administration officer, the corporate controller and the controlling and finance officer. Every interview lasted, on average, thirty minutes and was done one to one in a neutral room where the interviewee could feel safe and, therefore, more encouraged to talk. Every interview was recorded after asking the permission: it was also explained the purpose of the research and the anonymity of the results. The questions were divided in three macro-areas. The first one linked to the exploration phase, where the interviewees were asked personal information such their academic and work background. The second area is connected to identify problems, suggestions and personal judgement about Brovedani, its future choices and strategies. The third part is related more closely to international standards and their possible adoption in the company, their effects, limitations, advantages and challenges.

First part - personal information

1) Which is your educational background?
2) Which is your work background?
3) Is it your first experience, here in Brovedani, as (CFO, GOM, controller, etc.)?
4) Are your married? Have you got kids?

Second part - Brovedani's future challenges

5) Suppliers in the automotive sector are becoming bigger, will Brovedani grow in order to resist, in order to stay on top?
6) Which are the main future challenges for Brovedani?
7) Will the companies acquire more independence in order to pursue a local for local strategy?
8) Is it planned in the near future a stock market listing?

Third part – IFRS adoption

9) Do you know IFRS and their rising importance among supranational entities?
10) Where have you learned about IFRS (School, work, seminar, etc.)?
11) Are you in favour of adopting them in Brovedani?
12) Do you think that inside the firm(s) there are already the competencies and know-hows to adopt them?
13) Has an IFRS adoption ever taken into account by the property and the management? Is it a priority of the firms' strategy?

The results of the interview highlight a company still very much tied to its core: the workshop is still, too much, important. This is especially true in the automotive sector where big investments are always needed, in which to remain competitive it is demanded to become always bigger and internationalized, in order to stay close to the clients and suppliers. The main findings are related to the accounting quality's improvements. IFRS per se does not improve accounting quality. To achieve consistent results, voluntariness and a strong enforcement process is needed. Since they lack in Brovedani, it is very difficult to assess that an IFRS adoption could bring more benefits that costs linked to compliance. Every candidate has however a discrete IFRS knowledge. All of them did not study this kind of standards at school or during the university. Most of them have acquired information during seminars and corporate training courses. Most of the subjects have worked in different roles before coming to Brovedani while the majority are married with kids. The main challenge for Brovedani is to conduct a business in an uncertain environment: this is

linked both to the automotive sector itself (Diesel Gate has forced many suppliers to reinvent themselves, shifting the business from diesel to gasoline injections), and both to the economy as a whole (more markets' and sales' volatility). Moreover, clients will demand stricter quality levels, more innovation and differentiation in order to decrease the business risk. To sum up, Brovedani challenges could be linked to:

Figure 33: BROVEDANI'S FUTURE CHALLENGES

The medium-term strategy is to increase independence among companies: this is a process started almost five years ago aiming to remove functions gradually from the holding to the other companies. In Italy design and product development will remain while projects development will shift from the headquarters to every factory around the world. Moreover, Brovedani, even if it is a capital-intensive company, manages to raise funds quite easily: in this scenario, it is very hard to think about a stock market listing. Brovedani has, anyway, embarked on a path leading to the capital market called ELITE by Borsa Itana SPA: a gym and a school to teach to the best international companies to dialogue with third-party investors, understanding financial markets. Italian stock exchange has created this innovative platform of services dedicated to ambitious companies so they can compete with the best models and with international best practices. Moreover, they can meet with a community of excellence to take advantage of all business matching opportunities available. Few candidates have answered completely to the third part mainly because they do not possess deep knowledge of IFRS

discipline. This is not linked only to the fragmentation of knowledge within a company, but also to a kind of paternalistic approach: each role is divided sharply especially in the administrative, finance and controlling office. The consolidated balance sheet is done only by the CFO, who does not share any information with his staff: the latter does not know that it was published. Moreover, the style of leadership allows the manager to make all the decisions, fully depowering his staff. In this way, the control is widespread but it does not allow any room for manoeuvre to his subordinates, making them feel protected but also little self-sufficient. Moreover, the industry and the company is recovering from big crisis (2008, European debt crisis, Diesel Gate). In the last 5 years Brovedani has managed a slightly increasing turnover. In 2011, the sales budget turnover was fixed to 110 Million Euro while the actual was almost 85 Million Euros. This incredible decrease held back investments and chances to grow especially in Asia: Brovedani has been interested in purchasing an Indian competitor. After this huge drop, the management preferred to be very cautious. Brovedani is aware that nowadays the main problem is not to attract funds, rather to attract skills, competencies, know-hows. Most of the interviewees are not in favour of an IFRS adoption for many reasons: the general thoughts concern the more discretion linked to IFRS and the fair value method compared to accounts more closely linked to the historical cost and, therefore, the prudence principle. In addition, there is a feeling that the national criteria are approaching slowly toward international ones: the capitalization of research costs is, for example, forbidden from 2016 among Italian GAAPs. A slow change is seen favourably because it does not impose too many costs just over one year: it could be a shock for a small-medium company like Brovedani, which does not have the expertise and the resources of a multinational. All of this is sharpened by the environment in which the IFRS were born: a very different one compared to the Italian. The IFRS discussion remained always in the administrative offices between accounting managers and auditors: as a firm focused mainly on its core activities, Brovedani does not value very much administration, considering it a simple staff function, a useless superstructure that could be eliminated with the advent of industry 4.0. The impact of the administration in the turnover is very modest compared to other companies in the same industry. The function in Brovedani costs approximately 1.5% of the sales turnover while in other companies the cost ranges between 3% and 5%. Obviously, this statement is not shared by the subjects coming from the accounting areas of the company: the administration

has a bad reputation inside the firm maybe because most people have no competences in the field and see the administrative demands as something absurd. Surely the Italian laws and requirements do not help to decrease this feeling.

Brovedani has long understood the importance of internationalization, being able to rise to the challenge. Today, despite the collapse of domestic demand, it is able to stand out with good economic performance. If an enterprise is strong in Italy, has a better chance to conquer foreign markets. Internationalized companies show better results than those who are limited to the domestic market and thus seems stronger, more competitive but, in most cases, they were already solid before starting their expansion abroad. Be strong leads more easily to internationalization and not vice versa, because resources, investment and fixed costs needed to be known abroad. Companies have to be managed according to a medium-long term maximization profits perspective. This means that much of the relevant decisions, including the one to explore foreign markets, are taken according to a long-term horizon, with the ability to withstand no immediate returns. In addition, very important is this process is the ability to deal with those who is ahead, though geographically distant, or with those who have been able to offer creative solutions to emerging problems, with those who have developed products, services, facilities and innovative mechanisms. While large companies have more easily than managerial and financial resources to respond to international competition, the Italian SMEs approach is more deconstructed. Not all Italian SMEs understand that internationalization is a rewarding growth strategy, which must be conducted with care, commitment and specific methodologies, depending on the context in which they operate. To conclude, Brovedani Group could be facilitated to draw up the consolidated accounting, becoming more transparent while letting more independence to its societies. Despite some clear advantages, as the decrease of earnings management and the increase of timely loss recognitions and value relevance of earnings, it seems that the reason behind the IFRS adoption movement are political, too: not generated by a genuine economical reasoning. Brovedani seems to be, in this moment, not interested to invest in IFRS. It is very focused on the core areas (administration, control and finance is a staff function), it has not the intention to become more transparent and the stakeholders (especially the management and the shareholders) seem not to value IFRS as the best fit. The significant costs associated with adopting IFRS seem to outweigh the benefits, even if all this reasoning have to be proved with fact and figures. Refusing this

framework is linked also to the very different environment in which IFRS were born: Brovedani has, anyway, to take them into account, somewhere in the future.

4 Conclusions and final remarks

Due to globalization, international accounting has become increasingly important: even a company, operating within the borders of its own country, is no longer isolated from the international accounting context. In the last three decades, a demand for a unique, well-recognized and high-quality international accounting framework has risen attention of the accounting world. After having understood that the environment is one of the main causes of different national GAAPs, it could be said that IFRS is the most famous and used set of international standards, rules and practices. A process of harmonization is, hence, needed to diminish superfluous or contradictory standards. Obviously, the adoption of IFRS has both beneficial and detrimental effects: academia does not provide a clear answer. For the EU, it represents a real Copernican revolution. IFRS, in fact, provoked a reversal of hierarchies. This shift, for a civil law country such as Italy, has to be taken into account very seriously. The aim is to emphasize the positive effects, not leaving out however the limitations that may arise. To better understand the process, a real case has been analysed: the possible impact of IFRS adoption in a pocket multinational firm. It has highlighted many limitations found in the literature. There is no need to increase comparability and transparency and no intention to adopt voluntarily IFRS. This could heavily diminish advantages such as lower timely loss recognition, more value relevance and less earnings management. The semi-structured interview pointed out a company culture very much associated to the core activities, considering administration an annoying superstructure, something that in the future will be deleted, surpassed. In addition, the main belief is that Italian GAAPs are easier and more suitable to describe the group's situation: it seems that they are approaching slowly to international standards. After having reclassified intangible assets according to IFRS, a comparison with similar studies was developed: the percentage change is more similar to Italian databases that European ones, confirming the remoteness and the divergence of the Italian accounts from those of the other member states.

International Financial Reporting Standards may allow better information statements, and, therefore, more useful, more effectively and more globally comparable accounts. Some disenchanted reflections are needed in order to clarify two key objectives: more useful information and more comparability. As far as utility is concerned, IFRS postulate that information should serve primary to investors. This led, at the time of their

introduction, to affirm with a really unmotivated emphasis and without a preliminary and indispensable critical reflection that the new rules allow to better appreciate company's performances. The conceptual pillar on which stands a good part of the logical construction of the principles is the fair value. The expression was born in English-speaking countries, later adopted in the legal field as a criterion to safeguard the interests of minority shareholders. It is linked to concepts as "fairness" and "equity", which in those fields may also be appropriate. In the IFRS it is linked to a criterion of objectivity and to current market conditions: however, it should be implicit the idea that the market exists and it is a balanced and unbiased gauge of corporate values. The global economic crisis linked to corporate collapses of 2008 originated in the American environment, one of the most advanced, sophisticated and efficient financial market. After that event, many people started to doubt that an accounting framework derived from that background could be eligible to be the international benchmark. This method is motivated not only by technical considerations, relating to issues of inadequacy of valuation, but also to political and economic convenience. It is evident the seriousness and the dangerousness of this technique. The historically consolidated accounting principles could be distorted by introducing from the outside logics very far from the traditional ones. Additionally, it is risky when you choose to follow an accounting behaviour based on the economic desirability of individual effects. It is likely to produce a deliberately misleading information concerning the technical overview of the phenomenon. Regarding the comparability, the project behind the IFRS expansion has promoted an enthusiastic convergence between different cultures and national accounting practices. The final goal is to arrive to a common understandable language. It could be noted that it is not an easy process, giving rise to misleading beliefs. Despite the efforts undertaken, cultural, social, economic differences between countries remain strong and they will impact on the application of the principles.

The most important issue is represented by differences on the markets due to dissimilar prices, values' measures and degree of economic development. Even if the same methodology is applied, uniformity and comparability between accounting values are not guaranteed. The road towards a substantial convergence and an effective, and not merely apparent, comparability, is still long. The euphoria and enthusiasm, spread in the early days of the application, have been mitigated.

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