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DETERMINANTS IN THE STANDARDS REVIEW PROCESS: AN ANALYSIS OF IFRS FOR SMES

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Abstract: *The IFRS for SMEs is a simplified framework of financial reporting standards designed specifically for small and medium-sized enterprises (SMEs). The IASB issued this standard to cater to entities that do not have public accountability but still need to prepare high-quality financial statements for internal and external stakeholders.*

This study focuses on comprehending and appreciating the crucial influence of stakeholders in developing accounting standards. Their involvement is not merely a factor but an essential element of the standard-setting process. We will conduct a qualitative analysis of comments letters from the First Comprehensive Review of IFRS for SMEs, acknowledging the importance of each contribution. The analysis will also delve into the relationships between the IASB and the stakeholders, aiming to uncover insights into stakeholder influences and IASB independence during the review process. The IASB has been criticized for not considering the perspectives of users and owners in establishing requirements, particularly in the IFRS for SMEs.

The analysis reveals a high similarity between Europe and other Global organisations, mainly due to their European origins. However, responses from Oceania show the lowest similarity, mainly due to limited comment letters. Professional organizations, Accounting Regulatory Bodies, and Accounting, audit, and consultant firms share common concerns, while Insurance Agencies show lower similarity due to differing concerns and vocabulary. The IASB should consider the interests of all stakeholders, but the lack of clarity on revision criteria may undermine its legitimacy and transparency. Therefore, it is crucial to provide clear and transparent revision criteria to ensure universally accepted standards and enhance stakeholder confidence in the process.

Keywords: *IASB, Stakeholders, IFRS for SMEs, Stakeholder theory, Legitimacy theory*

JEL classification: *M1, M4*

1. Introduction

Definitions of small and medium-sized entities (SMEs) vary significantly worldwide, affecting the business landscape. The classification of an entity as small or medium-sized relies on criteria established by the country in which it operates, making this a complex subject. Commonly considered requirements include turnover, the number of employees, and owned assets, among other factors. These criteria can differ by country and industry, which is why not all definitions are suitable for sizing entities. While the number of employees and turnover are the most frequently used criteria, they do not always correlate. Some entities may have a few employees but generate high turnover.

Due to the lack of a universally accepted definition of SMEs, the International Accounting Standards Board (IASB) has encountered significant challenges in defining and applying reporting requirements for these entities. This has led to discussions about the need for a global standard for SMEs. The primary challenge faced by the IASB was developing a definition that would encompass all aspects of SMEs in an international context, especially considering the importance of SMEs in the total number

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of business entities worldwide. Factors such as the economic environment, reporting practices, cultural influences, and the level of national economies all shape the defining characteristics of entities, which can vary from one country to another (Perera & Chand, 2015).

The IFRS for SMEs standard is a structured guidelines framework less complex than IFRS standards and many other national regulations. It is specifically designed to cater to the needs of small and medium-sized enterprises (SMEs), making it more relevant and practical for these entities. Key differences from IFRS standards include the omission of topics not relevant to SMEs, a requirement for less detailed information, and the simplification of many recognition and measurement principles. This standard is significant because it provides a tailored and manageable framework for SMEs, enhancing the quality and comparability of their financial reporting. Reports that are less complex yet provide information about an entity's liquidity, profitability, and solvency can meet users' needs for financial statements. One primary necessity is conducting a comparative analysis of performance over time, which helps predict expected returns, cash flows, and future financing and maintains control over management (Handley et al., 2018).

Revenues, profits, capital, debts, and cash flow statements are among the most important elements of financial statements for users. These elements can indicate liquidity and future profitability, thereby helping evaluate management's cash management effectiveness (Handley et al., 2018). However, concerns about future information needs can arise, particularly in situations such as a financial crisis.

The analysis will examine the role of stakeholders in amending accounting standards. It will also explore the factors that influence individuals' behaviours in adopting or participating in the standard-setting process. The importance of stakeholders in shaping these standards is critical and cannot be overstated. This study aims to conduct a qualitative analysis of the responses received from the First Comprehensive Review of IFRS for SMES, highlighting the significant contributions made by respondents toward future recommendations for developing and revising the standards.

Additionally, by using aspects of stakeholder theory and legitimacy theory, the relationships between the IASB and the stakeholders represented by the respondents will be explored. Through this analysis, the objective is to uncover insights regarding stakeholder influences and the maintenance of IASB independence during the review process of the IFRS for SMEs standards.

2. Literature review

Stakeholder theory, a key component of the system-oriented theories in accounting literature, is essential in understanding the dynamics among various stakeholder groups. This theory, along with political economy theory, decision utility theory, institutional theory, and legitimacy theory, is commonly used to comprehend the general relationships between society and companies.

Stakeholder theory represents a conceptual innovation because it focuses on value creation rather than maximizing or distributing an organization's profits (Dumitru et al., 2015). According to this theory, an organization functions as an alliance of multiple stakeholder groups, and the collective efforts of these groups aim to achieve value creation, which is the fundamental purpose of the theory (Shaoul, 1998). Stakeholder theory gained prominence in the 1980s, mainly due to Freeman (1984), who applied the stakeholder approach to strategic management. It was a response to the need for managers to adapt to the rapidly changing business environment (Freeman, 1984).

The fundamental concept of stakeholder theory powerfully reminds us that an organization's success is intricately tied to its stakeholders' collaboration. This underscores the vital importance of not just listening to but truly understanding these stakeholders' needs and desires. It's not just about considering their interests but actively engaging with them and taking their concerns and interests into account. This is a necessity for any organization that wishes to thrive in today's complex business environment.

Legitimacy refers to the general perception that an entity's actions are appropriate, desirable, or proper within a societal framework of norms, values, beliefs, and definitions (Suchman, 1995). Public perceptions of an entity's actions are shaped by the expectations of the social environment to which it belongs. The theory outlines how organizations implement and develop the voluntary disclosure of information to fulfill their social contract, enabling them to achieve their objectives and thrive in a turbulent environment (Schiopoiu Burlea & Popa, 2013). When an organization fails to respect social and moral values, it faces societal sanctions, often leading to failure. In such cases, organizations justify their existence through legitimate economic and social actions that do not threaten society's stability (Suchman, 1995).

Maintaining the IASB's legitimacy is not just a goal but a crucial necessity. Its mission of creating 'globally applicable and accepted standards' can only be achieved through active stakeholder involvement. To develop appropriate standards, IASB must carefully consider the contributions of stakeholders directly affected by these standards, including their suggestions and concerns. This is a recommendation and a necessary step in ensuring the IASB's continued legitimacy and success.

Research indicates that the legitimacy of an organization significantly impacts stakeholder participation. Stakeholders may feel discouraged or hesitant to engage because they have low expectations regarding the influence of their opinions on decisions made by standard-setting bodies or feel that their input has not made a difference (Glicken, 2000; Tandy & Wilburn, 1996). To enhance stakeholder participation, stakeholders need to believe they can genuinely impact the content of the standards and that the standard-setting process is not just a symbolic gesture to ensure their voices are heard (Durocher & Fortin, 2011). Although standard-setting bodies cannot fulfill the conflicting preferences of all stakeholders, they must justify their decisions to demonstrate that stakeholder opinions have been considered or explain why these opinions were not reflected in the final standards, where applicable (Durocher & Fortin, 2011).

Stakeholder and legitimacy theories provide a robust theoretical framework for examining the relationships between various organizational stakeholders. This is particularly evident in the context of the IASB and its interactions with stakeholders who responded to the Request for Information (Rfi), demonstrating the practical application of these theories in the accounting field.

3. Methodology

The academic literature has examined the standard-setting process by analyzing comment letters on exposure drafts and discussion documents. Comment letters, part of the public record, provide valuable opportunities for quantitative analyses due to their accessibility, making them an essential form of public participation. They allow for the visualization of participation trends, which helps to measure the degree of influence and can be used to develop more effective methods for soliciting engagement.

In this research, content analysis is a robust and significant method for interpreting text by following established procedures when dealing with substantial amounts of qualitative information (Weber, 1990). This approach enables text coding into categories, simplifying the analysis process (Linsley & Shrives, 2006). Content analysis offers advantages for collecting quantifiable information that can be subjected to various statistical tests. It is more efficient and less time-consuming than other methods, such as questionnaires, ensuring a thorough and reliable analysis (Bamber & McMeeking, 2016; Kwok & Sharp, 2005).

The data used for analysis in this research were represented by the response options of the twenty questions in Part A of the Request for Information for quantitative analysis and the comments received on these questions in the comment letters for qualitative analysis. The comment letters, publicly available and sourced from the official IFRS website (https://www.ifrs.org/), were carefully collected. Despite a discrepancy between the number of comment letters reported by the IASB and those available for download, no supplementary information was located. All archived files on the site were downloaded to ensure comprehensive data collection. Upon analyzing the files corresponding to the 89 letters indicated by the IASB in response to the Request for Information, only 86 letters were found to be accessible, underscoring the thoroughness of the data collection process.

The 86 comment letters obtained from the official website and the Request for Information document were compiled to create the database. Content analysis was applied to examine the review of

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the IFRS for SMEs from these comment letters, and a coding methodology was established. Nvivo (12 Plus) software was used for the qualitative analysis to organize the letters according to the outlined methodology. The letters were coded based on the respondents' jurisdictions (geographical regions—continents) and the types of respondents (stakeholder groups), following the criteria and attributes listed in Table 1.

Tabel 1: The results of organizing the letters by location and stakeholder group

Stakeholders (groups)	Code	Comment Letters	%
Professional organisations	***A1***	31	36.05
Accounting Regulation Bodies	***A2***	20	23.26
Accounting, audit and consultant firms	***A3***	14	16.28
Academics	***A4***	4	4.65
Rating Agencies	***A5***	1	1.16
Insurance Agencies	***A6***	1	1.16
Preparers	***A7***	3	3.49
Others	***A8***	12	13.95
Total		**86**	**100%**
Jurisdiction	**Code**	**Comment Letters**	**%**
Africa	***B1***	10	11.63
Asia	***B2***	13	15.12
Australia	***B3***	2	2.33
Central America	***B4***	1	1.16
North America	***B5***	4	4.65
South America	***B6***	4	4.65
Europe	***B7***	32	37.21
Oceania	***B8***	1	1.16
Global organisations	***B9***	19	22.09
Total		**86**	**100 %**

Source: Authors analysis

This organisation of the comments letters was essential to ensure that the IASB, the global accounting standard-setter, maintained its independence while reviewing the IFRS for SMEs. Upholding this independence is crucial for the IASB to be perceived as a neutral and unbiased entity in the standard-setting process.

In such analyses, independence arises from the volume and diversity of stakeholders' involvement in the global standard-setting process. For the IASB, stakeholder participation is important and integral to demonstrating independence and enhancing legitimacy. The active engagement of stakeholders lends credibility to the IASB and ensures that the standards established genuinely reflect the global business environment.

4. Results

In the literature, evidence suggests that certain stakeholder groups exercise more significant influence over the standard-setting process; however, this cannot be generalized, as it has not been proven that any particular group dominates this process (Bamber & McMeeking, 2016; Kwok & Sharp, 2005). This nuanced understanding of stakeholder influence is crucial for accounting, providing a more comprehensive view of the standard-setting process.

Over time, the influence of stakeholder groups in the standard-setting process has been linked to 'persuasion'. This term refers to the ability of specific stakeholder groups to support their interests and effectively shape the standard-setting process. It is worth noting that the power of financial statement

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preparers, while significant, is often overshadowed by other stakeholder groups, making their persuasive influence heavily reliant on the support of others.

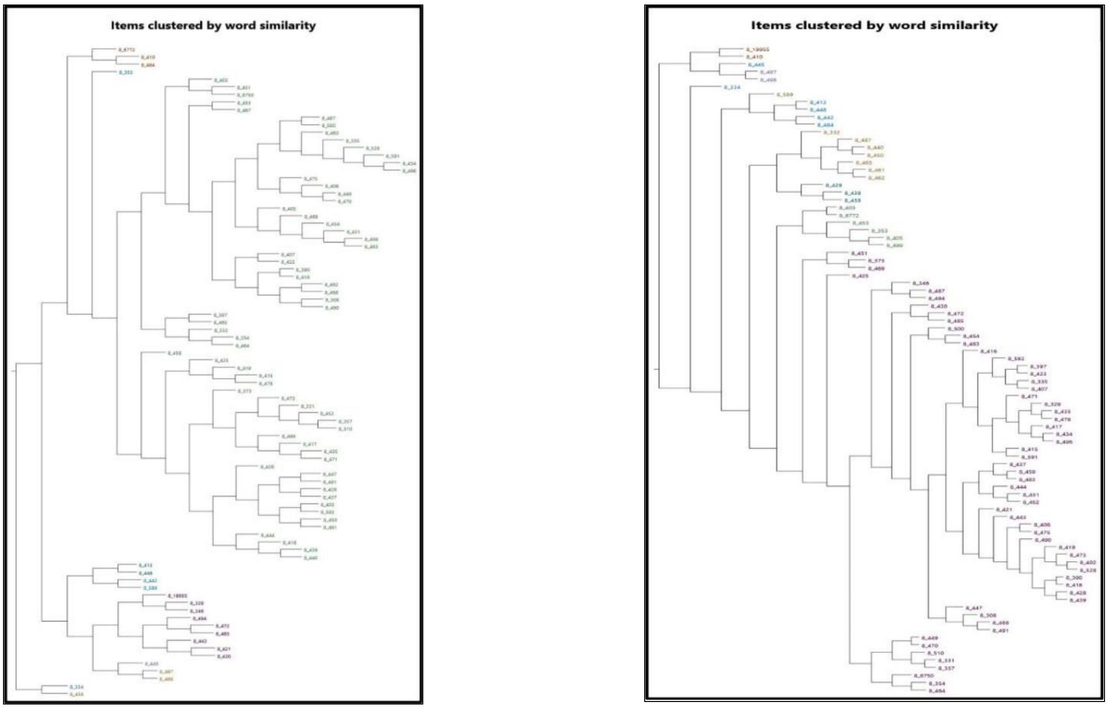
The role of stakeholders in changing accounting regulations will be carefully examined in the analysis. The comment letters sent in response to the IASB's Request for Information will serve as the foundation for this inquiry. These letters support public debate and are essential for critically evaluating the international accounting standards-setting process, giving us assurance about the depth of our research.

Cluster analysis is utilized to explore the connections between two or three items. This connection is visualized in clusters, similar to correlation analysis in quantitative data. Cluster analysis is a quantitative technique that lets academics work with big data sets and do qualitative analysis. It helps researchers understand the reasons behind participants' actions by applying it to coded qualitative data to make study results more understandable. Cluster analysis is a crucial feature of mixed methods research since it allows for the quantitative study of people with similar profiles. In order to minimize similarities within clusters and maximize similarities within the same cluster, variables or cases are grouped.

This study applied cluster analysis to the 86 comment letters using Nvivo 12 software, using the Jaccard and Pearson coefficients as metrics for similarity calculation. The outcome was horizontal dendrograms (Figure 1) illustrating how similar elements in the same branch are and how different elements in separate branches are from one another. These dendrograms will be referenced in the subsequent sections. Figure 1 represents the two dendrograms generated using the two coefficients (the Jaccard coefficient and the Pearson coefficient) to evaluate the similarity of responses to the comment letters.

Figure 1: Comment letters – Clusters

Jaccard coefficient | Pearson coefficient



Source: Authors analysis

From the database created from the comments on the 20 questions in Part A of the Request for Information, the analysed letters were grouped based on the similarity of the words in the responses. "Word similarity" refers to literal semantic similarity, as in synonyms. Figure 1 presents horizontal dendrograms created through cluster analysis, displaying the names of the letters grouped according to word similarity. The dendrograms suggest that respondents may share specific common interests

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regarding modifying the standard, indicating a certain homophily or the tendency for individuals to group with others like themselves. This concept of homophily is important in understanding the dynamics of stakeholder influence in the standard-setting process.

After applying cluster analysis, the results shown in Figure 1 indicate that letters 8_334 and 8_438 are entirely separate from all other clusters. This suggests that the word distribution in these letters significantly differs from that of the other analysed letters.

Upon further examination, it was found that letter 8_334 from the Institute of Chartered Accountants of India did not adhere to the recommended format for Rfi responses. In contrast, letter 8_438, from the French Business Confederation (MEDEF), only provided three comments, emphasizing the low level of similarity compared to the other letters.

The Jaccard coefficient, a measure of the degree of similarity between two sets, and the Pearson coefficient, which indicates the degree of correlation between variables, are crucial in this analysis. A higher Jaccard coefficient value, ranging from 0 to 1, signifies a more remarkable similarity, with 1 indicating identical sets. In this study, the coefficient values range from 0 to 0.08, indicating a maximum similarity degree of 8%, which is considered insignificant. On the other hand, the Pearson coefficient indicates the degree of correlation between variables, with values ranging from -1 to 1. The closer the Pearson coefficient value is to 1 (in absolute terms), the stronger the linear relationship between the two variables. In this case, the coefficient values for letters 8_334 and 8_438 range from 0 to 0.53, suggesting a weak relationship between these letters and the others in the analysis.

Letters with the highest degree of similarity are listed in Table 2, with coefficient values above 50%. The remaining analysed letters have Jaccard coefficient values ranging from 0 to 0.50, indicating that their degree of similarity based on word usage is below 50%. These letters were sent by:

- 8_470 – ICPAK - The Institute of Certified Public Accountants of Kenya
- 8_449 – RSM International
- 8_418 – ACCA - The Association of Chartered Certified Accountants
- 8_390 – EFAA - European Federation of Accountants and Auditors for SMEs
- 8_498 – FACPCE - Federation Argentina de Consejos Profesionales de Cisencia Economicas
- 8_497 – Group of Latin American Accounting Standard Setters

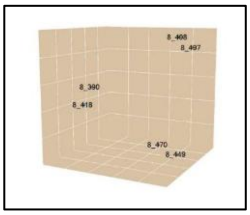
Tabel 2: Comment letters - High degree of similarity

No.	Comment Letter A	Comment Letter B	Jaccard coefficient	Pearson coefficient
1	8_470 (B1, A1)	8_449 (B9, A3)	0.617493	0.901949
2	8_418 (B9, A1)	8_390 (B9, A1)	0.568519	0.933593
3	8_498 (B6, A1)	8_497 (B9, A2)	0.534483	0.744037

Source: Authors analysis

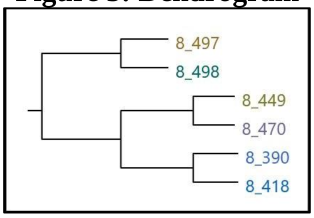
The dendrogram in Figure 3 illustrates that letters 8_418 and 8_390 are grouped, indicating they are more similar than any other letters in the analysed set. Further analysis shows a similar situation for letters 8_470 and 8_449, as well as for 8_497 and 8_498. However, while 8_497 and 8_498 exhibit similar content, they are situated on a different branch of the dendrogram, indicating more significant differences than the rest of the analysed letters. This contrast is also illustrated in the 3-D Map in Figure 2, which visually represents the distances between the clusters.

Figure 2: 3-D Cluster Map



Source: Authors analysis

Figure 3: Dendrogram



Source: Authors analysis

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Next, each set of comment letters will be examined, focusing on the degree of similarity based on the Jaccard coefficient, the frequency of the most commonly used words, and the similarities in comments provided by respondents. This analysis aims to create a profile of respondents with high similarity. Hence, only sets of comment letters with a similarity degree more significant than 50% will be examined.

According to the analysis, the similarity between comment letters 8_470 and 8_449 is 61.75%. These two comment letters share the same response options for 14 of the 20 questions in the Rfi. Additionally, their comments address general concepts, overall outcomes, and the status of revenues and expenses (Sections 2 and 5), changes in equity (Section 6), investments in associated entities (Section 14), and income tax (Section 29). Interestingly, the respondents represent different stakeholder groups and locations: Professional Bodies (A1) and Africa (B1), as well as Accounting, Audit, and Consulting Firms (A3) and Global Organisations (B9). Despite this, the vocabulary is sometimes similar, even identical, especially in sections addressing specific issues. This correlation is evident in the frequency analysis of the 20 most used words, as shown in Figure 4.

Figure 4: The frequency of the words used – 8_449 (left) and 8_470 (right)

Source: Authors analysis - Nvivo

Comment letters 8_418 and 8_390 (Figure 5) also exhibit a relatively high similarity of 56.85%. After analysing the provided response options, the respondents selected the same 15 options for the 20 proposed questions. Given the high degree of similarity and objective analysis of the comments in these two letters, it is clear that the respondents align in their views regarding revising the standard.

The analysed comments highlight that there should be no revision of the standard, as IFRS for SMEs is not designed to meet the needs of investors in publicly traded companies or financial institutions where a more significant number of stakeholders are involved. Instead, IFRS standards are deemed more appropriate for these contexts. Furthermore, the accounting principles and terminology should remain consistent between IFRS and IFRS for SMEs, barring justified reasons related to complexity or user needs that would necessitate differences. Additionally, national jurisdictions should have significant input over the scope. The desire expressed by both respondents also indicates a preference for maintaining a low level of complexity in the standard, along with other related matters.

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Figure 5: The frequency of the words used – 8_390 (left) and 8_418 (right)

Source: Authors analysis - Nvivo

According to an analysis of the respondents' groups of stakeholders and jurisdictions, both can be considered Professional Bodies (A1), as they are associations of accounting professionals with operations in Europe (8_390) and other countries (8_418). However, both originate from the same type of European culture and because of this, the use of similar words (Figure 5) and the exact reasons for the choices made in the RFI lead to the conclusion that working on a global or international level speaks for itself, as the respondents have seen different problems small and medium-sized businesses facing around the world.

In the case of the last group of letters with a similarity degree of over 50% (53.45%), it is observed that the respondents selected 16 identical options for the 20 questions. Although it is the group with the most identical options chosen, the degree of similarity in the words used shows that the arguments supporting the options are shorter in length, except for the question regarding the specific issues they wish to present, which has more extended arguments but refers to different topics in 20% of the cases, being the most extended argument for both letters. Both respondents agree that the scope of the standard should not be modified, the objective of SMEs' financial statements should be aligned with the revised framework by introducing the concept of primary users, and at the same time, the same qualitative characteristics as the previously revised framework should be included in the standard. From the perspective of the words used, the analysis tool reveals the 20 most frequently used words shown in the figure below (Figure 6).

Figure 6: The frequency of the words used – 8_497 (left) and 8_498 (right)

Source: Authors analysis - Nvivo

Analysing the letters by the type of stakeholders and the location of the respondents, respondents 8_497 belong to the group of Regulatory Bodies (A2). It operates globally (B9) but has origins in South America, and 8_498 is a Professional Body (A1) from South America (B6). In conclusion, it is emphasized that the most important factors influencing individuals' behaviour in adopting or participating in the standard-setting process are represented by culture and jurisdiction.

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Our analysis of the comment letter group with the highest degree of similarity has shed light on a crucial aspect - the profound influence of location (jurisdiction) and culture on stakeholders' opinions. This understanding is further deepened by the content analysis result, which has created a discernible pattern of respondents based on the type of stakeholders and their locations. This pattern becomes evident when we will analyse the comment letters in the subsequent standard review.

5. Conclusions

Standard-setting bodies have often faced criticism for establishing requirements without adequately considering the perspectives of users and owners. This issue is also evident in the IFRS for SMEs, which is believed to be primarily based on the views of IASB members, accounting professionals, auditors, and academics. However, it neglects the insights of financial statement users and owners of small and medium-sized entities, a perspective that is crucial for a balanced and effective standard (Litjens et al., 2012; Mkasiwa, 2014).

The analysis reveals that Europe and Global Organisations exhibit a high degree of similarity, mainly due to their place of origin, as many Global Organisations have roots in Europe (e.g., the United Kingdom and France) and are influenced by that culture. In contrast, responses from Oceania show the lowest degrees of similarity with these two leading regions, with only 4.7% similarity between Europe and Oceania and 5.9% between Global Organizations and Oceania. This low level of similarity can be attributed to the fact that only one comment letter was received from Oceania, addressing only a limited number of questions (3 out of 20).

From the perspective of stakeholder groups, Professional organisations and Accounting Regulatory Bodies show a high degree of similarity, as do Accounting, audit and consultant firms, which use similar terminology and share common concerns. Contrarily, the Insurance Agencies demonstrates a lower level of similarity to the other groups due to differing concerns and vocabulary.

The analysis of amendments made to the standard identified key stakeholders who contributed to various aspects, including Professional organisations, Accounting Regulatory Bodies, Accounting, audit and consultant firms and Academics. This aligns with stakeholder theory, which suggests that the IASB should consider the interests of all stakeholders who could impact or be impacted by the organisation, thus necessitating engagement and consideration of their interests and concerns. While there is evidence that stakeholders' suggestions and opinions have been incorporated, the IASB has not clarified the criteria for selecting which elements were revised. The lack of explanation regarding these choices may suggest subjectivity on the part of the IASB, undermining its legitimacy and compromising the transparency of the review process. Therefore, it's crucial to emphasize the need for transparency in the standard-setting process to reassure stakeholders and maintain their confidence.

Since legitimacy is vital for the IASB to create universally accepted standards, it is recommended that stakeholder participation be enhanced by creating opportunities for dialogue with national standard setters and other interested groups. Additionally, maintaining a high level of transparency in decision-making is essential to ensure that all participants in the standard-setting process feel they have equal opportunities to influence standards development. The decisions made by the IASB should solely reflect the aim of creating appropriate standards for all types of entities. Therefore, it's important to stress the role of stakeholder engagement in the standard-setting process, making the audience feel empowered and influential.

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