The Influence of Political Factors on IFRS Adoption

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Abstract

Diversity in accounting system adopted by a country has significant economic consequences for the interpretation of financial reporting at the international level. Based on this reason it is necessary to have an international standardization, the establishment of standards for financial reporting which are common to all countries. In terms of accounting, the application of IFRS is expected to improve the quality of financial reporting is characterized by increased comparability of financial reporting and transparency for its users. The purpose of this study is to analyze the political factors, such as: colonialism, the quality of local regulator, and the international power politics in 13 countries sampled. The units of analysis in this study are the countries which are in Asia and America. The data analysis technique used is hypothesis testing using multiple linear regression test used SPSS 15.0. The result is, colonialism and the quality of local regulators has positively influence the adoption of IFRS while international power politics variable has negatively influence the adoption of IFRS.

Keywords : Collonialism, Quality of local regulator, International power politics, adoption of IFRS

1 Introduction

In the current globalized world, the business world and society became more complex that requires a variety of disciplines including accounting science. The diversity in the accounting system adopted by every states have significant economic consequences for the interpretation of financial reporting at the international level, it is necessary based on the existence of an international standard is the standard-setting common standards for financial reporting applicable to all countries.

Developments in the accounting standard-setting, leading to the enactment of IFRS (International Financial Reporting Standards) which are applicable accounting standards formulated by internationally IASB (International Accounting Standards Board). Issues regarding the adoption of IFRS, preceded the promulgation of the Statement of Membership Obligation (SMO) in 2004 from the IFAC (International Federation of Accountants) as an accountant federation of international organizations, professional associations that each individual member States shall undertake its best efforts to achieve convergence of IFRS. European Union (EU) requires Member States to adopt IFRS in full in 2005, which was followed by the adoption of IFRS in several countries, Australia, Canada and other developed countries. [2].

The determination of the accounting IFRS is expected to improve the quality of financial reporting by the increase comparability of financial reporting, and transparency for its users, it is in line with the objectives of the IASB, which is to establish principles-based financial reporting standards at the global level that is used by all countries, not an easy thing to be able to get to the IASB’s final destination, some countries will find it difficult to carry out in full IFRS adoption. Many factors can be the reason for country to have difficulty in adopting international standards, for example in terms of the economy, the legal, governance and culture. So some research is still needed in response to this.
Research on adoption of IFRS in some countries has been done by previous researchers, including any research on macro economic factors affecting the adoption of international accounting standards in developing countries. However, not much research has especially appealed to political factors as variables that influence the adoption of international standards.

Previous studies by [5] in the journal entitled "Factors Affecting the Adoption of IFRS" conducted on 129 countries around the world, raised a political factor as one of the variables in the research. [5] to discuss the influence of colonialism relation to adoption of IFRS. Accounting tradition can be transferred to other countries because of the political ties and social history such as colonialism. As the export of British colonialism accountants and accounting concepts throughout the British empire. Similar research by [9], which carried out a study of developing countries in the Asia Pacific region who find evidence of colonial influence and the power of the free market on accounting practices.

Another study entitled "Why do Countries Adopt International Financial Reporting Standards?" By [4] used one of political factor in his research, the variable is International Power Politics. [4], find the influence of the political power of a country will affect the adoption of IFRS in the country. Strong state is a state that has a greater political power, countries with greater political power are more likely to be able to influence the nature of the international standard. If a country chooses to adopt IFRS, it must either engage in the political process to try to shape the nature of the international standard, or cede the standard setting role to other political player. In this case is EU, where the European Union was instrumental in the development of IFRS. With this came the notion that a country with greater political power will tend not to adopt IFRS, whereas countries with less political power would be more likely to adopt IFRS.

Based on the background and some previous studies above, as for the purpose of the present study was to analyze the political factors such as colonialism, international power politics and the quality of the local regulator to 13 countries sampled. The hypothesis of this study include:

- H1 Colonialism influence the adoption of IFRS
- H2 The quality of local regulators influence the adoption of IFRS
- H3 The International power politics influence the adoption of IFRS

### 2 Methods

The unit of analysis in this study are the countries which are in Asia and America. The sample selection was based on a purposive sampling method and the availability of data for each variable were used. On the basis of the selection of 13 countries selected as the sample in this study.

Independent variables that IFRS adoption, by measuring the rate of adoption of local accounting standards of a country compared to international accounting standards. Local accounting standards compared to IFRS was developed from research [1] and [6]. This measurement is based on a report on the similarities and differences between a country’s local GAAP to IFRS (similarities and differences of local GAAP to IFRS) issued by public accounting firms such as Ernst & Young, Pricewaterhouse Cooper, Deloitte, and KPMG. Criteria used in the measurement these variables are as follows Table 1

<table>
<thead>
<tr>
<th>Value of 1</th>
<th>In the similarities and differences between a country’s local GAAP to IFRS report (similarities and differences of local to IFRS GAAP) issued by the Big 4 public accounting firm, stated that there is no accounting standard equivalent in local GAAP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of 2</td>
<td>In the similarities and differences between a country’s local GAAP to IFRS report (similarities and differences of local GAAP to IFRS) issued by the Big 4 public accounting firm, described the differences between local GAAP to IFRS.</td>
</tr>
<tr>
<td>Value of 3</td>
<td>In the similarities and differences between a country’s local GAAP to IFRS report (similarities and differences of local GAAP to IFRS) issued by the Big 4 public accounting firm, stated that there’s a similar standard in the local GAAP and IFRS and also explained about some of the differences between the IFRS and local GAAP.</td>
</tr>
<tr>
<td>Value of 4</td>
<td>In the similarities and differences between a country’s local GAAP to IFRS report (similarities and differences of local GAAP to IFRS) issued by the Big 4 public accounting firm, stated that there’s a similar standard in the local GAAP and IFRS without any explanation of the differences between IFRS and the local GAAP.</td>
</tr>
</tbody>
</table>

Colonialism variable measured by the dummy
variable with the value of 1 if the country is a former British colony, and the value of 0 if the country is not a former British colony. (source: Encyclopedia: British Empire, Nationmaster.com website). [5].

International power politics variable can be measured by the GDP-rank and the level of population in each countries. The reason to choose GDP-rank as the measurement of the international power politics variable is because GDP-rank indicates great economic power, a country with great economic power is more likely to have a greater political bargaining power in the international scope. So is the population level, the population used as a measurement of a country’s market, countries with a larger market share has the purpose to attract investors, and thus tend to have a greater political bargaining power. [4]. GDP-rank data and the level of population in each country sampled that used the data obtained by World Bank.

Quality of local regulator variable can be measured by the governance quality index based on data from the World Bank for each country sampled[2].

For all variables simultaneously using the research model as follows:

\[ Y = \alpha + \beta_1 KOL + \beta_2 KRL + \beta_3 KPI + e \]  \hspace{1cm} (1)

Description:
\( Y \) = Adoption of IFRS  
\( \alpha \) = constant  
\( \beta \) = regression coefficient of each independent variable  
\( KOL \) = Colonialism  
\( KRL \) = International Powe Politics  
\( KPI \) = Quality of Local Regulator  
\( e \) = error

The data analysis technique used is hypothesis testing using multiple linear regression with SPSS (Statistical Package for the Social Sciences) 15.0. The first step in this test is the classical assumption, if all the data passed to each of the classical assumption, then tested the hypothesis that the F test for simultaneous testing and t test for partial testing.

3 Result and discussion
The samples used in this study were 12 countries were selected based on purposive sampling method, and the availability of data for each variable was used. Samples of countries in this study are: United States, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippine, Singapore, Taiwan, and Thailand. Base year used is 2009 to 2011. Election year adjusted for IFRS adoption in each country sample.

3.1 Classical Test Assumptions

Normality Test
Normality test is used to determine whether the data used has a normal distribution.

Autocorrelation Test
Autocorrelation test is used to determine whether there is any deviation classical assumptions autocorrelation is the correlation between the residuals in the observations with other observations on the regression method. Autocorrelation value can be seen on Durbin Watson table. Based on the statistical test results, obtained values of Durbin Watson 1.6539 < 1.874 < (4-1.6539) so that it can be concluded that there are positive and negative autocorrelation.

Multicollinearity Test
Multicollinearity test is used to determine whether there are the correlation between the independent variables that used in the regression model. Results can be seen from the Tolerance Value and Inflation Factor. Where the value of tolerance must be > 0.1 and the value of the inflation factor (VIF) must be < 10. Results can be seen from the value of Tolerance and Variance Inflation Factor (VIF) is contained in the following Table 2.

Heteroscedasticity Test
Heteroscedasticity test used to see if there is a variance in the research model.
Table 2: Multicollinearity test

<table>
<thead>
<tr>
<th>Model</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOL</td>
<td>0.386</td>
<td>2.593</td>
</tr>
<tr>
<td>KRL</td>
<td>0.161</td>
<td>6.124</td>
</tr>
<tr>
<td>KPI</td>
<td>0.684</td>
<td>1.462</td>
</tr>
</tbody>
</table>

Figure 2 shows that the distribution of the data points are not patterned, the data points spread above and below or around the number 0 and not accumulate just above or below it. It can be concluded that the multiple linear regression model is free from assumptions of classical heteroscedasticity.

Hypothesis Test

The following is a summary table of statistical test results

<table>
<thead>
<tr>
<th>Variables</th>
<th>R²</th>
<th>F</th>
<th>B</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>01.46</td>
<td>30.397</td>
<td>2.988</td>
<td></td>
</tr>
<tr>
<td>KOL</td>
<td>0.294</td>
<td>2.268</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KRL</td>
<td>0.711</td>
<td>2.212</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KPI</td>
<td>-0.197</td>
<td>-1.968</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In testing the coefficient of determination, R-square value of the data processing with SPSS test equipment is at 0.645 which means that 64.5% of the independent variable, affect the rise and fall of the dependent variable and, the remaining 35.5% is a variable that can not be included in the model and included in the confounding variable (ε) in linear regression analysis.

Simultaneous hypothesis testing (test F), the value of $F_{table}$ with df: 3; 32 and the significant level ($α$) of 5% is equal to 2.901. The value of $F_{count}$ is calculated from the data processing are obtained at 30.397. By comparing the calculated $F_{count}$ with the $F_{table}$, it can be seen that the $F_{count}$ is greater than $F_{table}$ or 30.397 > 2.901 with sig. 0.03 (below 0.05), so it can be concluded that the variables of colonialism, quality of local regulators and international power political affect the simultaneous adoption of IFRS. In a partial test of hypothesis testing (t test), $t_{count}$ data tables by 36 respondents, the number of independent variables as much as 4 variables, and use the 5% significance level is ± 1.694. The data processing is known that $t_{count}$ for variable colonialism (KOL) is 2.268, the variable quality of the local regulator (KRL) is 2.212 and international power politics variable (KPI) is -1.968. $T_{count}$ value for the variable colonialism (KOL), local regulatory quality system (KRL), and international political forces (KPI) is in H0 rejection region. It can be concluded that H1 is accepted, which means that there is influence between their respective political factors that colonialism, the quality of local regulators and international power politic partially.

Hypothesis testing using linear regression analysis. Regression equation with the test results through SPSS is as follows:

$$Y = 2.988 + 0.294KOL + 0.711KRL - 0.197KPI + e$$

From the regression equation it can be concluded that the variables of colonialism, and the quality of the local regulator positive influence on the adoption of IFRS, this can be seen from the positive sign of the coefficient of colonialism and the variable quality of the local regulator, while international power politic variables negatively affect the adoption of IFRS, this characterized by a negative sign of the coefficient of the variable force of international politics.

The variable of Colonialisme (KOL) has a coefficient of 0.294, with sig value 0.041 (<0.05) so that it can be conclude that colonialism variable has a positive influence on the adoption of IFRS. This is consistent with previous research by [9] and [5]. Influence of colonization to come from the adoption of IFRS accounting tradition transfer from one country to another country in a political ties, social and historical, of British colonialism as accountants and accounting concepts are exporting all over the territory of England, as the country is considered quite strong in Europe. This variable is measured with a dummy variable with a value of 1 for the former British colonies and 0 for countries that not former British colony, researchers assume that British colonialism in the countries of the former colonies, brought a political and social ties that lead to these countries tend to adopt IFRS. IFRS are considered to come from Europe, the influence of colonialism, according to Ramanna and Sletten 2009 can be seen from the spread of religion. [4] argued that a country with a Christian majority population of the country indicate that those country are closer to European
culture because of the influence of Christianity that brought by British colonialism in the past in a wide, otherwise the country that geographically are far from Europe or not a former British colony will not accept IFRS, in the absence of transfer of European accounting tradition.

The quality of local regulator has a coefficient of 0.711 with a sig value of 0.025 (<0.05) so that it can be said that the variable quality of the local regulator has a positive influence on the adoption of IFRS. This is consistent with previous research by Farahmita 2012. Farahmita 2012 using the variable quality of local regulators as one of the variables in the research. Previous studies by Farahmita, using developing countries as one of one variable in outcome research suggests that the better governance of regulators in a country, affect the greater of possibility for the country to adopt IFRS. This study uses local regulatory quality index based on calculations by the World Bank to measure a country’s governance regulator, and examine its influence on the adoption of IFRS in the 12 country sample.

Quality of local regulator is one indicator of governance quality measurement that relevant with IFRS adoption decisions, the better the quality of a country’s regulator, means that the regulator are able to formulate a good policy and regulation. In this case, the regulation that formulated by the regulator is regarding to the accounting standard that are used to support the development of financial reporting in the private sector.

The international power politics variable has a coefficient of -0.197 with sig 0.042 (<0.05). From the negative sign on the coefficient on the international power politics variable we can conclude that the international power politic variables have an negative influence on the adoption of IFRS. This is consistent with previous research by Ramanna 2009. Ramanna 2009 study conducted by the 39 countries that full adopted IFRS, 23 countries that half adopted IFRS and the 40 states that did not adopt IFRS, reveals that the political power of a country has a negative influence on the adoption of IFRS, which means that the stronger a country will be unlikely that the country not to adopt IFRS, the Country with negative political power will tend to adopt IFRS. Strong state is a state that has greater political value, countries with greater political power are more likely to be able to influence the nature of international standard. It is also revealed in a scientific article by [7] which revealed that there is a reluctance of the United States in providing support to IFRS. In this case, the United States is considered as a country with strong political bargaining position. U.S. reluctant to provide support in relation to the following matters: (1) the United States was very dominant in the arena of global capital markets, (2) There is a polemic and skeptical attitudes about the inferiority of IFRS compared to U.S. GAAP, (3) the United States has been the The main reference accounting profession in the world, (4) The high cost of transition-related reluctance to be borne by the company, (5) There is an indication of the resistance of policy decision-makers in the United States that their authority and dominance of the United States will be reduced by the adoption of international accounting standards.

Besides the United states of America, the country with the power of the political bargaining power of the others is Japan. In the another article in one of the national news website stated that until 2012 Japan has not fully adopted IFRS, the Japanese have their own accounting standards that are tailored to the characteristics of the business environment in Japan, it takes time to make the transition. For the majority of businesses in Japan, the benefits from the implementation of IFRS is not worth the energy and time that would be consumed to make the transition system of financial reporting of Japanese GAAP to IFRS. So, it can be concluded that, IFRS less attractive enough in Japan.

Of all the independent variables used in this study, the largest coefficient is the variable quality of the local regulator, this means that from all the independent variables used in this study, the variable quality of the local regulator is the most influential variable on adoption of IFRS.

4 Conclusions and Recommendations

Based on the above discussion, it can be concluded that colonialism and the quality of local regulators have a positive influence on the adoption of IFRS in the country. While the international power politics is negatively influenced the adoption of IFRS. Colonialism is positively influenced the adoption of IFRS. Colonialism affect the transferred of accounting traditions of one country to another in a bond of political, social and historical, as British colonialism exporting accountants and accounting concepts throughout the British regulation. Britain is rated as a country that was considered quite strong in Europe. Quality of a local regulator also has a positive effect on the adoption of IFRS. The better quality of local regulator in the country indicates that the regulator of the country are able to formulated the the policy and regulation regarding to the accounting standards that are used to support the development of financial reporting in the private sector. While the international power politics is negatively affect the adoption of IFRS. As it seen in the phenomenon of the political world, that more powerful countries have a larger positive political value, the more powerful countries
are more likely to be able to influence the nature of international standards. So, the more powerful countries are less likely to adopt IFRS.

For further research are expected to use the sample of countries with wider coverage and adding other factors as an independent variables outside political factors.

References


