

*The effect of reporting incentives on International Financial Reporting
Standards compliance by unlisted companies in South Africa: Using qualitative
and quantitative methods*

by

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ABSTRACT

This dissertation investigates the factors which influence unlisted companies' compliance with International Financial Reporting Standards (IFRS) in South Africa at three levels: the global level, the country level, and the company level. This dissertation also considers whether taking such factors into account in the standard-setting process would lead to improved IFRS compliance. This dissertation applies a multiple case study method followed by a national wide survey. Thus, the data were collected by reading the IFRS, and through questionnaires and interviews. A total of 41 companies responded to the survey while five (5) companies participated in the case study.

This dissertation's main findings show that at company level, governance and financial people working for these companies are significant factors which influence their IFRS compliance. Further, non-auditing and/or non-accounting companies are highly reliant on their external auditors in order to comply with the IFRS. The findings also show that at country level, economic, legal, cultural and professional factors influence these companies' IFRS compliance. At global level, the findings show that the international recognition of IFRS, transparency, comparability, understandability, foreign operations, and importing and exporting are the factors which influence these companies' IFRS compliance.

There are several contributions that can be attributed to this dissertation. First, this dissertation contributes to the literature by extending the research regarding factors (or some indicators for factors) which influence unlisted companies' IFRS compliance and these companies' experience of using IFRS in South Africa. Further, this dissertation suggests a model which explains those indicators which appear to influence unlisted companies' IFRS

use at company level. Second, this dissertation contributes to the literature by testing five theories (these are, decision usefulness theory, agency theory, stewardship theory, stakeholder theory and institutional theory) on unlisted companies. Third, this dissertation's original contribution is to use a self-prophecy effect to gain a better understanding of unlisted companies' predicted continuing use of IFRS.

Keywords: use of IFRS, self-prophecy effect, unlisted companies, reporting incentives, decision usefulness theory, stewardship theory, stakeholder theory, case study method.

DECLARATION

This dissertation has been submitted in fulfilment of the requirements for a doctoral degree at the University of Cape Town.

I, Thando Loliwe, declare that this dissertation is my original work and has not previously been submitted to any other institution of higher education. I further declare that all sources cited or quoted are indicated and acknowledged by means of a comprehensive list of references.

Thando Loliwe
May 2018

DEDICATION

My first degree was dedicated to my grand-mother. I would like to thank her for laying the foundation and being a provider when I was not paying attention to her hard work.

All other qualifications I received between the first degree and this degree were a testing of my abilities as a way to confirm that I did not get the first qualification by luck, but rather that I do have what it takes to finish each goal I set my sights on. Therefore, these degrees had to do with my self-confidence and esteem as I sought to fit in with a certain group of people.

Now, I dedicate this degree to my aunt. Because of her gentle request at my previous graduation that I must study further and get the red gown. Her words are what started this journey.

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Working on a PhD has been one of the toughest things I have tried, but at the end I have conquered it (with many disappointments along the way). Emotionally, I am excited that I have reached this stage, but at the same time I feel mentally and physically exhausted. I never lost focus of my goal, which has been to finish this PhD.

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Third, I wish to also thank the department's PhD committee for its helpful comments and prudent questions. The presentations I made on the committee were of utmost importance because they gave this dissertation direction and reduced the extra work I would have had to do. I am also grateful to the African Accounting and Finance Association for allowing me to participate on their Doctoral/Emerging Scholars colloquium.

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Chapter One: Introduction

1.1 Background

The adoption of International Financial Reporting Standards (IFRS) by all companies is required in 95 countries, whether the companies are listed or not, and whether they are multinationals or small enterprises (Deloitte, 2015). These 95 countries, including South Africa, require all companies in their jurisdictions to prepare their financial statements in accordance with the IFRS. South Africa's legal system is neither strictly common law nor code law; thus, it is considered a mixed legal system (SCA, 2014). This system presents an interesting context which has seen limited research from accounting scholars after certain amendments were made on the IFRS (IFRS, 2015).

On September 2003, the International Accounting Standards Board (IASB) decided to develop the IFRS for small and medium-sized entities (SMEs) from current IFRS (Pacter, 2008; Deloitte, 2015). IFRS for SMEs were added to the IASB agenda for several reasons (Ram, 2012). One of these is that the IASB was under pressure from external groups such as the United Nations Conference on Trade and Development (UNCTAD), the European Financial Reporting Advisory Group (EFRAG), and the International Federation of Accountants (IFAC) (Ram, 2012). Ram and Newberry (2013) argue that the due process followed for the IFRS for SMEs project barely reflects people's will and is instead more of a communicative function of the IASB. Further, Georgiou (2010) argues that the interests of financial statement users are important to accounting standard-setters, but only in theory.

The use of IFRS by unlisted companies in South Africa may provide direct evidence for the IASB for its post-implementation review in order to address complex issues in the IFRS (IFRS Foundation, 2010), because, since 1993, South African accounting standards were

harmonised with international accounting standards (SAICA, 2007). Thus, this dissertation attempts to understand the manner in which unlisted companies in South Africa perceive IFRS and to assess how the views of such companies affect their IFRS use. To be specific, the focus of this dissertation is on the views of the financial statements preparers in unlisted companies. The preparers could be employees in unlisted companies or external parties who are paid by unlisted companies to prepare their financial statements.

A few years after the Accounting Practices Board of South Africa (APB) and the Johannesburg Securities Exchange (JSE) approved the use of IFRS by listed companies in 2004, the IFRS for SMEs (the Statement of Generally Accepted Accounting Principles (GAAP) for SMEs) were approved for use on or after 1 October 2007 in South Africa. IFRS for SMEs are viewed as a watered-down version of the full IFRS (Jones, n.d.). Schutte and Buys (2011) assess the relevance of the IFRS for SMEs and find that their results confirm the relative importance of the financial statements' components. Thus, they conclude that the fact that all financial statements' components are not ranked equally may indicate that certain components are compiled for the purposes of formality only and not necessarily for informational and decision-making purposes (Schutte & Buys, 2011).

In line with the above, the introduction of the IFRS for SMEs has led to an increase in literature relating to unlisted companies. Existing literature covers topics such as: the development of the IFRS for SMEs (Ram & Newberry, 2013; Perera & Chand, 2015), perceptions of the stakeholders on the IFRS for SMEs (Baldarelli, Demartini, Mosnja-Skare & Paoloni, 2012; Albu, Albu, Fekete Pali-Pista, Girbina, Kardes Selimoglu, Kovacs, Lukacs, Mohl, Mullerova, Poroy-Arsoy, Sipahi & Strouhal, 2013), consideration of the suitability of and challenges with the IFRS for SMEs (Stainbank, 2008), and factors influencing IFRS

adoption (Kılıç, Uyar & Ataman, 2014; Rudzani & Manda, 2016). Most of these studies apply a quantitative approach (or the positivist paradigm) such as surveys or questionnaires. This dissertation, however, examines its objective by using a mixed approach (case study and survey). This approach may provide better insights in understanding the experiences and attitudes of the people working with the IFRS in unlisted companies.

Further, a number of studies examine reporting incentives (e.g. Scott, 1994; Burgstahler, Hail, & Leuz, 2006; Hodge, Hopkins, & Pratt, 2006; Barth, Landsman, Lang, & Williams, 2012). Reporting incentives are similar to social forces because they influence how people feel, think, and act (Ciao, 2011). For this reason, financial reporting incentives and other factors are likely to play an integral role for unlisted companies' IFRS compliance. For example, the owners or managers of unlisted companies have the discretion in deciding whether or not to comply with the IFRS based on how they feel and think about the standards (Burgstahler et al., 2006; Deegan, 2007). Further, Hassan (2013) argues that the adoption of the IFRS by unlisted companies has seen a mixed uptake. Consequently, this dissertation contributes to the literature at a practical level in terms of identifying other factors or incentives which may influence unlisted companies' IFRS compliance.

1.2 Problem statement

This section considers two interrelated statements that are examined in this dissertation. First, a number of studies examining IFRS for SMEs were conducted around the introduction of this IFRS in 2009. However, there are two recent studies of Kılıç et al. (2014), and Rudzani and Manda (2016). Kılıç et al. (2014) found that there is optimism about the implementation of the IFRS for SMEs and the experience in using IFRS has a significant positive effect on the participants' preparedness for the IFRS for SMEs in Turkey. Rudzani and Manda (2016),

in turn, assessed the challenges faced by small and medium sized enterprises (SMEs) in adopting and implementing IFRS for SMEs in South Africa. Since the publication of the IFRS for SMEs in 2009, it was revised by the IASB in 2015 (SAICA, 2016). Due to this revision, there is a need to understand the perceptions of the preparers in South African unlisted companies about their IFRS use. In addition, the IASB is also interested in the review of the experiences of the companies that have implemented the IFRS for SMEs (IFRS Foundation, 2015). Further, Kılıç et al. (2014) used questionnaires (for collection of quantitative data) to examine the experiences of accounting professionals as a factor influencing their perception towards the IFRS for SMEs. Similarly, this dissertation considers the experiences of, and attitude towards using IFRS as one of the indicators that are influencing IFRS compliance in unlisted companies. Therefore, the importance of investigating the IFRS experience of the preparers in unlisted companies in this dissertation is that each preparers' experience is unique (Ciao, 2011). South Africa has a mixed legal system, and their experiences may be better investigated using a mixed research approach.

Second, the literature indicates that some of the factors which lead to companies engaging in different reporting practices (i.e. complying or not complying with IFRS) are at three levels.

At an international level, the factors are comparability and attraction of international investors (Al-Shammari, Brown & Tarca, 2008). At country level, the factors are the IFRS options from which companies must choose; external audit firms; variations in the degree of rule enforcement (and thus compliance with rules); and the significant effect on post-IFRS financial statements of different pre-IFRS practices (Ball, Kothari, & Robin, 2000; Street & Gray, 2002; Nobes, 2006). Another finding identified by Al-Shammari et al. (2008) is that in some countries IFRS is required by law but not in practice, therefore as these authors were observing these non-compliances, they also investigated the influence of the national

institutions, the activities of auditors and enforcement bodies. For years, in South Africa, the development and issue of accounting standards was the responsibility of the APB, until 2011 when a regulatory body was established to succeed the APB (SAICA, 2012). However, the legal requirements for companies to prepare financial statements have been in existence for many years, such as those in the Income Tax Act and Companies Act. What is clear, is that the existing literature identifies the lack of IFRS enforcement (UNCTAD, 2008, Lin, 2012). For example, with regard to companies domicile in Africa, Street and Gray (2002) found that there is a significant negative association between such companies and IFRS compliance. At company level, the factors are company size; compensation and financing arrangements; ownership structures; listing status; and governance mechanisms (Street & Bryant, 2002; Ali, Ahmed & Henry, 2004; Burgstahler et al., 2006; Bassemir, 2012). Further, Lin (2012) investigates the reporting incentives which play an important role in IFRS compliance and the economic benefits for IFRS compliance in a developing country where enforcement is weak. Lin (2012) finds a positive and significant association between foreign ownership and the level of IFRS compliance, a finding which is consistent with the reporting incentive hypothesis. Lin (2012) also finds a positive and significant association between share return and the level of IFRS compliance, a finding which is consistent with the economic benefit hypothesis. Chand, Patel, and White (2015) suggest that in order for SMEs to comply with IFRS, the perceived benefits must exceed the costs associated with the adoption. Additionally, some of the literature examines the relevance of IFRS or IFRS for SMEs (Chamisa, 2000; Zanzig & Flesher, 2006; Schutte & Buys, 2011), but does not trace reporting incentives to IFRS (or IFRS for SMEs) in order to test whether the reporting incentives of unlisted companies are being addressed by the IFRS. If the effects of some of these indicators are not addressed by the standard setting bodies, they may hinder IFRS compliance by unlisted companies. Thus, there is a need to understand the factors which influence unlisted

companies' IFRS compliance in South Africa at all levels (i.e. global, country and company levels), because South Africa has a mixed legal system (SCA, 2014) as compared to other developing countries. Further, the interest has grown in understanding issues surrounding financial reporting and IFRS compliance in South Africa.

However, unlisted companies' IFRS compliance is complicated by issues such as accessibility to information regarding such companies' compliance because, unlike information regarding listed companies' compliance, it is not kept centrally or recorded in any institution in South Africa. Moreover, little is known about the effect of unlisted companies' reporting incentives on their IFRS compliance (Ram and Newberry, 2013) because their experiences (or IFRS compliance) and reporting needs have not yet been researched in detail (Fearnley & Hines, 2007). The existing literature falls short in terms of the following. First, the direction of testing is from the IFRS standards (Chamisa, 2000; Street & Gray, 2002; Ali et al., 2004, Zanzig & Flesher, 2006; Schutte & Buys, 2011). Second, the factors are based on listed companies or they relate to one or two of these levels: global, country or company levels (Street & Bryant, 2000; and others). Finally, the factors are not linked to ongoing IFRS use (Kılıç et al., 2014). Therefore, the importance of this dissertation is that the factors that influence South African unlisted companies' IFRS compliance are traced to the IFRS using a mixed research approach at all levels (i.e. global, country and company levels). Further, this dissertation examines such factors' effect in the sampled companies' continued use of the IFRS.

Based on the above, the two areas of concern which this dissertation addresses are the following: (1) unlisted companies' experiences, attitudes, and objectives regarding their IFRS use, and (2) the factors which act as incentives for unlisted companies to continue to report

using IFRS. These issues seem important because the failure by the standard-setting bodies, such as IASB and FRSC, to consider their consequences may lead to negative effects on the attainment of the IASB's objectives, such as the objectives that refer to 'globally accepted' of the IFRS and consideration of preparer needs of those who are applying the IFRS (IFRS Foundation, 2016). For example, Maroun and van Zijl (2016) found that there are examples of resistance in the implementation of certain chapters of the IFRS.

1.3 Research questions

The main questions and sub-questions of this dissertation are as follows.

- 1) What are unlisted companies' experiences, attitudes, and objectives in South Africa with regard to IFRS use?
- 2) Which factors act as incentives for unlisted companies in South Africa to report IFRS use? What would be the effect of the factors which are raised by unlisted companies in South Africa about their IFRS compliance, if these factors could be incorporated in the IFRS?
 - a. What are the factors which influence unlisted companies' IFRS compliance?
 - b. Are these factors addressed by the IFRS or the IFRS for SMEs?
 - c. Why are these factors being addressed or not being addressed?
 - d. If they are not being addressed, how can the factors be addressed or incorporated in the IFRS?
 - e. If the factors could be incorporated in the IFRS, will they improve compliance?

1.4 Contribution

This dissertation contributes to the literature by documenting South African unlisted companies' experiences, attitudes, and objectives regarding IFRS use in the following ways.

First, amendments to the IFRS for SMEs were published in 2015 (SAICA, 2016), therefore this dissertation expects to provide a voice for the preparers in South African unlisted companies about their experience in using IFRS after these amendments. Second, there are few studies that analyse the unlisted companies' experience of using IFRS (Rudzani & Manda, 2016). This dissertation extends past research by investigating the experience of using IFRS by unlisted companies in South Africa in depth. This means that, in this dissertation the unlisted companies' experience of using IFRS are analysed using a mixed approach (multiple case study and a national wide survey) as compared to prior research (Kılıç et al., 2014; Rudzani & Manda, 2016) which adopted a quantitative approach.

This dissertation also contributes to the field by extending the literature regarding factors which influence unlisted companies' IFRS compliance in the following ways. First, Chamisa (2000), Street and Gray (2002); Ali et al. (2004), Zanzig and Flesher (2006) and Schutte and Buys (2011) examined the relevance of IFRS or IFRS for SMEs using checklists on the annual reports (or from the IFRS to the prevailing practise). In contrast to the prior literature, this dissertation traces the factors which influence unlisted companies' IFRS compliance from the preparers' views (or from the prevailing practise) to the IFRS. Second, most of the existing literature examines factors which influence IFRS compliance at one or two levels, or in listed companies (El-Gazzar, Finn & Jacob, 1999; Chamisa, 2000; Tower, Hancock & Taplin, 1999; Street & Bryant, 2000; Street & Gray, 2002; Ali et al., 2004; Al-Shammari et al., 2008; Ramanna, 2011; Andre, Walton & Yang, 2012; Bova & Pereira, 2012; Kaya & Koch, 2015). However, in this dissertation, the questionnaire and interviews are used to source the indicators for factors which influence unlisted companies' IFRS compliance. Thereafter, the indicators are grouped together into eight factors at three levels (that is, global, country and company levels). This has made it possible to report the factors at all

levels instead of reporting to only one or two levels. Third, this dissertation contributes to the existing literature by testing several theories (these are, decision usefulness theory, stewardship theory, agency theory, stakeholder theory and institutional theory) on unlisted companies. In accordance with the applicable theories, this dissertation classifies and discusses the indicators in order to determine the reporting incentives of IFRS compliance by unlisted companies. This dissertation further argues that the applicable theories may need to be targeted at unlisted companies as separate legal entities when policies or standards are developed, rather than at people such as shareholders and investors. Fourth, this dissertation is different from that of Kılıç et al. (2014) who investigated the expected implementation date of IFRS for SMEs using a statistical analysis. In this dissertation, the preparers were asked to self-predict the likelihood of their companies continuing to use IFRS, and to indicate their normative beliefs. Thereafter, the factors which influence their companies' IFRS compliance, predictions and normative beliefs were used as part of a self-prophecy effect to gain a better understanding of unlisted companies' predicted continuing use of IFRS. Fifth, this dissertation extends prior research by Zaman Mir and Rahaman (2005), and Rudzani and Manda (2016), by suggesting that standard-setting bodies and regulators may need to constantly engage the unlisted companies in matters relating to financial reporting that they encounter in their companies, and new standards that have been issued (or to be issued).

1.5 Implications

The IASB occasionally conducts post-implementation reviews on various selected standards. The purpose is to address complex issues or issues which may require fundamental changes (IFRS Foundation, 2010, p.11). The reviews take place after the standards have been in use or implemented for some time. Thus, this dissertation might be useful to bodies that set standards, such as the IASB, the Financial Reporting Standards Council (FRSC), and the

South African Institute of Chartered Accountants (SAICA), because it provides an independent review which they can consider in their implementation of monitoring initiatives or projects regarding standards.

Worldwide research has shown that SMEs, or unlisted companies, play an important role in the economies of most countries (Hoepli, 2012). Thus, the unlisted companies selected to participate in this dissertation can benefit from their involvement in terms of the awareness which is created about the importance or insignificance of IFRS use.

Further, this dissertation is intended to arouse new interest among scholars, standard-setting bodies, and researchers about incentives for financial reporting and compliance, the role of IFRS, and financial reporting expertise and systems in unlisted companies. Thereby, it also exposes the need to focus on the financial reporting requirements of unlisted companies.

1.6 Definitions of key terms

Compliance with IFRS refers to a situation in which an *unlisted company* prepares financial statements using IFRS or IFRS for SMEs in the context of this dissertation. Therefore, IFRS use and IFRS compliance are used interchangeably.

Unlisted company refers to a company whose shares are not offered to the public, or that requires a special resolution to offer its shares to the public, or it is not a subsidiary to a company whose shares are offered to the public, through a stock exchange (Companies Act 2008).

A **preparer** is an individual who is employed by an *unlisted company* to prepare its financial statements, whether he/she is an employee of the company or he/she is outsourced in the context of this dissertation.

Experience refers to encounters, feelings or knowledge of a preparer in regard to IFRS or IFRS for SMEs by him/her, an *unlisted company* or by the management of an *unlisted company* in the context of this dissertation.

A **reporting incentive** is an *indicator of factors* (or a *factor*) which encourages unlisted companies to report using IFRS in the context of this dissertation.

An **indicator of a factor** is defined in Collins Dictionary (2018) as ‘something that provides an indication’. In the context of this dissertation, an indicator of a factor demonstrates the influence of a factor on IFRS use by an unlisted company. According to Gudmundsson, Joumard and Aschemann (2010), an indicator is also a measurement tool.

A **factor** refers to one of the eight groupings or categories of the indicators (that is, global, economic, legal, professional and cultural governance, people, operations and resources, and company characteristics factors) in the context of this dissertation.

A **mixed legal system**, in the context of South Africa, consists of common law, customary law and international law (SCA, 2014).

In terms of Companies Regulation 26(2), the **Public Interest Score** is calculated as the sum of the following:

- A number of points equal to the average number of employees of the company during the financial year,
- One point for every R1 million (or portion thereof) in third party liability of the company at the financial year end,
- One point for every R1 million (or portion thereof) in turnover during the financial year, and
- One point for every individual who, at the end of the financial year, is known by the company to directly or indirectly have a beneficial interest in any of the company's issued securities.

Subsequent to the above, an unlisted company is required to have its annual financial statements audited, if it is:

- A private or personal liability company, in the ordinary course of its primary activities, it holds assets in a fiduciary capacity for persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year exceeds R5 million;
- A private or personal liability company that compiles its financial statements internally (for example, by its financial director or one of the owners) and that has a Public Interest Score (PIS) of 100 or more;
- A private or personal liability company that has its financial statements compiled by an independent party (such as an external accountant) and that has a Public Interest Score (PIS) of 350 or more;

Unless the company has opted to have its annual financial statements audited or is required by its Memorandum of Incorporation (MOI) to do so, a private or personal liability company that is not managed by its owners may be subject to independent review if:

- It compiles its financial statements internally and its Public Interest Score is less than 100;
- It has its financial statements compiled independently at its Public Interest Score is between 100 and 349;

A private or personal liability company that is not required to have its financial statements audited, may elect to voluntarily file its audited or reviewed statements with its annual return.

If such a company chooses not to file a full set of financial statements, it must file a financial accountability supplement with its annual return (CIPC, n.d.).

McKee (2003) says a **textual analysis** ‘involves analysing texts’ in order to gather information. Ontotext (2016) argues that textual analysis can be thought of as slicing and dicing documents into easy-to-manage pieces and integrate those pieces in your own words.

1.7 Structure of the dissertation

This dissertation’s remaining chapters are organised as follows:

- Chapter Two provides a review of the literature on IFRS adoption, the incentives to adopt IFRS, and unlisted companies. The aim is to justify the aforementioned problem statement, identify gaps in the literature, and contribute to the research design section. Chapter Two also discusses five relevant theories, which are used in this dissertation. However, these theories are not the only theories which could be used to explain accounting practices. The five theories were selected because they deal with individuals, or companies, who make decisions about which accounting information must be reported or when such information should be prepared in order to achieve their needs. Additionally, the self-prophecy effect is used to predict whether factors which act as incentives for unlisted companies in South Africa to report IFRS use, and

which are not covered in the standards, could be incorporated to encourage companies to continue or start complying with such standards.

- Chapter Three discusses both qualitative and quantitative methods which are employed to answer the research questions. The chapter also explains how the data were collected using questionnaires and follow-up interviews with key people in selected unlisted companies, and a survey. Thereafter, descriptive statistics, heuristic analysis, a logic model, and explanation building are used to analyse the collected data.
- Chapter Four presents and discusses the results of the research. In addition, this chapter explains the possible factors which could influence unlisted companies' IFRS compliance or non-compliance.
- Chapter Five summarises key findings, draws conclusions, discusses contributions, makes recommendations, recognises limitations, and outlines areas of possible future research.

Chapter Two: Theoretical Framework and Literature Review

2.1 Introduction

The aim of this chapter is to outline the legal framework in South Africa, theories and literature which are relevant to this dissertation. After the legal framework is presented, the unlisted companies' experiences, attitudes and objectives in South Africa (the preparer perspective) with regard to IFRS use are examined within the context of decision usefulness theory. The factors which act as incentives for unlisted companies in South Africa (the preparer perspective) to report using IFRS are examined using decision usefulness theory, agency theory, stewardship theory, stakeholder theory and institutional theory. Thereafter, the literature on unlisted companies' experiences, attitudes, and objectives of using IFRS is presented; and reporting incentives for IFRS compliance is categorised into three levels: (1) the global context (including the IASB agenda and the political environment); (2) the local/national context (including the legal, economic, political, institutional, and cultural environments); and (3) the company context and its characteristics (including governance, people, size, industry, and so forth). Incentive is defined as 'something that encourages a person to do something' (Merriam-Webster Learner's Dictionary, 2016). For example, in Figure 3, the reporting incentives for IFRS compliance are indicators which encourage a company to use IFRS, such as receiving a tender or accounting quality (Burgstahler et al., 2006).

2.2 Legal framework

This dissertation is conducted on unlisted companies (or limited interest companies) in South Africa. The definition for a limited interest company is found in The Corporate Law Amendment Act of 2006. This also provides a definition for a widely held company

(UNCTAD, 2008). The Amendment Act's definition of a limited interest company is dependent on a widely held company definition, which states:

- a) A company is a widely held company if: i) its articles provide for an unrestricted transfer of its shares; ii) it is permitted by its articles to offer shares to the public; iii) it decides by special resolution to be a widely held company; or iv), it is a subsidiary of a company described in subparagraph (ii) or (iii).
- b) A company with two or more types of classes of shares is a widely held company if its articles provide for the unrestricted transfer of shares in one or more of these types or classes.
- c) A company is a limited interest company if it is not a widely held company.

Based on the above, a limited interest company is an unlisted company, because an unlisted company is prohibited from offering its shares to the public or requires a special resolution to be a widely held company. Unlisted companies in South Africa, as early as 1973, are required to prepare financial statements by the Companies Act, however due to weak enforcement of the Act some companies use the opportunity not to comply (UNCTAD, 2008). For example, in 2002, a Monitoring Panel was established by SAICA and the JSE to review and enforce IFRS compliance on the listed companies (UNCTAD, 2008); yet there was no structure dedicated to perform the same activities on unlisted companies.

Therefore, over the years, various institutions have been responsible for the activities relating to ensuring compliance with generally accepted accounting principles (or IFRS) by unlisted companies. For example, audit firms would assist or audit unlisted companies in order to comply with IFRS. Educational institutions would train the preparers and auditors on how to apply the IFRS (Chamisa, 2000; Kılıç et al., 2014). Shareholders, banks and the tax authority

would request IFRS compliant financial statements from companies. More importantly, SAICA and educational institutions were very influential in driving the use of the accounting standards (UCT, 2016; Verhoef, 2013). Hence, the following paragraphs will attempt to answer this question: how did this reporting environment in South Africa come about?

First, the South African Companies Act 2008 (No. 71 of 2008) provides for the establishment of the Financial Reporting Standards Council (FRSC), which was established in 2011 to assume legal responsibility for the activities relating to the financial reporting standards, including compliance with IFRS. Before 2011, the APB was tasked with developing and approving the accounting standards in South Africa. The APB's power to influence regulation was indicated by Stainbank (2010), when this researcher argued that the definition for a limited interest company was introduced in the Amendment Act in consideration of the development of SME standards that were on the agendas of the IASB and APB. For example, subsequent to the publication of the IFRS for SMEs, Companies Regulations 2011 were promulgated and they require all companies in South Africa to calculate a public interest score in order to determine which financial reporting standards (either IFRS or IFRS for SMEs) they must use. Even though, there is a new regulatory body (i.e. FRSC), it could be argued that the last APB's members (such as SAICA and JSE listed companies) have continued to have a significant influence in the standard-setting process in South Africa. This is due to the fact that SAICA and representatives from JSE listed companies continue to be involved in accounting regulation at the FRSC (FRSC, n.d.; interview with Ms Ndaba). Another influence to the South Africa's legal environment is the history of accounting-related events in South Africa. In some instances they followed or were influenced by developments in the UK (e.g. the formation of professional accountants and auditors associations in the late 1800s), and later by the International Accounting Standards Committee (IASC). Further,

South Africa was classified as following the Anglo-American model (i.e. linked to common law). Deegan (2007, p. 97) argued that ‘the Anglo-American model is characterised by a system of accounting that is strongly influenced by the professional accounting bodies’. Thus, the legal system in South Africa at some point was regarded to be a common law legal system because of South Africa’s colonial history (Joireman, 2001). However, post 1994 elections, South Africa has determined its legal system to be a mixed legal system (SCA, 2014). In summary, in this dissertation the history of standard-setting in South Africa, the influence of the professional accounting bodies, and mixed legal system of South African law would be considered as some of the factors influencing IFRS compliance by unlisted companies in South Africa at various levels in order to answer this dissertation’s research questions.

2.3 Theoretical frameworks

In this section, five theories that are normally used in accounting literature (Donaldson & Davis, 1991; Deegan, 2007) are discussed as a base from which to understand preparers’ behaviour in regard to unlisted companies’ IFRS compliance. These theories are decision usefulness theory, agency theory, stewardship theory, stakeholder theory and institutional theory (Donaldson & Davis, 1991; Deegan, 2007; Gassen, 2008; Ballas & Tzovas, 2010; Fox, Hannah, Helliard & Veneziani, 2013; Maroun & van Zijl, 2016).

2.3.1 Decision-usefulness theory

Decision usefulness theory is concerned with the reactions of decision-makers to alternative accounting information and the inductive derivation of preferred reporting alternatives (American Accounting Association, 1977 as cited by Hooks & van Staden, 2004). The first assumption of this theory is that if financial statement users respond to information reported

in financial reports prepared using IFRS, the information is useful (Staubus, 2000; Deegan, 2007). The second assumption, according to decision usefulness theory, is that the information in financial statements is reported by companies because it is what financial statement users prefer or induce or request from companies. Decision usefulness theory is important because it is used by the IASB board as a foundation to develop and amend its accounting standards (Davies, Paterson, & Wilson, 1997; Tollerson, 2012). For example, the objective of International Accounting Standard (IAS) 1 *Presentation of Financial Statements* is to provide information about the financial position, performance, and cash flows of an entity. Such information is useful to financial statement users for making economic decisions (IFRS Foundation, 2015). However, for the users to have such information it means that someone must have prepared it. In this dissertation, this theory is used to examine the unlisted companies' (i.e. preparers') experiences, attitudes, and objectives for using IFRS; and the factors which act as incentives for such companies to report using IFRS; and the effect of these factors on unlisted companies' ongoing use of IFRS, in South Africa. In regard to the factors, when decision usefulness theory is applied, not all indicators for the factors which influence unlisted companies' IFRS compliance are considered to be reporting incentives; specifically, those that push or force unlisted companies to comply with IFRS because they are not indicators that motivate or encourage companies to use IFRS (Oxford Dictionaries, 2018).

Over time, the theory has evolved and is now accepted to a greater extent and is widely used in many jurisdictions (Staubus, 2000; IFRS Foundation, 2016). Thus, the evolution of decision usefulness theory cannot be separated from its practice or users. In an early study, Orr (1990) argues that IFRS users and preparers do not just use the IFRS. In a more recent work, Hernes (2008, p. 13) says that 'They [users and preparers] actually interacted with

IFRS and each other. This means that they cannot be analysed as merely acting upon IFRS because their interaction changes what they “are”. Thus, IFRS users and preparers have also evolved. On the one hand, IFRS have changed how users and preparers undertake their work; on the other, users and preparers have contributed to the changes which have been made regarding the IFRS. This dissertation is investigating unlisted companies’ experience of, and attitudes towards using IFRS after the IFRS for SMEs was amended in 2015.

Further, decision usefulness theory is regarded as a normative theory in accordance with Deegan (2007). Normative theories tend not to be based on observation; instead, they prescribe particular approaches to accounting and give guidance about what accountants should do (Deegan, 2007). In recent history, decision usefulness theory has been challenged with whether it can be used to justify companies’ choice of accounting policies and research (Young, 2003; Ravenscroft & Williams, 2009). Critics of this view have argued that decision usefulness theory is a positive theory rather than a normative theory (Ravenscroft & Williams, 2009; Ram, 2012). These scholars support their view by highlighting the manner in which the IASB made its decision about the SME project, which was based on an inductive approach and observation (Ram, 2012). For example, the IFRS are developed through a consultative process in which chosen projects are developed into discussion papers and exposure drafts which are published. Individuals and companies are then invited to submit written comments (IFRS Foundation, 2010). This example refutes the idea that decision usefulness theory is a normative theory. Hence, Staubus (2000) states that decision usefulness theory is a mixture of normative and descriptive propositions. Another problem with decision usefulness theory is that no one knows the decision model employed by investors and other users in order to determine their choices (Ravenscroft & Williams, 2009). Moreover, no one knows the non-accounting factors or accounting-related disclosures which the users have

considered when making their decisions. Thus, the closest this dissertation will be to determining the decisions of, and the factors which influence unlisted companies to use IFRS would be by applying qualitative methods to collect data. Another problem is that the objective of the IASB refers explicitly to participants in the world's capital markets and other users as follows:

... to develop, in the public interest, a single set of high-quality, understandable and enforceable global accounting standards that will help participants in the world's capital markets and other users make economic decisions (IASCF, 2012).

The term 'other users' leads to a broad interpretation because it may be argued that it includes the financial reporting needs of the concerned unlisted companies' internal stakeholders, such as financial managers or employees. These stakeholders have different needs from those of the participants in the world's capital markets. This interpretation may be valid because otherwise, the foregoing objective may have explicitly excluded internal users as targeted users. In line with the above discussion, the internal users, whose views this dissertation is investigating are the preparers of unlisted companies' financial statements. Therefore, this theory is used to examine preparers' perspective of IFRS.

The remainder of this section examines papers which use decision usefulness theory. Hassan and Power (2009) investigate whether financial analysts in Egypt view accounting information (whether disclosed or not) in corporate annual reports as valuable for investment decision-making and whether such analysts value different types of information differently. The authors find that different items of information are valued differently in Egypt. In the context of the Egyptian market, financial analysts tend to value mandatory disclosure more than voluntary disclosure, quantitative information more than non-quantitative information, and historic information more than forward-looking information. In Egypt, mandatory

disclosure is comprehensive and detailed, and is based on International Accounting Standards. Hence, voluntary disclosure is limited and other sources of information are less common. Since mandatory information in Egypt tends to be historical and quantitative in nature, this may explain the preference for these types of disclosure (Hassan & Power, 2009). However, Hassan and Power's (2009) findings present ecological problems if generalised to the South African environment because Egyptian settings are dissimilar in terms of religion, regulatory institutions, European Union (EU)/EAA membership, code law background, and the strong influence of tax laws.

Gassen and Schwedler (2009) survey the opinions of professional investors and their advisors about the decision usefulness of different accounting measurement concepts such as mark-to-market and mark-to-model fair values. In addition, they investigate the potential determinants of the evaluations given by their respondents. Gassen and Schwedler (2009) find that those professional investors and their advisors who take an interest in financial accounting issues (their respondents) generally rate fair values based on market values (mark-to-market fair values) and historical costs, which are the most decision useful measurement concept. The authors also find that the differentiation between mark-to-model and mark-to-market fair values increases with work experience and with the respondents' focus on the financial services industry. This indicates that the respondents did not see fair value as a homogeneous measurement concept. Further, they found that investors from common law countries view fair values as generally less decision useful than users from code law countries. Common law countries include England, Scotland, Wales, Canada, and almost every former British colony (Deegan, 2007; Altintas & Yilmaz, 2012). However, countries such as Germany, France, and most continental European countries are considered countries with codified accounting laws (Deegan, 2007). The main points in this dissertation which diverge from Gassen and

Schwedler's (2009) study are in regard to the people survey because this dissertation examines preparers' perspective of IFRS, using a qualitative approach, and focus its decision usefulness is the IFRS instead of the financial accounting measurement concepts.

2.3.2 Agency theory

Agency theory explores the relationship between the owners of a firm (shareholders) and the management. This theory states that the managers are self-interested individuals (Jensen & Meckling, 1976). Thus, if their interests are not closely monitored they may conflict with the shareholders' or companies' interests. Jensen and Meckling (1976) argue that, on the one hand, shareholders or companies put in place contractual arrangements as mechanism to minimise the agency costs. On the other, external auditors' services are acquired by the shareholders to audit management's performance in order to curb any manipulation of financial figures (Deegan, 2007). In this dissertation, external auditors are not considered to play only a police role in unlisted companies. Rather, they provide technical support to these companies in order for them to comply with the IFRSs. Agency theory has been criticized for its assumption of overlooking intrinsic human motivations, such as satisfaction that is associated with authority and position occupied (Ermongkonchai, 2010).

Furthermore, Donaldson and Davis (1991) state that managers may act to the detriment of the company in their attempts to maximise their own personal economic gain. In the context of unlisted companies, in some companies the managers have shares in the same company they manage (these would be owner-managed companies). Therefore, such companies will not experience 'opportunistic behaviour' because the concerned manager/owner would bear the costs associated with their own greed, laziness or use of business resources for private purposes (Deegan, 2007). However, this would not be true, in cases where there are other shareholders who are not involved in the management of their own business, which means

that there would be a principal-agent relationship. This dissertation considers executive management in unlisted companies to be the agents. On the one hand, it is expected that an unlisted company would have contractual arrangements (e.g. performance contracts) with management to minimise the agency costs and an external auditor to monitor management's opportunistic behaviour. On the other, management's incentive to provide financial statements that are IFRS compliant would be to increase their personal wealth through the agreed-upon performance payments.

IFRS literature using this theory mainly examines earnings managements (Callao & Jarne, 2010), IFRS compliance (Ballas & Tzovas, 2010) and corporate governance (Wu & Zhang, 2010). For example, Tsegba, Semberfan and Tyokoso (2017) found that the degree of IFRS compliance is associated to the firm's performance. Similarly this dissertation argues that when a company is performing well a manager may disclose the company's financial information in accordance with the IFRS because that would be to his/her advantage or in his/her interest. In contrast, when a company is performing poorly, Merkl-Davies and Brennan (2007) argue that management may use the following two strategies to manipulate the impression about them (i.e. impression management), by concealment and attribution of poor financial performance. Impression management is defined as 'how individuals present themselves to others to be perceived favourably by others' (Hooghiemstra, 2000, p. 60). In another example, Ermongkonchai (2010) investigated some of the unethical conduct of managers in business organisations, using agency theory. This researcher found that monetary incentives are the most important motive for wrongdoing. Sometimes managers may see possible loopholes in the company's processes or because of pressure to meet job expectations, such as meeting sales targets (Ermongkonchai, 2010). In the later chapters of this dissertation, the above researchers' findings are going to be used to analyse the collected

information in regard to the unlisted companies' experiences, attitudes, and objectives for using IFRS; and the indicators which act as incentives for such companies to report using IFRS.

2.3.3 Stewardship theory

A competing theory to the agency theory is the stewardship theory (Donaldson & Davis, 1991). Stewardship theory argues that managers are not motivated by individual goals, but rather their motives are aligned with the objectives of their principals (Davis, Schoorman, and Donaldson, 1997). In regard to this theory, Robb (2012) indicates that management is driven by a long-term view of the company so that the company can benefit the future generations. This theory assumes that managers are ethical in their behaviour. Hence, this theory adopts an 'efficiency perspective' which states that a company voluntarily prepares IFRS compliant financial statements before scrutiny of it or regulatory requirements to do so (Deegan, 2007). In this dissertation, stewardship theory is used to analyse the collected evidence, in regard to the factors which act as incentives for the selected unlisted companies (preparers' perspective) to report using IFRS. Further, it may assist to understand why managers voluntarily prepare IFRS compliant financial statements when there are no (1) contractual arrangements to do so, (2) pressure from powerful stakeholders to do so, and (3) intention to copy disclosure practices of other companies.

Gassen (2008) investigates whether valuation usefulness and stewardship are compatible or could be alternative objectives of financial accounting. This researcher used value relevance to represent valuation usefulness, and the asymmetric timeliness metric to represent stewardship. Gassen (2008) found that stewardship could be an alternative objective for companies to disclose financial accounting. In this dissertation, based on this researcher's

findings and the above discussion, the unlisted companies will be considered to be disclosing all the financial information about the company whether it is good or bad, in order to assist the shareholders or lenders to make resource allocation decisions to the company.

2.3.4 Stakeholder theory

Another theory that is applied in this dissertation is the stakeholder theory. In terms of this theory, only the positive (managerial) branch is taken into account in this dissertation. The managerial branch suggests that powerful stakeholders will be attended to first (Nasi, Nasi, Phillips, & Zyglidopoulos, 1997). Earlier, Ullman (1985) argued that a company will use its financial statements to target stakeholders who have a certain degree of control over resources required by the company. For example, an unlisted company may prioritise shareholders, lenders and tax authority due to their power which they could use to negatively affect the company. In this dissertation, this theory is used to analyse the collected evidence in regard to the factors which act as incentives for the selected unlisted companies to report using IFRS. Further, it may assist to understand which stakeholders the managers of such companies perceived to have power to negatively affect their company, hence those stakeholders could be deemed to be influencing unlisted companies' IFRS compliance. Further, the ethical (normative) branch of the stakeholder theory is excluded in this dissertation because its views are similar to the stewardship theory, which is discussed above.

Fox, et al. (2013) examined how the costs and benefits of IFRS implementation have impacted on different national stakeholders. The authors found that there was widespread agreement that costs exceeded the benefits of reporting under the IFRS, and companies often depended on their auditors for advice on how to implement the IFRS (Fox, et al., 2013). In the later chapters of this dissertation, these researchers' findings are going to be used to

analyse the indicators which act as incentives for the selected unlisted companies to report using IFRS. For example, how the position held by the auditors or shareholders may influence an unlisted company to report using IFRS.

2.3.5 Institutional theory

The last theory that is applied in this dissertation is that of institutional theory. Institutional theory argues that companies seek to align perceptions about their practices and characteristics with social and cultural values in other similar companies (Deegan, 2007). For instance, unlisted companies would prepare IFRS compliant financial statements because other similar companies are doing so. This theory has nothing to do with a company's internal organisational efficiency, but rather focuses on gaining or maintaining legitimacy (DiMaggio & Powell, 1983). Thus, the argument in this dissertation is that unlisted companies are preparing IFRS compliant financial statements as a strategy to be perceived as if they are acting in line with the societal expectations. Existing literature further indicates that there are two branches to institutional theory, these are isomorphism and decoupling. DiMaggio and Powell (1983, p.149) define isomorphism as 'a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions'. While Dillard, Rigsby and Goodman (2004, p. 510) define decoupling as 'a situation in which the formal organisational structure or practice is separate and distinct from actual organisational practice'.

Kostova, Roth, and Dacin (2008) state that, in some studies, institutional theory is used to conceptualise national environments in terms of regulatory, cognitive, and normative area, in order to support the country's institutional profile. Further, Maroun and van Zijl (2016) examined the use of IFRS 10: Consolidated Financial Statements and IFRS 12: Interests in

other Entities for consolidation to determine whether they demonstrate coercive, normative and mimetic isomorphism. These researchers found that there is resistance to prescriptions imposed by the IASB, even though there is a legal framework to enforce the use of IFRS (Maroun & van Zijl, 2016). The two studies above show that the institutional theory is appropriate to investigate issues regarding IFRS compliance at country level. In this dissertation, this theory is used to analyse the collected evidence, in order to understand the experiences of, and factors that influence unlisted companies in South Africa in relation to their IFRS use, both at country and company levels.

2.3.6 Conclusion

In the context of this dissertation, decision usefulness theory, agency theory, stewardship theory, stakeholder theory and institutional theory seem to be appropriate for answering this dissertation's objectives because researchers, such as Mir and Rahaman (2005), Merkl-Davies and Brennan (2007), Gassen (2008), Kostova et al. (2008), Gassen and Schwedler (2009), Hassan and Power (2009), Robb (2012), Fox et al. (2013), Tsegba et al. (2017), Maroun and van Zyl (2016) have used them in studies regarding the experiences of using, and attitude towards, and compliance with IFRS in both developed and developing countries. This dissertation, in turn, contributes to these theories by empirical testing them in South African unlisted companies. It is important to note that the theories used in this dissertation overlap in some areas. However, these theories differ from each other in the following aspects. First, the focus of the decision usefulness theory is on the users of the financial statements, and it is used by the IASB as the theoretical basis for developing its accounting standards; hence, it is also used in this dissertation to test whether it is beneficial to the preparers. Second, the agency and stewardship theories discuss useful issues from the accounting discipline such as conflict of interest (or alignment) between shareholders and managers, accountability of

management, and the management (or manipulation) of profits. What seems to be an important issue which distinguishes the two theories, is that the reporting behaviour of management differs depending on whether they are assumed to act opportunistically or efficiently (Deegan, 2007; Merkl-Davies & Brennan, 2007). Third, the emphasis of the managerial branch of the stakeholder theory is on the powerful stakeholders, whose action could be detrimental to the ongoing survival of the company (Deegan, 2007). Fourth, the institutional theory discusses a wider relationship between the reporting company and other companies, which means that the reporting company is influenced by other companies which it has access to (or allows access to it). Lastly, these theories are used to explain the experiences of using IFRS of the sampled companies and some of the indicators influencing IFRS compliance in unlisted companies (in Section 4.12).

2.4 Experiences, attitudes and objectives

One of the areas of concern in this dissertation are the experiences, attitudes and objectives of unlisted companies in using IFRS. Thus, these areas are discussed below.

2.4.1 Experiences of using IFRS

Jarvis, Holford and Griffin (2003, p. 54) point out that the term ‘experience’ is used in a number of ways with a multitude of meanings. These include something direct, a feeling, knowledge, life history and an emotional moment. In terms of unlisted companies’ experiences of using IFRS, Kılıç et al. (2014) used questionnaires to examine whether the experience of the accounting professionals affect their perceptions of, and preparedness for the IFRS for SMEs in Turkey. They argued that as the experience of an accounting professional increases, his knowledge in the field of accounting will also increase (Kılıç et al., 2014). These researchers found that there was no significant effect of experience of

accounting professionals on their perception of IFRS for SMEs. In another study, Rudzani and Manda (2016) assessed the challenges faced by small and medium sized enterprises (SMEs) in adopting and implementing IFRS for SMEs in South Africa. These researchers used a desk search and questionnaires to collect data. One of the findings in Rudzani and Manda's (2016) paper is that there are indirect benefits which are experienced by the SMEs for using IFRS, such as easy access to finance (loans and grants) from the banks and government, doing business with government (tenders) and proper compliance with tax regulations. The research on experiences of unlisted companies is scarce, and it tends to apply a quantitative approach. Therefore, this dissertation differs from the prior studies in regard to the mixed research approach that is used to study the experiences of unlisted companies in South Africa in depth.

2.4.2 Attitude towards and objectives for using IFRS

Preparers of unlisted company's financial statements represent distinct groupings of behaviours, attitudes, aptitudes, goals and motivations (Cooper, Reimann & Cronin, 2007, p. 21). Given that this study focuses on the preparers' experience, the above characteristics of a user are considered along with the above section of preparers' experiences of using IFRS. For example, a person's attitude towards IFRS is likely to be determined by his or her experience of using IFRS.

Djatej, Zhou, Gorton and McGonigle's (2012) study examines behavioural attributes of accounting practitioners toward the possibility of the early adoption of IFRS. Their findings suggest that subjective norms and perceived control significantly influenced practitioners' intentions of early IFRS adoption. Even though attitude was not found to have an influence

by Djatej et al. (2012), in this dissertation it seems to be an indicator worth examining in order to support (or not support) these researchers' finding.

Furthermore, Holm & Sundberg Kullström (2015) argue that when developing something for someone, you need to understand who that someone is and what that someone wants to do. Thus, understanding the audience helps to create a strong focus on users (i.e. preparers) and companies' contexts, and helps to make assumptions about the target audience more explicit (Pruitt & Grudin, 2003). Hence, this dissertation when identifying and engaging the preparers of unlisted companies' financial statements, needs to document attributes that have to do with preparers' goals, behaviours and attitudes. Given that, this dissertation is examining whether IASB has been able to focus its accounting standards on unlisted companies, in order to address unlisted companies' financial needs or objectives. This dissertation traces the factors which may be influencing unlisted companies' IFRS compliance from the preparers' views (or from the prevailing practice) to the IFRS.

In accordance with the research methods used, which are introduced in sections 3.5 and 3.8, the following three sections of this chapter categorise the reviewed literature into three contexts: the global, country, and company levels. In terms of their flow, section 2.4, 'Global context' presents studies that discuss indicators that are used to explain the benefits of the adopting IFRS at global level. Section 2.5, 'National context', presents studies that centre on indicators and factors associated with the adoption of IFRS at country level. Section 2.6, 'Company context and its characteristics', presents studies that discusses indicators and factors associated with the adoption of IFRS at company level.

2.5 Global context

The IASB develops and approves IFRS (IFRS Foundation, 2016). For many years, the IASB has been working on a single set of harmonised and globally accepted comprehensive IFRS. On September 2003, the IASB decided to develop the IFRS for small and medium-sized entities (SMEs) from the current IFRS (Pacter, 2008; Deloitte, 2015). The IASB states that the IFRS for SMEs was a response to international demand for a rigorous and common set of accounting standards for unlisted companies (Anacoreta & Silva, 2005; Pacter, 2009). In July 2009, the IASB issued the IFRS for SMEs for unlisted companies. Pacter (2009) argued that IFRS for SMEs provide improved comparability for users, enhance overall confidence in SMEs, and reduce the costs involved in complying with IFRS. However, Ram (2012) argues that it would seem that political pressure placed on the IASB from external groups such as UNCTAD, EFRAG, and IFAC forced the IASB to develop the IFRS which target SMEs. The need to pre-empt potential competitors is regarded as more important than user needs (Benston, Bromwich, Litan, & Wagenhofer, 2006; Ram, 2012). This view contrasts with the IASB/IFRS Foundation criterion to undertake projects which are based on the user needs of affected economies and companies. In accordance with Ram (2012), Stiglitz (2007) avers a few years earlier that the West has driven the globalization agenda in order to maintain its power in the absence of competition.

In addition to the above context, the literature on incentives for IFRS compliance mentions the following: accounting quality, information asymmetry, transparency, comparability, and the cost of capital as the main reasons why companies should implement (or countries should adopt) IFRS. Such literature includes Christensen, Lee, and Walker (2008); Armstrong, Barth, Jagolinzer, and Riedl (2010); Lang, Lins, and Maffet (2012); Barth et al., (2012); and Daske, Hall, Leuz, and Verdi (2008). Thus, the following subsections examine specific

studies that address these generally accepted incentives or the economic benefits of IFRS adoption.

2.5.1 Accounting quality

Callen, Khan, and Lu (2013) define accounting quality as the precision with which financial reporting informs equity investors about future cash flows. An important argument, mostly presented by accounting researchers such as Barth et al. (2008), and Liu, Yao, Hu, and Liu (2011), is that after IFRS introduction, IFRS improve the quality of accounting information reported to investors and other capital providers. Accounting quality is examined with metrics, such as earnings management, timely loss recognition, and value relevance (Van Tendeloo & Vanstraelen, 2005; Gassen & Sellhorn, 2006; Hung & Subramanyam, 2007; Barth, Landsman, & Lang, 2008; Christensen et al., 2008).

Barth et al. (2008) examine whether the application of IAS is associated with higher accounting quality. First, they compare accounting quality metrics for IAS firms and a matched sample of firms which did not apply IAS (NIAS firms). The comparisons are undertaken before and after the IAS firms adopted the standards. In this test, Barth et al. (2008) find that IAS and NIAS firms exhibit similar differences in accounting quality in the pre- and post-adoption periods, making it difficult to attribute post-adoption differences in accounting quality to the change in financial reporting for IAS firms. Second, the authors compare accounting quality for IAS firms in the pre- and post-adoption periods using each IAS firm as its own control (Barth et al., 2008). They find that the accounting quality for IAS firms is higher in the post-adoption period; thus, it is more likely that the improvement in accounting quality is attributable to the change in the financial reporting system (Barth et al., 2008).

Christensen et al. (2008) examine whether the adoption of IFRS by publicly listed firms leads to accounting quality improvements. These authors compare the sampled firms' accounting quality both pre- and post- IFRS adoption. Christensen et al. (2008) find no evidence of such accounting quality improvements for firms which have been forced to adopt IFRS.

Drawing on the above, this dissertation examines the perceptions of unlisted companies which apply IAS or IFRS. In South Africa, unlisted companies are mandated to adopt IFRS. Further, it examines whether accounting quality acts as one of the incentives for unlisted companies in South Africa in order to comply with IFRS.

2.5.2 Information asymmetry

Stiglitz (2003) defines information asymmetry as the condition whereby certain information is known to some, but not to all, parties involved. The argument is then as follows: if a company or country adopts IFRS, it will reap the benefits of having all parties studying its financial reports and thereby receiving and comprehending the same information. In order to elaborate on this point, parties or users are assumed to have a reasonable knowledge of business and economic activities and accounting, together with a willingness to study the information which is prepared using IFRS (IASCF, 2012).

Horton, Serafeim, and Serafeim (2008) examine the effects of mandatory IFRS reporting on a firm's information environment, specifically on analysts' forecasting accuracy, following disagreement and revision volatility. Horton et al. (2008) argue that there is a presumption that mandatory IFRS adoption provides a benefit to investors which leads to a more informed valuation of equity markets, which in turn reduces the risk of adverse selection, compared

with less informed investors. Horton et al. (2008) find that the most significant effects on the information environment appear from non-financial firms which have voluntarily adopted IFRS prior to the mandatory requirement compared with firms which have mandatorily adopted IFRS. For these firms, forecast accuracy and analytical agreement have increased, while revision volatility has decreased. These authors also document that for financial firms, there appears to be no improvement in the information environment (Horton et al., 2008). Moreover, the authors report learning effects by showing that mandatory adopters from industries with high proportions of voluntary adopters benefit more from IFRS implementation (Horton et al., 2008).

Armstrong et al. (2010) examine European stock market reactions to events associated with the 2005 adoption of IFRS in Europe. Armstrong et al. (2010) find (1) a significant positive overall reaction to events which increases the likelihood of adoption; (2) an incrementally positive reaction for firms with lower-quality pre-adoption information environments, a reaction which was more pronounced for banks, as well as higher pre-adoption information asymmetry; (3) an incrementally negative reaction for firms in code law countries; and (4) a positive reaction for high-information-quality firms.

Brüggemann, Daske, Homburg, and Pope (2009) examine the impact of global IFRS adoption on cross-border equity investments by individual investors. These authors find that stocks experience an economically and statistically significant increase in open market trading activity following the mandatory introduction of IFRS (Brüggemann et al., 2009). In addition, similar to the findings of Daske et al., (2008), voluntary IFRS adopters experience enhanced trading activity. Brüggemann et al. (2009) further find that the trading reaction to global IFRS adoption in the open market does not depend upon a country's institutional

environment. The two main points in this dissertation which vary from these authors' studies are in regard to the types of company sampled and the view that a country's institutional environment is irrelevant to individual investors. However, contrary to Brüggemann et al. (2009), this dissertation is conducted with the view that investors do consider South Africa's institutions and legal environment (SCA, 2014).

2.5.3 Transparency

Accounting transparency means that financial statements provide true, accurate, and complete information about the business activities and the financial position of a company (Barlev & Haddad, 2003). However, transparency in accounting can easily be avoided, especially by multinational companies (European Network on Debt & Development, 2011); for example, when a company chooses to manipulate or not disclose certain financial information. Hence, the argument to use one global framework such as IFRS for companies in countries worldwide is an attempt to eliminate the gap in which such inappropriate behaviour could occur.

Aernoudt et al. (2004) find that companies' financial statements across different countries are based on their national GAAPs and are thus incompatible; hence, to make the financial statements more transparent, the IASB developed a set of globally recognised accounting standards and procedures: the IFRS. However, the IFRS are a result of economic and political processes; thus, their objectivity and transparency is questionable (Kothari, Ramanna, & Skinner, 2009).

Lang et al. (2012) examine the relation between firm-level transparency, stock market liquidity, and valuation across a variety of international settings. Lang et al. (2012) find that

transparency is significantly associated with transaction costs and liquidity. Second, they find periods in which recent country-level share price volatility has been unusually high and examine the relation between transparency and liquidity in these periods. Third, they find evidence of an interaction between firm-level governance and country-level institutions—firm-level transparency is particularly important for firms with concentrated ownership in countries with relatively weak minority investor protection. Conversely, South Africa is ranked number three of 140 countries in the World Economic Forum's Global Competitiveness Reports in terms of the protection of minority shareholders interest (WEF, 2016). Drawing on the above, this dissertation examines whether transparency is associated with IFRS. This means that this dissertation examines whether transparency of financial statements acts as one of the incentives for unlisted companies in South Africa in order to comply with IFRS.

2.5.4 Comparability

Comparability of financial accounting information is broadly defined as information on similar transactions or events which represents these transactions or events in the same way; namely, it has the same content (Krisement, 1997). The IASB argues that IFRS allow foreign investors to compare the financial reports of companies which operate in different countries and enable multinational companies to consolidate the financial reports of their subsidiaries which operate in different jurisdictions. Thus, comparability may be viewed as a consequence of IFRS implementation.

Epstein (2009) investigates the expected economic benefits of IFRS implementation. This author states that accounting risk refers to the risk in investing which derives from difficulties in understanding the accounting principles and the processing of accounting information

which are applied by the reporting entity, and the possibility that financial reporting standards may not be uniformly adhered to (Epstein, 2009).

Barth et al. (2012) examine whether the application of IAS by non-US firms results in accounting amounts which are comparable to those resulting from the US GAAP, as applied by US firms. The authors find that (1) comparability with the US GAAP is higher after firms have adopted IFRS; (2) both types of comparability are higher for IFRS firms which adopted IFRS mandatory observation after 2005, and for firms of common-law legal origin from high enforcement countries; (3) US firms have higher value relevance, but IFRS amounts are comparable to the US GAAP amounts based on value relevance firms and high enforcement countries; and (4) earnings smoothing, accrual quality, and earnings timeliness are potential sources of increased comparability.

Drawing on the above, foreign shareholding, intention to attract (or benefit of attracting) investors and perceptions of unlisted companies on enforcement of IFRS are used as indicators in this dissertation. These indicators are for factors experienced by the sampled unlisted companies that help explain their IFRS compliance. Further, this dissertation examines whether comparability acts as one of the incentives for unlisted companies in South Africa to comply with IFRS.

2.5.5 Cost of capital

The cost of capital is the cost of obtaining funds, through debt, equity or both, in order to finance an investment (Boundless, n.d.). Proponents of IFRS usually argue that the standards reduce the cost of capital (e.g., Daske et al., 2008; Ray, 2010).

Daske et al. (2008) examine the economic consequences of mandatory IFRS reporting worldwide. Daske et al. (2008) find that on average, market liquidity increases around the time of the introduction of IFRS; they also document a decrease in firms' cost of capital and an increase in equity valuations, but only if they account for the possibility that the effects occurred prior to the official adoption date. Second, they find that capital market benefits occur only in countries where firms have incentives to be transparent and where legal enforcement is strong, thereby underscoring the central importance of firms' reporting incentives and countries' enforcement regimes in the quality of financial reporting. When comparing mandatory and voluntary adopters, Daske et al. (2008) discovered that capital market effects are most pronounced for firms that voluntarily switched to IFRS, both in the year that they switched and later when IFRS became mandatory. While the former result is most likely due to self-selection, the latter result cautions us to attribute capital market effects for mandatory adopters solely, or even primarily, to the IFRS mandate. Many adopting countries have made concurrent efforts to improve enforcement and governance regimes (Daske et al., 2008).

Ray (2010) builds a model of neoclassical production to examine the capital market and welfare effects of a uniform accounting standard. The Ray (2010) model does not present an argument based on information asymmetry between investors and firms, but rather shows that accounting standards move the market supply curve of capital. In particular, this author claims to show that the dominant intuition in harmonising international accounting standards is correct: uniform standards do lower the cost of capital (Ray, 2010). Based on the above studies, this dissertation examines whether the cost of capital is associated with IFRS. However, the areas in this dissertation which vary from these studies are in regard to the types of company sampled and the people that are surveyed.

2.5.6 Attract foreign capital or markets

El-Gazzar, Finn and Jacob (1999) examine the characteristics of multinational firms which influence their compliance with International Accounting Standards (IAS). These researchers used two statistical procedures, namely: the Wilcoxon test to analyse the characteristics of IAS firms in comparison to those of non-IAS firms; and the logit regression model to test the relationship between a firm's compliance with IAS and the hypothesized explanatory variables. El-Gazzar et al. (1999) found that firms are motivated to voluntarily adopt IAS in order to enhance their exposure to foreign markets, to improve customer recognition and to secure foreign capital. The above results were confirmed by Al-Shammari et al. (2008) who found that companies may use IFRS to improve comparability among companies and to facilitate the process of attracting international investors. Based on the above two studies, this dissertation examines whether the need to attract foreign investors and to participate in foreign markets are associated with IFRS. However, the areas in this dissertation, which differ from those in these studies, are scrutinised in regard to the types of company sampled, research approach and types of sources of evidence used.

2.5.7 Conclusion

This section considers the professional (since the IASB is an independent, private sector body, citing the IFRS Foundation (2016)) and political environment which may contribute to companies' implementation, or countries' adoption, of IFRS. The influence of the international context, of which unlisted companies are part, cannot be avoided. This influence is linked to unlisted companies through each country's setting and the incentives which have been highlighted here.

In addition, the incentives discussed here are usually cited in the literature by accounting academics, researchers, users, standard-setters, and regulators for IFRS adoption or globalisation. First, with regard to the incentives, it is notable that the literature centres on listed companies (or capital, stock market, and equity investors). Second, it highlights the effects of applying IFRS for mandatory adopters and voluntary adopters (or IAS firms). Based on these two issues, there are interesting studies on the incentives for IFRS adoption (or the globalisation of international accounting standards) by researchers such as Barth et al. (2008) and Armstrong et al. (2010). However, limited published research exists about the benefits of IFRS mandatory adoption by unlisted companies. Third, this section touches on issues of enforcement, institutional environment, and governance at the country level of the sampled countries, and considers whether listed companies have become better or worse off after IFRS adoption. However, IFRS enforcement (UNCTAD, 2008) and the implementation of corporate governance by private or unlisted companies in South Africa are unclear. Fourth, this section provides the backdrop or context in which listed companies operate. This backdrop may favour or hinder the realisation of certain incentives for adopting IFRS and includes the type of industry and the legal system of a country (common law or code law). However, this dissertation is based on a developing country's standpoint because South Africa is considered a developing country (IMF's World Economic Outlook Report, 2012).

This dissertation examines which factors act as incentives for unlisted companies in South Africa in order to comply with IFRS. For example, some of the incentives for unlisted companies to use IFRS could be the benefits which are given by the IASB for issuing the IFRS. In addition, this dissertation also considers whether additional factors could be taken into account in the standard-setting process. Thus, this dissertation contributes to or confirms the existing incentives by unlisted companies for IFRS use at the global level. Some

aforementioned authors have argued that the benefits of IFRS adoption occur only in countries where companies have reporting incentives such as transparency and a lower cost of capital (Daske et al., 2008). Hence, this dissertation does not contest the existence of incentives for listed companies (this is researched by Gordon, Loeb, & Zhu, 2012); rather, it tests whether there are benefits related to IFRS implementation by unlisted companies, using the theories discussed in Section 2.3. This dissertation also provides guidance by confirming and extending incentives which are considered when accounting policies or standard development processes related to SMEs or unlisted companies are developed.

2.6 National context

Several studies (e.g., Chamisa, 2000; Ding, Jeanjean, & Stolwy, 2005; Bushman & Piotroski, 2006; Ramanna & Sletten, 2009; Ramanna, 2011) examine national factors which influence companies to comply with or use IFRS, such as economic, political, professional and cultural, and legal factors. Chamisa (2000) argues that the relevance of the IFRS in developing countries depends on a wide variety of nation-specific environmental factors, namely, historical, economic, political, sociocultural, legal, and educational.

2.6.1 Economic factors

The move in South Africa to change the local accounting framework to conform to a globalised framework is unsurprising, because the South African economy is greatly in need of foreign investment (Kantor, 2013) in order to grow and be seen as part of a global community. For example, Schoole (2007), a former chairman of the South African Institute of Chartered Accountants (SAICA), said that some of the reasons for adopting IFRS in South Africa were for South African companies to attract foreign investment, and to provide credibility for South African companies' financial statements in the global market.

According to Ramanna and Sletten (2009), the motivation for countries to adopt IFRS lies more with perceived economic benefits rather than with political factors. For example, South Africa's biggest foreign liabilities have been with the International Monetary Fund (IMF), the World Bank, the European Union, and the G20, all of whom pressure trade partners or borrowing countries to introduce economic reforms such as a free market system, deregulation, privatisation, and other structural adjustment policies (Stiglitz, 2007). Hence, IFRS globalisation is one of these reforms. Zeff highlighted that:

'The role of the World Bank in persuading emerging economies and developing countries to converge toward, or adopt IFRS cannot be underestimated. Over the last dozen or so years, the Bank has conducted more than 80 country studies known as Reports on the Observance of Standards and Codes (ROSC), Accounting and Auditing, which, among other things, review in depth the accounting standards and practices in each country and, in a section on policy recommendations, urges the country to adopt IFRS for public interest entities, or, if it has already done so or has begun converging to IFRS, to fortify its application of IFRS.' (Zeff, 2012, SE 832).

The above is supported by Bohušová and Blašková (2012), who argue that IFRS adoption is undertaken by countries which are economically weak and with a lower quality financial reporting system. However, economically developed countries with a high quality financial reporting system would rather reject the adoption (Bohušová & Blašková, 2012).

Ramanna and Sletten (2009) investigate why some countries adopt IFRS while others do not. These authors argue that the direct benefits are represented by both the net economic and net political value of IFRS over local standards. In terms of the net economic value of IFRS, Ramanna and Sletten (2009) test whether economies with high levels of, or expected increases in, foreign investment and trade are more likely to adopt IFRS. In addition,

Ramanna and Sletten (2009) state that their study is limited because it was conducted at the macro level with embedded macro-level economic and political factors; thus, some of the various countries' decisions to adopt IFRS were likely to be influenced by their internal politics. The authors support their argument by saying that it is difficult to specify accurately the nature of internal politics, let alone measure it with a reasonable degree of accuracy. Further, they say that it is only in more transparent societies such as the US that such an exercise is possible (Ramanna & Sletten, 2009).

With regard to the economic determinants of IFRS adoption, Ramanna and Sletten (2009) find no evidence that the level of, and expected changes in, foreign investment and trade affect the likelihood of adoption. Further, Lin (2012) investigates the reporting incentives which play important roles in IFRS compliance together with the economic benefit of IFRS compliance in a developing country where enforcement is weak. In contrast with Ramanna and Sletten (2009), Lin (2012) finds a positive and significant association between share return and the level of IFRS compliance, a finding which is consistent with the economic benefit hypothesis.

2.6.2 Political factors

With regard to the ways in which political considerations affect IFRS adoption decisions, Ramanna and Sletten (2009) find that more powerful countries are less likely to adopt IFRS, a finding which is consistent with more powerful countries being less willing to surrender standard-setting authority to the IASB.

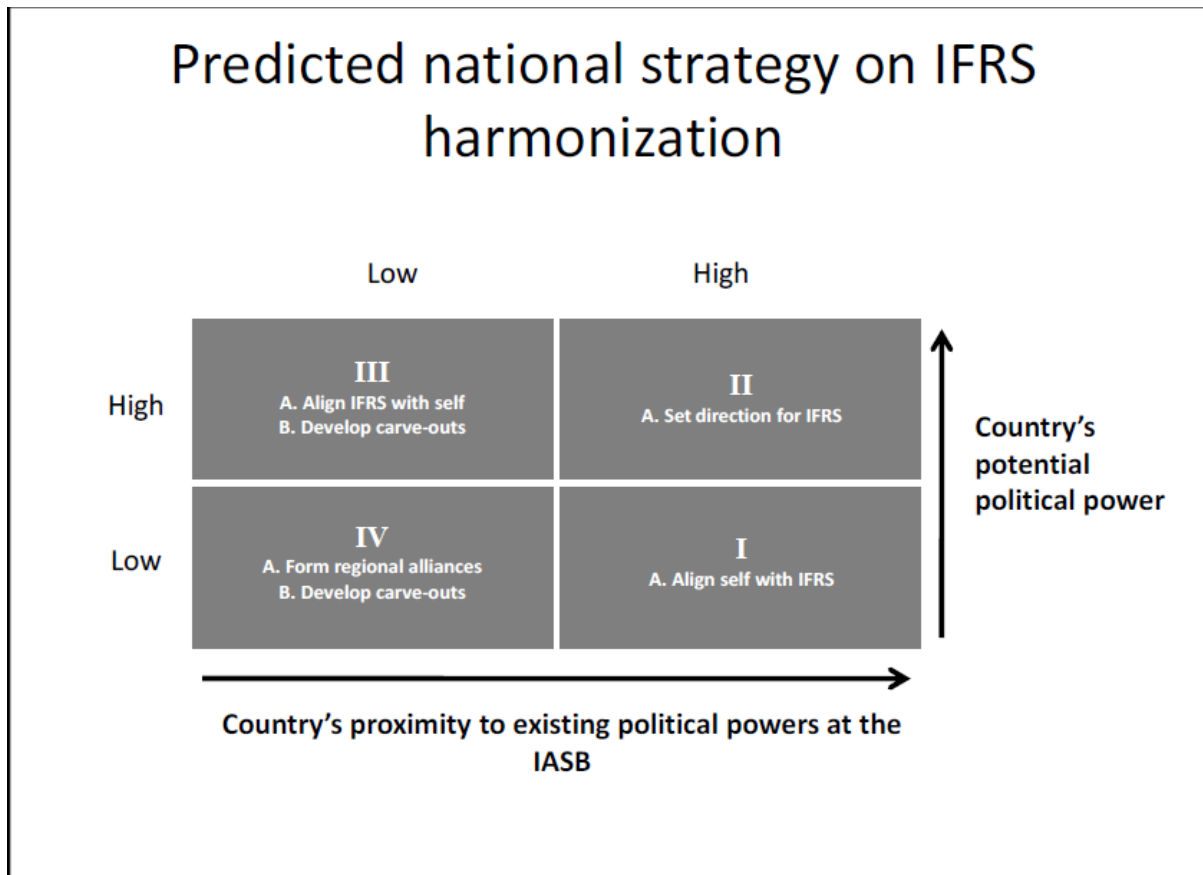


Figure 1: The influence of international politics on countries' IFRS harmonisation strategies (Ramanna, 2011. p.31).

As an extension to the above work, Ramanna (2011) investigates how certain fundamental jurisdictional differences manifest in the international political dynamics which can contribute to countries' responses to IFRS. Ramanna (2011) develops a framework which characterises the international political dynamics of the globalisation of accounting standards. This framework can be used to help explain and predict countries' decisions on IFRS harmonisation. Figure 1 above presents Ramanna's (2011) framework.

This framework is a two-dimensional matrix. The x-axis represents a country's proximity to the existing political powers at the IASB. The matrix's y-axis represents a country's potential political power; namely, its ability to shape decisions at the IASB. For example, the lower right box in the matrix (Quadrant I) represents countries with high proximity to the existing

IASB political powers, but low potential political power. Ramanna (2011) argues that countries such as Australia, Canada, and New Zealand can be classified as Quadrant I countries. These countries enjoy close historical and economic ties to the powers at the IASB; namely, the European Union (EU) and particularly the United Kingdom (UK). The upper left box (Quadrant III) represents countries with low proximity to the IASB political powers, but high potential political power. China is a good example of such a country (Ramanna, 2011). Hence, Ramanna's (2011) framework may assist in establishing a theoretical link to South Africa's stance of choosing to harmonise its South African (SA) GAAP to IFRS in the earliest days of IFRS. Ramanna (2011) argues that the IASB has been, since its inception, defined by European, and in particular British, interests.

South Africa was colonised by Britain for many years, and even 70 years after colonisation ended, South Africa still has British influence (or colonial inheritance) firmly embedded in its jurisdiction (Nobes, 1998). In addition, the accounting history of South Africa has similarities with the UK's accounting history. For example, the formation of professional accountants' and auditors' associations, the delegation of accounting standard-setting duties, the year in which the first accounting standards were issued, the publishing of the first report on corporate reports, and the move away from self-regulation of the accounting profession to a legislated independent body, all happened in South Africa close to when similar events took place in the UK.

In addition, South Africa has had a long relationship with the International Accounting Standards Committee (IASC), the prior incarnation of the IASB, from 1978 until 2000, by having a permanent delegation appointed to it (Zeff, 2012). It can also be argued that the accounting model or system which has been followed by South African accounting

authorities is the Anglo-American model, which is similar to the UK's accounting system (Deegan, 2007). Thus, given the foregoing discussion, it seems likely that South Africa belongs in Quadrant I. In other words, the national strategy of South Africa in terms of IFRS adoption could be said to be to align its accounting standards with IFRS because of its high proximity to the IASB political powers, but low potential political power.

Some countries adopt IFRS as-is, while some harmonise IFRS with their local standards and others reject IFRS completely. Kothari et al. (2009) compare and contrast the US GAAP as an observed regulated setting with the kind of GAAP which may arise endogenously as a result of market forces. The authors write that countries which embrace international standards are likely to modify and adapt those standards to local conditions (Kothari et al., 2009). The Accounting Practices Board (APB) in South Africa did not modify and adapt IFRS; instead, it decided to issue the text of IFRS as the South African Statement of GAAP without any amendments (Schoole, 2007). This position enforces the view raised by Ramanna and Sletten (2009) that South Africa is not a powerful country. Hence, South Africa ceded its political power to the IASB because the country does not have a formal process for the 'endorsement' or 'adoption' of new or amended IFRS (IFRS Foundation, 2016). For example, in South Africa, IFRS standards and amendments are immediately effective as and when issued by the IASB Board (IFRS Foundation, 2016).

2.6.3 Professional and cultural factors

Hofstede's (1980, 1984) cultural dimension identifies four societal values (with their opposites). These are individualism, power distance, uncertainty avoidance, and masculinity. Gray (1988) links Hofstede's values to company values because some researchers (e.g. Baskerville, 2003) criticise Hofstede's theoretical framework for assuming that each country

is homogeneous. Thus, Gray (1988) identifies four accounting values (with their opposites), which are professionalism, uniformity, conservatism, and secrecy.

Ramanna and Sletten (2009) test the likelihood of IFRS adoption decreasing with the quality of domestic governance institutions, and question whether cultural differences can explain cross-sectional variation in IFRS adoption. This is because, if the IASB is perceived as a European institution, countries which are culturally more distant from Europe are less likely to accept IFRS. Ramanna and Sletten (2009) find evidence that the likelihood of IFRS adoption at first increases and then decreases with the quality of countries' domestic governance institutions. They do not find evidence that countries' cultural closeness to the EU influences their IFRS adoption decisions, that is, that Christian countries and countries with long-settled colonial relations with EU powers are considered culturally closer to the region. For its part, South Africa is a culturally diverse nation, with a minority of 0.5 per cent who are British nationals and who hold substantial economic resources (Neophytou, 2011).

At country level, the professional accounting bodies, SAICA and the South African Institute of Professional Accountants (SAIPA), have a strong influence in South Africa. An established reporting culture also exists. As a result of this, South Africa is ranked number one of 144 countries in the World Economic Forum's Global Competitiveness Reports in terms of the strength of its auditing and reporting standards (WEF, 2014). Thus, in order to test one of Gray's (1988) adjusted hypotheses, this dissertation argues that South African unlisted companies are strong on individualism and power distance and weak on uncertainty avoidance; hence, South Africa is likely to demonstrate high professional institutional power and people are allowed to use their professional judgement.

2.6.4 Legal factors

Since 1 January 2005, South Africa has required listed companies to present their annual financial statements in compliance with IFRS (Schoole, 2007). In addition, South Africa has amended its Companies Act of 2008 to require companies to use one of the following: IFRS or IFRS for SMEs. Such a change made the use of IFRS mandatory.

For example, a limited interest or unlisted company is required to prepare financial statements which satisfy the financial reporting standards and present the state of affairs and business of the company fairly (Companies Act 2008). The Companies Act, as amended in 2011, does not specify which financial reporting standards or framework must be used by private companies. However, the Companies Regulations 2011 bridged the gap between the Companies Act and the IFRS-based framework requirement for private companies by providing a calculation of the public interest score (SAICA, 2012). The public interest score is used to determine which reporting framework companies of different sizes may choose to use.

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) state that South Africa has English legal origins and that these origins are linked to the common law system. South Africa obtained its legal system because it was a British colony in the early twentieth century. Bushman and Piotroski (2006) examine whether a country's legal/judicial institutions can influence reported accounting numbers. After controlling for legal origin, the authors find that firms in countries with high quality judicial systems reflect bad news in reported earnings faster than firms in countries with low quality judicial systems. Another finding is that there is a mixed and inconclusive result with respect to the influence of financial architecture and tax regimes (Bushman & Piotroski, 2006). Post-apartheid South Africa has reformed its legal

system; hence, its legal system is neither strictly common law nor code law and is thus considered to be a mixed legal system (SCA, 2014).

2.6.5 Conclusion

In spite of the fact that South Africa's national standard-setting body has adopted IFRS, the literature on IFRS globalisation posits the problem that a disparity exists between IFRS implementation (and compliance) and IFRS adoption (Eberlein & Richardson, 2012). This dissertation contributes to the literature by investigating the experiences of unlisted companies in using (or not using) IFRS. It has been argued that a low level of IFRS implementation occurs because of the lack of sufficient regulatory capacity and standards enforcement in sampled countries (Ball, 2006; Al-Shammari et al., 2008; Eberlein & Richardson, 2012). Hence, FRSC visibility (or lack thereof), which is tasked with monitoring companies' IFRS compliance, is used as a control variable in this dissertation. According to Daske et al. (2008), the positive effects of mandatory IFRS adoption occur only in countries with strict IFRS enforcement and in countries where the institutional environment provides strong incentives to companies to be transparent.

This section considers the factors in the South African environment which may be contributing to unlisted companies' IFRS compliance. At the country level, the factors discussed in the literature are placed in four broad categories: economic, legal, professional and cultural, and political factors. Each factor is represented by a few selected indicators.

- Economic factors — Brüggemann, Hitz, and Sellhorn (2013) discuss empirical evidence of the economic consequences of mandatory IFRS adoption in the EU. In Brüggemann et al.'s (2013) study, economic consequences denote firm values and the wealth of those who make decisions based on accounting information or who are affected by such

decisions. For example, the following indicators are used as measurements of economic consequences: net income, stock prices, dividend payouts, stock market liquidity, cross-border investment, and foreign equity investment in a country (Brüggemann et al., 2013). In this dissertation, attracting investors and dividend payments are used as indicators for economic conditions experienced by the sampled unlisted companies,

- Legal factors — in this dissertation, the influence of South African laws, legal institutions, and taxation regulations are used as indicators for legal conditions experienced by the sampled unlisted companies.
- Professional and cultural factors — in this dissertation, the influence of professional bodies, a country's institutional requirements, and the influence of external auditors are used as indicators of professional conditions experienced by the sampled unlisted companies (Street & Bryant, 2000; Street & Gray, 2002).
- Political factors — politically, South Africa can be deemed a less powerful country in relation to the IASB political powers because, as Ramanna and Sletten (2009) find, more powerful countries are less likely to adopt IFRS and surrender their standard-setting authority to the IASB. In this dissertation, adverse changes in regulations and the quality of bureaucracy are used as indicators for political conditions experienced by the sampled unlisted companies (Bussea & Hefekerb, 2005).

This dissertation examines the factors which act as incentives for unlisted companies in South Africa in order to comply with IFRS. For example, one of the reasons for unlisted companies to use IFRS may be a result of South African legislative activities. The authorities in South Africa have accepted and approved the use of IFRS. Thus, private or unlisted companies in South Africa are expected to apply full IFRS or IFRS for SMEs. Consequently, a link may exist between a country's context and unlisted companies' IFRS compliance.

2.7 Company context and its characteristics

Companies in South Africa are divided in terms of their legal structure, whether they are public/widely held companies or unlisted/limited interest companies (Companies Act, 2008). However, according to management literature, a classical organisation or company is thought to have the following interactive elements: shareholders and/or managers, human resources, and systems (Schein, 1965). Based on these elements, the literature in this section is discussed under four categories: (1) governance, (2) people employed within a company, (3) the operations and resources of a company, and (4) company characteristics. The justification for this categorisation is that most companies internally consist of owners (assuming they manage and run their businesses themselves), business activities such as selling goods or rendering services, capital assets such as machinery, and employees. Further, if owners employ managers to manage and run businesses on their behalf (Jensen & Meckling, 1976), there is a principal-agent relationship. Hence, the owners are left to undertake the oversight role with regard to managers (i.e. governance). This internal context of unlisted companies has not been investigated in detail in accounting research; however, company characteristics such as company size and industry have seen extensive accounting research conducted about them.

2.7.1 Governance

Bova and Pereira (2012) consider why firms comply with IFRS in a country where enforcement of the standards is lax. The authors examine both private and publicly traded Kenyan firms. Bova and Pereira (2012) find that in Kenya, although both private and public firms are required to adhere to IFRS, it is the public, rather than private firms, who exhibit greater IFRS compliance. The authors also find a positive association between foreign

ownership and IFRS compliance. This finding is supported by Lin (2012), who discovers a positive and significant association between foreign ownership and the level of IFRS compliance, a finding which is consistent with the reporting incentive hypothesis.

Davis et al. (1997) examine the psychological and situational underpinnings of stewardship theory. These authors believe that company relationships may be more complex than those analysed through agency theory. Davis et al. (1997) provide a much more detailed description of stewardship theory, its language, definitions of terms, and units of analysis.

This subsection contributes to this dissertation by considering some of the units of analysis or indicators used for the governance factor. These are the number of non-executive directors, the percentage of executive directors' shareholdings, the governance structure, and performance contracts for executive managers.

2.7.2 People or human capital

Djatej, Zhou, Gorton, and McGonigle's (2012) paper examines the behavioural attributes of accounting practitioners regarding the possibility of early IFRS adoption. These authors' findings suggest that subjective norms and perceived control significantly influence practitioners' intentions for early IFRS adoption.

Guerreiro, Rodrigues, and Craig (2008) determine that the characteristics of listed companies in Portugal mean that they were better prepared than others to adopt IFRS. Guerreiro et al. (2008) explain that 'preparedness' is represented by such factors as the training of staff and accommodative changes to accounting and financial reporting systems. Hence, Guerreiro et al. (2008) suggest that domestic and international standard-setting agencies, regulatory

authorities, and the accounting profession should assist those companies which have adopted, or wish to adopt, IFRS with its implementation, especially in smaller countries. Thus, it can be argued that private or unlisted companies do not oppose or resist IFRS implementation for the sake of being stubborn. There may be underlying reasons for such resistance such as a lack of preparedness, expertise, and appropriate systems.

This subsection contributes to this dissertation by considering some of the units of analysis, or the indicators used for the people factor. These are familiarity with IFRS, attitude towards and perception of IFRS, the number of full-time employees, IFRS training, the experience and qualification of the preparer of financial statements, and managerial experience.

2.7.3 Operations and resources

Fox, Hannah, Helliard and Veneziani (2013) and Chand et al. (2015) suggest that in order for SMEs to comply with IFRS for SMEs, the perceived benefits must exceed the costs associated with the adoption. Christensen et al. (2008) argue that some firms resist IFRS because such firms are likely to perceive fewer benefits from a capital market-oriented set of accounting standards such as IFRS, and consequently apply a cost-minimising strategy when subjected to IFRS. Al-Shammari et al. (2008) evaluate the company indicators which influence the degree of compliance with IFRS. In their study, they found that compliance with IFRS is associated with performance. This finding is in contrast to the findings of an earlier study by Tower, Hancock and Taplin (1999) who found that leverage and profitability were not significant indicators of compliance with IAS rules.

This subsection contributes to this dissertation by considering some of the units of analysis or indicators used for the operations and resources factor. These are the types of good sold or

services rendered, the costs to implement IFRS, financial reporting needs, the role IFRS play in assisting companies to attain their goals, financial performance, position, cash flows and future prospects, return on assets, leverage, capital assets, and systems.

2.7.4 Company characteristics

Legal unlisted companies in South Africa have to choose whether to adopt IFRS fully or IFRS for SMEs. The choice to report their annual statements in compliance with SA GAAP was discarded on or after 1 December 2012. Ceustermans' (2012) paper proposes steps towards a framework of best practice with regard to differential financial reporting regimes for different types of company, based on a tool called Multi-Actor Multi-Criteria Analysis (MAMCA). Differential reporting frameworks have been researched quite intensively. Criteria which have been raised in the literature for the differentiation of the reporting framework for companies are: (1) the size of a company (i.e. larger vs. smaller); (2) listed vs. unlisted; (3) the legal structure; and (4) the separation of ownership and control (Bollen, 1996; Collis & Jarvis, 2000; Street & Bryant, 2000; Street & Gray, 2002; Al-Shammari et al., 2008; Ceustermans, 2012).

Bassemir (2012) conducts a study which asks the following questions: do private firms voluntarily adopt IFRS? If so, why do they adopt IFRS and what are the characteristics of private companies which switched to IFRS using multi-period logit regressions? Bassemir (2012) finds that approximately 11 per cent of the sample firms adopt IFRS, suggesting that a substantial number of privately held firms expect to gain net benefits from IFRS. He also finds that private firms are more likely to switch to IFRS if they (1) are larger, (2) have more international sales, (3) are more leveraged, (4) have more growth opportunities, (5) are registered as stock corporations, (6) have a Big Five auditor, (7) are characterised by private

equity involvement, (8) are externally rated, and (9) seek to raise external capital by issuing public bonds or equity.

Andre, Walton, and Yang (2012) investigate the determinants of voluntary IFRS adoption, looking specifically at UK unlisted firms. A sample of 8 130 firms was obtained mainly from the Orbis database, provided by the Bureau van Dijk Company. Andre et al. (2012) find that internationality, leverage, firm size, and auditor reputation help explain UK unlisted firms' voluntary selection of IFRS. In addition, Andre et al. (2012) discover that newly incorporated firms show a higher probability of adopting IFRS. While in the earlier study, Tower et al. (1999) found that firm size and industry classification were not significant indicators of compliance with IAS rules.

This subsection contributes to this dissertation by considering some of the units of analysis or indicators used for the company characteristics factor. These are the size of the company, the industry it operates in, the legal type of the company, the years it has been operating, the number of offices, and the provinces in which it is listed or not.

2.7.5 Conclusion

Of late, the literature on IFRS adoption by unlisted companies or SMEs is slowly increasing (Ball and Shivakumar, 2005; Sellhorn and Gornik-Tomaszewski, 2006; Francis, Khurana, Martin, and Pereira, 2008; Katz, 2009; Cumming and Walz, 2010; Nobes, 2010; Bassemir, 2012; Ceustermans, 2012; and others). This section's conclusion is that unlisted companies may be a few steps behind listed companies regarding IFRS compliance. Thus, this dissertation contributes to the existing factors by identifying other indicators at company level which may be the reason for unlisted companies in South Africa using IFRS. Some of

the findings of Andre et al. (2012) and Bassemir (2012) are used as control variables in the research method chapter of this dissertation.

2.8 Self-prophecy effect

Self-prophecy is defined as follows: asking people to predict whether they will perform a socially desirable behaviour increases their probability of performing the behaviour (Sherman, 1980; Spangenberg & Greenwald, 1999; Sprott, Spangenberg, & Fisher, 2003). The self-prophecy effect is largely based on two factors, namely, that people must make predictions and the normative beliefs must be ascertained. Sherman (1980) finds that if people are asked questions about what their behaviour may be in a certain situation, they tend to behave in a manner more socially desirable relative to when they are not asked to make a prediction. In terms of the second factor, Sprott et al. (2003) argue that normative beliefs are unnecessary depending upon 'what others think of one's prediction'; instead, they look at 'what should one do which is socially and morally acceptable'. Thus, for a self-prophecy to occur, people or companies need to have a shared value as to what is desirable or what is the correct action. The self-prophecy effect has been used in areas of consumer behaviour, psychology, decision-making, and education (Sherman, 1980). This dissertation contributes to the self-prophecy effect literature on a practical level by establishing the predictions of companies which have strong normative beliefs about IFRS compliance. This means that if a behavioural opportunity to comply with IFRS arises, companies with strong normative beliefs are more likely to comply (Sprott et al., 2003). In contrast, Sprott et al. (2003) argue that a prediction from people who have weak beliefs about behaviour is less likely to produce the opposite behaviour. For example, they may also choose to comply with IFRS. The last two groups of people or companies are the ones with strong beliefs and weak beliefs which will

not make a prediction. Those with strong beliefs are more likely to act in either way as the situation demands (Sprott et al., 2003). However, those with weak beliefs who have not made a prediction normally have no effect on self-prophecy studies.

This dissertation will also contribute to the literature by predicting whether unlisted companies in South Africa will continue (or start) complying with IFRS. Hence, the self-prophecy effect is used to predict whether factors which act as incentives for unlisted companies in South Africa to report IFRS use, and which are not covered in IFRS, could be incorporated in the standards and thereby lead to improved or reduced compliance.

Chapter Three: Research Design

3.1 Introduction

This dissertation examines the experiences, attitudes, and objectives of unlisted companies with regard to IFRS use; the possible reasons why unlisted companies in South Africa comply or do not comply with IFRS; and whether IFRS compliance would improve when some of these reasons are taken into account in the standard-setting process. These issues suggest that the use of both qualitative and quantitative research approaches are appropriate because they will result in the collection of qualitative and empirical data.

This chapter has the following structure. First, it discusses the qualitative research approach, the researcher's epistemological orientation, the data, the population, and the selected research sample. Second, the research instruments or method and data collection procedures of this dissertation are considered. Third, it discusses the quantitative research approach, the population and sampling, the survey method and its data collection procedures. Finally, the analytical procedures which led to the findings, and the quality of a case study method, are discussed.

3.2 The qualitative approach

This dissertation uses a qualitative approach. The primary justification for a qualitative approach is that the possible reasons why the unlisted companies in South Africa comply or do not comply with IFRS, together with their experiences, vary from company to company, are unique, and consist of different factors (Anderson, 2010; Ciao, 2011). Thus, to gain insights into (1) unlisted companies' experiences in using IFRS, and (2) the factors which act as incentives for unlisted companies to continue to report using IFRS in this dissertation, a qualitative approach is appropriate. Further, this dissertation is interpretive and explanatory in

nature (Creswell & Plano Clark, 2011; Leedy & Ormrod, 2014) and because the phenomenon (i.e. the use of IFRS by unlisted companies) examined in this dissertation and the views given in the literature review are investigated with minimal a priori expectations in order to gain insights and develop explanations of this phenomenon (Lincoln & Guba, 1985; Bowen, 2005, p.209; Leedy & Ormrod, 2014). It is fitting to apply a qualitative approach. This dissertation attempts to find answers to ‘what’, ‘why’ and ‘how’ research questions. These questions are in line with the qualitative and quantitative approaches. Guba and Lincoln (1989) indicate that a qualitative approach is used to uncover emic (insider) views. Further, a qualitative approach will enable the researcher to test the theories mentioned in section 2.3 above (Peshkin, 1993). However, Anderson (2010) points out that a qualitative approach has several disadvantages, including (1) concern over its research quality because it depends upon the individual skills of the researcher and it is influenced by the researcher's personal biases; (2) concern over its rigour because it is difficult to maintain, assess, and demonstrate; and (3) concern over its findings because it is difficult and time consuming to characterise its findings in a visual way. In addition, qualitative research is time consuming, biased towards smaller samples, and more expensive to undertake than quantitative methods (University of Surrey, n.d.). However, in this dissertation, the benefits of the qualitative approach exceeds its disadvantages because the information to be obtained is richer and will provide deeper insight into the research questions which are being researched (University of Surrey, n.d.). Thus, a quantitative research method (i.e. a survey) is applied in order to improve the quality of this dissertation.

To examine the research questions in this dissertation in depth two qualitative methods are used. These are a case study (conducted via questionnaires and interviews) and heuristics. By using a case study method this dissertation will be able to contribute to knowledge in terms of

IFRS compliance or use. Leedy and Ormrod (2014) state that a case study method can promote understanding of a particular company, similar companies or phenomenon. Heuristics, on the other hand, are used to analyse or group the information obtained through the questionnaires in order to answer the research questions in this dissertation. Moustakas (1990, p. 9) describes heuristics as an ‘organised and systematic form for investigating human experience’. Thus, the importance of heuristics in this dissertation is that it is used to determine the experiences of, attitudes towards and objectives of using IFRS, and the factors which seem to be the most important at influencing unlisted companies to use IFRS and which may be considered by a country or standard-setting body when conducting its post-implementation reviews on accounting standards which relate to unlisted companies. Lastly, the following section discusses the researcher’s beliefs which consist of his perspective, ontology, epistemology, and methodology in terms of this dissertation’s research questions.

3.3 Paradigm and epistemology

This dissertation follows the interpretivism paradigm to analyse unlisted companies’ experiences, attitudes towards, and objectives of using IFRS, and the factors which influence such companies to use IFRS, whether these factors are addressed or not addressed in the IFRS. If these factors are not being addressed, this dissertation further asks how can these factors be addressed or incorporated in the IFRS, and what are the normative beliefs of the sampled companies? Interpretivist and constructivist perspectives are similar, because they share the same ontology and epistemology (Schwandt, 1994). However, the small difference between the two is that interpretivism’s aim (or inquiry aim) is to understand and interpret, whilst constructivism’s aim is to understand and reconstruct the constructs that people hold (Guba & Lincoln, 1989). Thus, the interpretivism paradigm seems more appropriate in this dissertation because this dissertation’s purpose is to interpret the preparers’ views of IFRS.

Further, the interpretivism paradigm ‘accepts and seeks multiple perspectives, practises iteration and holistic research’ (Thanh & Thanh, 2015, p. 25 - cited Willis, 2007).

In accordance with, Cresswell (2003), Yanow and Schwartz-Shea (2011), and Thanh and Thanh (2015), interpretivism ontology assumes that reality is constructed intersubjectively through the participant’s point of view, their own background and experiences. Thus, the social events which are studied in this dissertation (i.e. the factors that influence the use of IFRS by unlisted companies and their experiences) do not have general validity for all South African unlisted companies. This is because these events happen as a result of people or companies who have different emotions, different values, different cultures, and different motivations, and who act within different social settings (Ciao, 2011). In this dissertation, the sampled unlisted companies’ experiences of, attitudes towards, objectives of, and factors that act as incentives for their IFRS compliance and normative beliefs are not the same for all South African unlisted companies. Hence, the interpretivism paradigm is necessary to see the above issues through the sampled unlisted companies’ lenses.

In terms of constructivism epistemology, Guba and Lincoln (1989, p. 111) indicated that the researcher and the object of investigation (i.e. IFRS use by unlisted companies) are assumed to be interactively linked such that the findings are created as the investigation proceeds. This means that each researcher constructs a reality which objectively does not exist and which exists only in his/her mind and interpretations (Ciao, 2011). The researcher and the object of investigation in this dissertation are linked in such a way that who he is and how he understands the world is a central part of how he understands himself, others, and the world (Guba & Lincoln, 1994). Gray (2013, cited Easterby-Smith et al. 2002) argues that the

epistemology is important to inform the researcher which research perspective will best answer his/her research questions.

Further, Gray (2013) points out that interpretivism has the following branches of methodological perspectives: symbolic interactionism, phenomenology, realism, hermeneutics and naturalistic inquiry. Thus, the perspective which seems to be relevant in this dissertation is the naturalistic inquiry. Lincoln and Guba (1994) argue that naturalistic inquiry is used to examine a person's experience, perception and understanding of a phenomenon within his/her environment that has multiple constructed realities. Hence, the nature of knowledge in this dissertation consists of the participants' views in multi-voice about themselves, the company they work for and its management, and the IFRS. A naturalistic inquiry gives a context to this dissertation in which to examine multiple cases, using multiple sources of evidence and more than one theory. Further, Willis (2007) argues that interpretivism tends to favour qualitative methods, such as the case study method. Hence, the case study research design selected in this dissertation is based on the naturalistic inquiry perspective.

Lastly, Schwandt (1994) indicates that the interpretivism paradigm has been criticised for (1) unclear criteria for judging quality, (2) tends to be descriptive and it fails to provide strong analysis or conclusions, (3) the problematic position which is assigned to the researcher/inquirer, and (4) the confusion of psychological and epistemological claims. The validity of this dissertation and its findings are not general; instead, they are relevant to the selected unlisted companies which are investigated (Weber, 1922; Ciao, 2011). Ciao (2011) argues that according to interpretivism, it is not possible to separate some indicators from others or eliminate some factors. He says that they interact through several relationships over

time. In this dissertation, it is assumed that the selected theories, environment, IFRS adoption, the preparers, unlisted companies and standard-setting bodies are related because of the passage of time into one ontology. Hence, the positivist, post-positivist, critical theory and pragmatism paradigms are assumed to be less relevant in this dissertation because of their ontology (or how they see things or the world to be really are) (Denzin & Lincoln, 1998).

3.4 Qualitative: population and sampling

The population of this dissertation consists of all the companies, organisations, and close corporations which are legally registered with the Companies and Intellectual Property Commission (CIPC) (which is a member group of the Department of Trade and Industry). South Africa had over 3 million legally registered unlisted companies in 2017, and the challenge regard this number is that it might include deregistered or failed companies (CIPC, 2018, p. 26).

Purposive and haphazard sampling are applied to the legally registered companies, organisations, and close corporations as opposed to random sampling. Purposive and haphazard sampling are defined as a non-probability sampling technique. Its goal is to focus on particular characteristics of a population which are of interest and which will enable the researcher to answer the given research questions in his/her dissertation (Lund Research Ltd, 2012). The justification for using purposive and haphazard sampling is that they capture a wide range of views and subjective realities and provide in-depth understanding and information on the experiences of the selected unlisted companies (Bowen, 2005; Sue & Ritter, 2007). Further, in this dissertation, the unlisted companies can be viewed as an open population. Sue and Ritter (2007, p. 29) define open populations as those populations for

which there is no readily available sampling frame; their total number is not known and probability sampling on them is regarded as challenging.

Hence, in January 2016, the researcher started to search for unlisted companies to participate in this dissertation. Sixteen companies were invited to participate in this dissertation during that period. These were selected because they are accessible to the researcher (Explorable, 2009). The researcher's plan was to obtain five completed questionnaires from any first five unlisted companies to return the completed questionnaires and follow the questionnaires with interviews with the same people who answered the questionnaires. This means that each sampled company was considered a separate case study.

Thus, a total of five completed questionnaires (31.2%) were returned from 16 questionnaires that were issued at different times. Yin (2014) suggests that four to six cases may be selected when choosing samples for multiple case studies which seek to offer contributions at a theoretical level. In this dissertation, five unlisted companies were selected in order to build a model and extend the literature about (1) unlisted companies' experiences, attitudes, and objectives of using IFRS; and (2) the factors which influence unlisted companies' IFRS compliance. With regard to the extension of the literature, this could be achieved with any sample. For example, research studies in life sciences and history use fewer samples. Thus, a large sample is not necessary for this dissertation, unless a statistical model or quantitative approach is applied. Three more problems with a large sample are how to get hold of unlisted companies when their information is not kept centrally, inadequate human resources to carry out this research countrywide, and time is a constraint due to the maximum time allowed to complete this degree (O'Donoghue, 2006). Finally, the qualitative approach in this

dissertation sampled five cases (31.2% response rate), with five questionnaires that were accompanied by interviews as its two sources of evidence.

3.5 Qualitative: case study method

A case study method is defined as an empirical inquiry which investigates a contemporary phenomenon (the ‘case’) in depth and within its real-world context, especially when the boundaries between the phenomenon and the context may not be clearly evident (Yin, 2014). According to this dissertation, the context relates to global and national factors which are discussed in the theoretical and literature review chapter. Further, companies do not exist in a vacuum without the influence of external factors; hence, context is important. The contemporary phenomenon which is investigated in this dissertation is IFRS compliance by unlisted companies in South Africa. IFRS compliance is a real-world phenomenon which is outside the control of the researcher and widespread. Based on the foregoing reasons, the case study method is very much relevant in answering this dissertation’s research questions.

A case study method is used when a study has explanatory research questions (Yin, 2014). In this dissertation, the interpretive and explanatory questions are as follows. What are unlisted companies’ experiences of, and attitudes towards, IFRS use? What are the factors which influence unlisted companies’ IFRS compliance? If some of these factors are not being addressed by the IFRS, how can they be addressed or incorporated in the IFRS? A case study method is important in this dissertation because it will provide a detailed understanding of unlisted companies’ IFRS compliance, in relation to the research questions such as: why are the factors which influence their IFRS compliance being addressed or not being addressed? And, if the factors which influence their IFRS compliance are not being addressed the question is: how can these factors be addressed or incorporated in the IFRS? The literature

has identified a variety of case study research designs; however, this dissertation uses a multiple case study design. The justification for selecting a multiple case study design is that, at the theoretical level, the lessons to be learned may provide common features for other unlisted companies (Yin, 2014), and it is influenced by the interpretivism paradigm. Hence such a design increases this dissertation's validity.

One of the methods to collect case study evidence discussed by Yin (2014) is the interview. There are three types of interviews which can be used in case studies: prolonged, shorter and survey interviews (Yin, 2014). However, Hofstee (2009) argues that the interview and questionnaire have a lot in common. For example, both ask questions directly from a person or people in order to collect evidence. The disadvantage of the questionnaire from the interview is that it does not allow the researcher to interact with, or observe, respondents (Hofstee, 2009; University of Surrey, n.d.). Nonetheless, follow-up questions are used to clarify issues and to interact with respondents. This dissertation is using a structured questionnaire. The justification for choosing to use the questionnaire is that it offers confidentiality to respondents (Hofstee, 2009) and it can be answered at respondents' will or comfort. Further, interviews have the disadvantages for researchers of being unable to get hold of senior people in targeted companies, build trust with the interviewees whom the researcher has never met before, and of inaccuracies and errors that are as a result of the inexperience with the interviews (Hofstee, 2009; Yin, 2014).

Questionnaire

In this dissertation, two methods are used to collect data which are the questionnaire and interview. In the first round of data collection, the questionnaires are used to ascertain the financial reporting needs, experiences, and attitudes of unlisted companies; sampled

companies' financial information; historical and perceived information about the use of IFRS and attitudes towards IFRS; and the relationship among IFRS and other selected indicators. Most of the questions are based on prior research findings (e.g. Guerreiro et al., 2008; Andre et al., 2012; Djatej et al., 2012) in Chapter 2 above. The questions were pilot tested in one company and discussed in detail with a number of academics. The feedback was used to revise and improve the research instruments before there were made available to the rest of the targeted respondents.

In the questionnaire, the questions comprise close-ended, qualitative scale and open-ended questions. The close-ended questions are used to screen some indicators or to establish the facts, before probing questions are posed (Minichiello, Aroni, Timewell & Alexander, 1990). The qualitative scale questions are guided by prior literature, and the researcher thought the scaled questions would provide the most productive means of collecting data in order to determine the factors which influence unlisted companies' IFRS compliance (O'Donoghue, 2006).

The questionnaires comprise three sections (see Appendix A). These are as follows.

Section 1 relates to company information such as the total number of full-time paid employees, the type of entity, its industry, the company's auditors, when the last annual financial statement was prepared, the number of years of experience of the annual report preparers, the job level of the respondent, and the company's shareholding and financial reporting needs.

Section 2 deals with financial information such as profitability, revenue, percentage of debt to equity, return on investment or equity, type of assets, net book-value of assets, depreciation and amortisation expenses, dividends per share, dividend cover, and level of cash available.

Section 3 ascertains management's awareness of IFRS, its attitude towards IFRS implementation, whether managers use IFRS, whether IFRS training was received, the perceived benefits or costs of IFRS adoption, and the strength of enforcement of accounting standards by the Financial Reporting Investigation Panel (FRIP).

Further, the following steps were used to collect and analyse data in terms of the questionnaires:

- After the questionnaire was prepared, it was sent via email and hand delivered to the participants.
- After a month from the date the questionnaire was sent, if the completed questionnaire was not returned or a participant had not opted out, an email reminder was sent to the participants.
- Thereafter, a follow-up call was made (or email was sent) every two weeks.
- If a participant chose not to participate, another participant was invited to participate in this study in accordance with bullet 1 above.
- Each time, a completed questionnaire was received, the researcher read the information supplied in order to determine its adequacy.
- In cases where key information was missing, follow-up questions were sent to the participants requesting that information.
- Information supplied by each participant was read and grouped in accordance with the research questions of this dissertation (i.e. experiences, attitudes, factors, and prediction of on-going use).
- After the information was grouped, it was analysed by identifying similarities (or common characteristics) and contrasts using a textual analysis (UVSC, n.d.). Afterwards,

the researcher inductively drew patterns and tried to generate logical explanations for the identified patterns.

- Thereafter, separate case study reports and a cross-case report were written.

Lastly, the questionnaire has a number of disadvantages that are discussed in section 3.8.

Interview

In the second round of data collection, the interviews are used to confirm and follow-up on the information obtained through the questionnaires. The interviews conducted were structured. Further, as suggested by Yin (2014), a case study protocol is used to increase the reliability of the findings of this study's interviews (see Appendix B). Finally, after the data analysis (below), the researcher collected additional data by questioning an IASB member, Dr Paul Pacter and conducting two interviews with a SAICA official and an academic, who are involved in FRSC. In addition, the researcher read IFRS books and reviewed IASB minutes of meetings in order to answer research questions 2(b) to 2(d).

The interview questions were developed by the researcher in reference to this dissertation's research questions. Therefore, the interviews with the preparers of the financial statement of unlisted companies covered the following issues (or topics) and questions (see Appendix B):

In relation to research question 1: unlisted companies' experiences of using IFRS.

- Can you tell me about your company's (or your) experience of using IFRS?
- Does the expression "your company's IFRS experience is good [or tolerant of IFRS, but somewhat cautious]" cover what you have just said?

In relation to research question 1: unlisted companies' attitudes towards using IFRS.

- Do you like using IFRS/reading financial statements prepared by using IFRS?

- Why do you (or don't) like using IFRS/reading financial statements prepared by using IFRS?

In relation to research question 1: unlisted companies' objectives of using IFRS.

- When your company prepares financial statements or reports, it prepares them to serve what purpose?

In relation to research question 2(a): factors which influence unlisted companies' IFRS use.

- Based on the information in the questionnaire, am I correct to say that your company's IFRS compliance is influenced by.....

In relation to research question 2(e): unlisted companies' ongoing use of IFRS.

- Suppose the IFRS take into account all the issues you raised, how likely will your company continue or start producing IFRS compliant financial statements?

The researcher conducted two face-to-face interviews, two phone interviews and one written interview with the same participants who completed the questionnaires. The reason for using the same participants, rather than interviewing different people, is that the researcher could not get hold of different people from the companies that completed the questionnaires.

In relation to the interviews, the following steps were used to collect and analyse data:

- The researcher prepared the interview procedures in accordance with Yin (2014).
- After the interview procedures were prepared, the researcher called or emailed the interviewees to invite them to participate in the interviews and also, to arrange to send them the (1) questions and (2) draft case study reports, in advance.
- If there was no response from the interviewee, a follow-up call was made (or email was sent).
- The interviewees were allowed to select the type of interview they prefer, venue and day/time for the interview.

- At the beginning of the interview, the interviewees were asked for their permission to record the interview.
- After the interview, the researcher played the recordings of the interviews and transcribed them.
- Next, the information collected through the interviews was aligned or triangulated to the information collected via the questionnaire and the IASB member, and interpretations were developed using textual analysis.
- Thereafter, the above information that was confirmed with the participants was used to (1) update the case study reports, and to (2) develop the diagrams linking research questions, for comparison to the five theories, and determine the reporting incentives in the context of South Africa.

Lastly, in accordance with the selected paradigm, the interviews have the disadvantage that they are reflexive because interviewees said what the researcher wanted to hear, or maybe, they have inaccuracies (Yin, 2014).

Yin (2014) argues that one of the principles underlying the benefits of all the sources of evidence is the creation of a case study database. Thus, various field notes are kept in this dissertation as case study database. These are handwritten notes (also, in a diary), printed documents (e.g. written responses by the participants), phone recordings, and electronic documents. For example, the important documents relevant to this dissertation are emails, questionnaires, interview recordings and the researcher's notes. With regard to the interview recordings, the researcher has used a Boldbeast Call Recorder application to record voice interviews in the mobile phone. Further, after each interview, the researcher transcribed the voices of the participants in a blank A4 paper in order to analyse the collected evidence using textual analysis. The textual analysis is employed in a similar way. Maroun and van Zijl

(2016) use open codes to group the contents of transcribed interviews. Lastly, throughout the above processes, the ethical principles of confidentiality, anonymity, and protection of privacy were observed.

3.6 The quantitative approach

This dissertation uses a quantitative approach to collect empirical data. In order to enhance and complement the findings of the case study method regarding (1) unlisted companies' experiences in using IFRS, and (2) the factors which act as incentives for unlisted companies to continue to report using IFRS. Thus, the quantitative approach provides data for complementary reason in this dissertation (Leedy & Ormrod, 2014).

3.7 Population and sampling

The relevant data was obtained in the following ways. First, in November 2017, the researcher requested a list of all the active companies registered at Companies and Intellectual Property Commission (CIPC) and he was supplied with a spreadsheet with over 200,000 small and medium companies. However, the list did not include all the registered unlisted companies in South Africa, but it was extensive enough to be usable in this dissertation. Then, the list was stratified in accordance with the nine provinces of South Africa. Unlisted companies for each province were copied and pasted onto a separate worksheet. Then, on each worksheet 60 companies were haphazardly selected, which means that a sample of 540 companies was selected and questionnaires sent by mail. However, 48 questionnaires did not reach the intended companies because the postal addresses or boxes are closed, incorrect, or receiver unknown and were returned. Thus, a remaining sample was 492. A total of 9 completed questionnaires were returned from 492 questionnaires that were successfully sent through the post office.

Second, the researcher requested current and former colleagues and attendees at the 2018 SME Expo and at the 2018 Business Day TV SME Summit and conducted walk-ins to some companies to complete the questionnaire (See Appendix C). A total of 33 completed questionnaires were obtained through this method, but one questionnaire was excluded because it was from a listed company

In conclusion, five hundred and twenty four (524) questionnaires (consists of 492 and 33 questionnaires) were distributed to participants, of which 41 completed the questionnaire and those were returned. Thus, the final completed questionnaires were 41, and this makes a response rate to be 7.8%. Even though the response rate is low, other studies by Chamisa (2000), Mir and Rahaman (2005), Baldarelli et al. (2012), Albu et al. (2013) and Rudzani and Manda (2016) have used sample sizes as small as 22 companies to 40 companies, hence the returned questionnaires for this dissertation are considered sufficient. The justification for distributing 524 questionnaires is that Leedy and Ormrod (2014) argue that in a population of above 5,000 companies, a sample size of 400 companies is adequate because the effect of each additional participants' response will be insignificant in terms of such a population.

3.8 Survey method

Tanur (1982) defines a survey as an instrument of gathering information about the characteristics, actions, or opinions of a large group of people, referred to as a population. According to this dissertation, the population relates to unlisted companies in South Africa which the survey is distributed to in order to investigate their experiences, attitudes, and objectives regarding their IFRS use, and (2) the factors which act as incentives for unlisted companies to continue to report using IFRS. Yin (2014) argues that surveys are appropriate to

answer research questions with ‘what’ questions. For example, in this dissertation the following question could be answer with a survey: what are unlisted companies’ experiences, attitudes, and objectives in South Africa with regard to IFRS use? What are the factors which influence unlisted companies’ IFRS compliance? And, if the factors could be incorporated in the IFRS, will they improve compliance? Thus, in addition to answering the above research question, the justification for selecting a survey method is to enhance the quality of the findings in this dissertation.

Survey data collection and analysis

In this dissertation, the questionnaires were sent to the sample of 532 companies, and the questions in the questionnaires were modified from the questionnaire that was used under the case study method. The researcher tried to shorten and move the key questions in the front of the questionnaire (See Appendix C). The questionnaires comprise four sections (see Appendix C). These are as follows. Section 1 relates to the factors influencing IFRS use. Section 2 deals with information about IFRS use. Section 3 ascertains normative beliefs and the prediction of continuing use. Section 4 asks about company information and respondents details.

Further, the following steps were used to collect and analyse the data in terms of the questionnaires:

- After the questionnaire was prepared, it was sent via the post office to the participants.
- The researcher bought over 1 000 C4 stamped envelopes, a box of blank papers and mailing labels.

- Each time, a completed questionnaire was received, the researcher read the information supplied in order to determine its adequacy and determine whether (or not) it is already captured on Google Forms.
- If it is not captured, the researcher captured the completed questionnaire on Google Forms.
- After the information was grouped, it was analysed by identifying similarities (or common characteristics) and contrasts using a textual analysis (UVSC, n.d.), with other collected data.

The researchers note that questionnaires have the following disadvantages (Surrey, n.d.; Leedy & Ormrod, 2014): lacks validity, there is no way to tell how truthful a respondent is being, sometimes its length may be long, suffer from poor response rate, the respondent may be forgetful or may not think within the full context of the situation, people may read different meanings into each question and thus reply based on their own interpretation of the question; namely, what is 'good' to someone may be 'poor' to someone else, and the process of coding in the case of open-ended questions enables a significant possibility for subjectivity by the researcher. The issues highlighted above are reduced by the fact that the survey is not the only method used in this dissertation to collect data.

3.9 Analysis

This dissertation's analysis proceeds in four stages. In stage 1, the data, which are obtained via interviews and questionnaires, are analysed by working through them to form an impression of the respondents' experiences (using textual analysis). As suggested by Yin (2014), the aim is also to identify patterns which could lead to possible relationships or rival explanations in terms of examining the effect of identified factors on IFRS compliance for unlisted companies. In addition, heuristics is used to analyse or group the information

obtained through the questions in order to answer this dissertation's research questions, especially research question 2(a). Heuristics determine the factors (and theoretical frameworks) which seem to be most important and which may have been considered by a country or standard-setting body and when determining the effect of adopting IFRS on unlisted companies. Patton (2002, p.487) cites Craig (1978), who defines heuristic analysis as 'an organisation of the data for oneself, a clarification of patterns for oneself, a conceptualisation of concrete subjective experience for oneself, an integration of generic meanings for oneself, and a refinement of all these results for oneself'. In the literature review, the following themes are used: global context, national context, and company level. Each of the themes is assigned a number of key indicators. For example, within the national context, a legal factor has 'complying with laws' as an indicator. Thus, the findings chapter considers the number of times each indicator is selected and/or associated with IFRS and other indicators in order to determine the factors' influence (i.e. global, legal, economic, professional and cultural, governance, people, operations and resources, and company characteristic factors) on IFRS compliance by unlisted companies.

Guba and Lincoln (1989) argue that theories and facts are interdependent. Accordingly, the indicators for factors (or factors) identified in this dissertation under literature review section are linked to, or used as the measures for, the five theories. The justification of this approach is that Guba and Lincoln (1989) argued that the research under the qualitative approach is a human construction, therefore there is no construction that is incontrovertibly right. Hence,

- Decision-usefulness theory is represented by the issues, which are: benefits or value attained from using IFRS, indicators related to operations, and global factors.

- Agency theory is represented by the issues, which are: existence of principal-agent relationship, existence of performance contracts for executive managers, and type of experience and attitude regarding IFRS.
- Stewardship theory is represented by the issues, which are: the alignment between the company/shareholder goals or needs with IFRS, indicators related to the people working with IFRS and economic factors.
- Stakeholder theory is represented by the issues, which are: reasons for preparing IFRS compliant financial statements, and type of experience and attitude regarding IFRS.
- Institutional theory is represented by the issues, which are: the lack of benefits or value attained from using IFRS, a company's legal type, the company's number of operational years, and type of experience and attitude regarding IFRS.

In addition, the industry in which a company operates, the position of a company as unlisted, a company's size, and company's use of external auditors are not assigned to any one of the five theories, because in this dissertation they are considered to be relevant to all the five theories. Further, an important tool that is used in this dissertation on the 41 completed questionnaires is Google Forms. All these completed questionnaires were captured on Google Forms, and it provided descriptive data of the captured information in words, several diagrams and figures that were also analysed as mentioned above.

In stage 2, the information obtained from each of the five sampled unlisted companies is compared with the theoretical propositions of the five theories. In stage 3, the combined information for the five sampled unlisted companies is compared again to the theoretical propositions in order to build a general explanation which fits each individual case, even though the cases vary in details. Any information that does not agree with the theoretical propositions, the different data are used to recommend revision to the theories relevant to

unlisted companies. Further, in this dissertation, the data from the nationwide survey (41 companies) is used to verify the model which explains the indicators that appear to influence unlisted companies' IFRS use at company level. In stage 4, the researcher analyses the collected data, comparing them to the theories and to the definition of an incentive. For example, if an indicator is interpreted as a reward for an unlisted company (or for the sample companies) after it has been aligned to prior literature and the relevant theories (i.e. stakeholder theory, a consequential wing (or both branches) of the decision usefulness theory, and stewardship theory), the researcher concludes that such an indicator is a reporting incentive for IFRS implementation.

3.10 Quality

Yin (2014) argues that case study research has the following criteria which must be used as guidelines for judging research design quality. These criteria are construct validity, internal validity, external validity, and reliability. Thus, for this dissertation, the following are used to test the criteria.

- Linking the case study method to the dissertation's objective.
- Logic linking every chapter of the dissertation. Ciao (2011) highlights the importance of consistency between research questions and the case study methods which are used.
- Replicating cases leads to theoretical generalisation; however, statistical generalisation is not achieved.
- Using multiple sources of evidence. The information collected through questionnaires is corroborated with interviews, to the suggested model, and to the IFRS.
- Linking reliability to truth. Truth means reasonable, accurate, and believable data (or results) rather than data which are true in an absolute sense. Thus, reliability is achieved

by using the collected data. In addition, each individual case study draft report is sent to the respective participants for review (Yin, 2014).

One of the limitations of the selected instruments to collect data is that some respondents may paint a positive picture which differs from the prevailing situation (Yin, 2014); hence, the validity of answers is confirmed by sending each of five interviewed companies its case study report for review or proof reading.

3.11 Conclusion

In conclusion, this chapter discusses the mixed methods approach, interpretive paradigm, the case study and survey methods which are employed when conducting the research, and how the collected data are analysed (also see Figure 2). In addition, it discusses a sampling strategy which leads to the selection of information-rich cases and sampled unlisted companies in South Africa which are examined. In terms of the data collected, there were 41 completed questionnaires received, and five interviews conducted. This dissertation uses both qualitative and quantitative methods for the collection of data, however it analyses data using

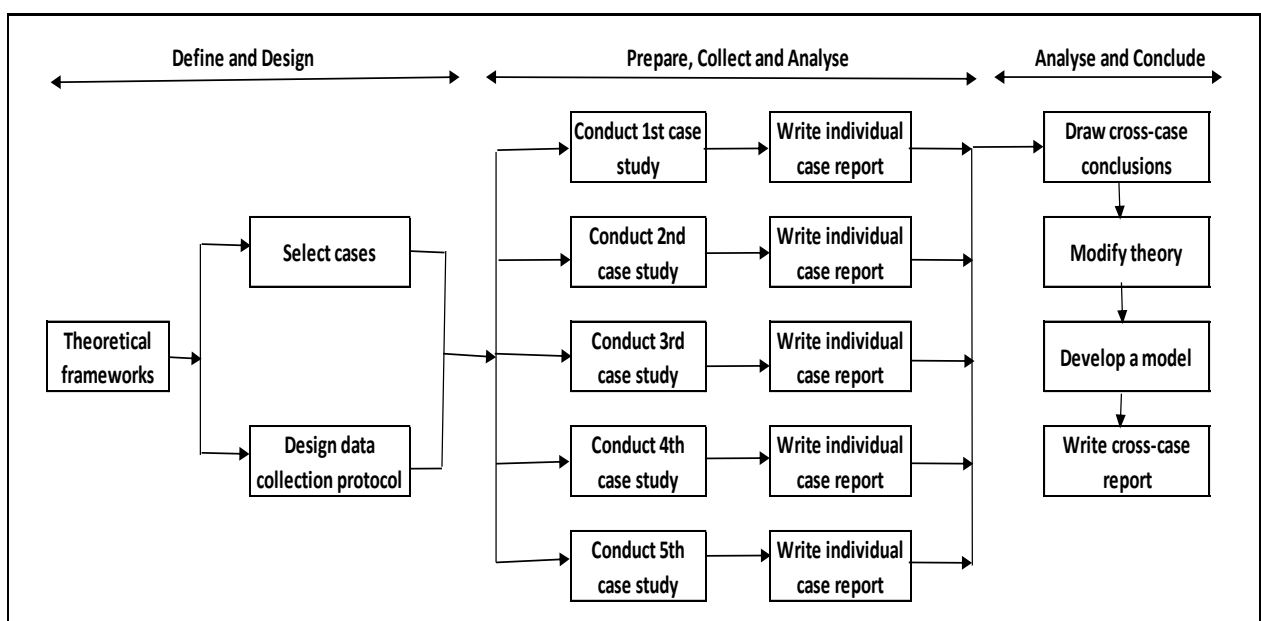


Figure 2: Multiple-case study procedure (Yin, 2014. p.60).

both a qualitative approach and descriptive statistics. Further, Johnson and Onwuegbuzie (2004) argue that the differences in epistemological beliefs between qualitative and quantitative approaches may not prevent a qualitative researcher from using data collection methods that are more associated with quantitative research. The chapter also considers the steps which are applied to assess the research method's quality. Further, to ensure validity of the findings of this dissertation, three approaches are used. First, the information provided in the questionnaires was completed by the participants in the absence of the researcher. This, then led to the interviews to be used to confirm the information gathered and to collect missing information. Second, the interviews were recorded. The researcher transcribed, analysed and reported participants' views in order to achieve completeness and accurate reporting. Third, all the five case studies (5) were cross-analysed or triangulated and their findings were converged and verify or updated with the data collected from the 41 sampled companies.

This dissertation is conducted by bearing in mind the limitations highlighted by Phillips and Ahmadi-Esfahani (2008), especially the limitation about the requirement for company-level data in these types of research, which, although available, are scarce. The researcher went through a strenuous exercise of collecting data because some of the companies he invited for this research study chose not to participate. Further, the case study method has weaknesses, which are similar to the weakness of a qualitative research approach. These are its rigorousness, the potential for confusion with other cases, its generalisability, its unmanageable level of effort, and its unclear comparative advantage (Yin, 2014).

Chapter Four: Findings

4.1 Introduction

First, five unlisted companies participated in this dissertation's survey. In the first round, a questionnaire with various types of questions was handed or emailed to the participants. Then, the data for this dissertation was collected over a period of less than five months. The first batch of questionnaires was sent on the 16 March 2016, and the last completed questionnaire was returned on the 31 July 2016. In addition, a total of five interviews were carried out as shown in Table 3. Second, a nationwide survey was conducted by sending questionnaires to over 524 companies, before the end of January 2018. This chapter presents and discusses the results of the five case studies relating to the five unlisted companies which were interviewed, and nationwide questionnaire. The results are of the experiences and attitudes of unlisted companies in using IFRS, the indicators which act as incentives for unlisted companies to report IFRS use, the predictions of companies' IFRS compliance, and the responses to other research questions posed in chapter one.

Table 3—Summary of interviews

Companies	Interviewee's position	Type of interview	Date	Duration
A	Director/manager	Telephone	12 Dec 2016	13 minutes
B	Financial manager	Provided a written response to the interview questions*	06 Jan 2017	N/A
C	External auditor	Face-to-face	25 Jan 2017	19 minutes
D	Head of department	Face-to-face	18 Dec 2016	25 minutes
E	Head of department	Telephone	09 Dec 2016	34 minutes

*The day before the scheduled interview day, the interviewee requested cancellation of the interview because something urgent had come up at his office that needed his attention. Thus, he was unsure at what time he was going to be available beyond this date. Hence, he kindly emailed the researcher his answers to the interview questions.

4.2 CASE STUDY 1

4.2.1 Company profile

Company A is an audit firm with nine offices over nine provinces. The company offers auditing, taxation, and accounting services and has 13 shareholders who are also executive directors. Company A has been operating for 20 years at the time of this dissertation. This company was selected because it was my prior employer and I have sufficient access to its management. At Company A, Mr M was assigned to assist me with this dissertation. Mr M is a partner/director in Company A and has been working at the company for more than eight years.

Mr M indicates that his company prepares financial statements using IFRS for SMEs in order to report financial information to shareholders, enable decision-making, and comply with legal and tender requirements. The annual financial statements of Company A are prepared by an employee of the company. Mr M says that the preparer of his company's financial statements has a chartered accountant (South Africa) CA (SA) qualification and has 18 years of experience in preparing annual financial statements. The turnover of Company A for the year ending 30 October 2015 ranges between R20 million and R35 million. Table 4 presents detailed information on Company A.

Table 4 — Company A Information	
Legal type	Personal liability company
Industry	Finance
Types of good & service	Audit and accounting
Years in operation	20
Number of offices	Nine offices in nine provinces
Number of full-time employees	70
Number of executive directors	13
Number of shareholders	13
Managerial experience of executive directors (years)	130+
Body/persons in authority	Executive directors
Foreign shareholding	10%
Executive shareholding	100%
Name of external auditors	Porter & Gomer Inc.
Latest audit opinion	Unqualified
Latest annual financial statements (AFS)	Oct. 2015
AFS were prepared by	An accountant
Experience of the preparer	18 years
Qualification of the preparer	CA (SA)
Is the preparer outsourced or a staff member?	Employee of the company
Reporting framework	IFRS for SMEs

4.2.2 IFRS experience, attitude

Mr M does not indicate any problems which the company has had to deal with when implementing IFRS. However, Mr M expresses that he wishes the ‘financial instruments to be simplified, or done away with’. In addition, his perception of IFRS regarding his company is good because he sees IFRS as being

‘internationally recognised’.

Mr M describes his experience of using IFRS as follows.

'I started using IFRS as an audit clerk in 2003, three years after it was first adopted in Zimbabwe. After studying the British Statements of Standard Accounting Practice (SSAP) which was similar, being introduced to IFRS appeared a more comprehensive set of accounting standards. One of the perceived benefits of a single set of high-quality, globally accepted accounting standards is that investors can read a set of financial statements of any company, understand the financial results, and make comparisons to the results of other companies.'

'It was always a challenge to apply the new standards especially when the country became hyperinflationary and required to apply IAS29. The standard required financial to be restated for the changes in the general pricing power of the functional currency (Zim \$). Currently in South Africa, we apply IFRS and IFRS for SMEs for our clients. The introduction of IFRS for SMEs reduced the cost of reporting by simplifying the reporting framework.'

Moreover, Mr M expresses a positive attitude towards IFRS. He likes using financial statements prepared in accordance with IFRS because

'they are commonly used which means IFRS makes financial statements which are comparable'.

Lastly, Mr M says that his management team's opinion of IFRS is that

'IFRS are very comprehensive but they need to be simplified for SMEs and complied with'.

4.2.3 Indicators

The questionnaire was emailed for the purpose of ascertaining the indicators which Mr M perceives to have had an impact on his company's IFRS compliance. Later, the indicators

were confirmed with him in the telephone interview. Interestingly, he indicates that the following indicators have helped his company to comply with IFRS a great deal: familiarity with IFRS content among his company's employees; his company's financial performance, position, cash flows, and future prospects; and the existence (or non-existence) of non-executive directors. With regard to the following factors, he indicates that these have helped his company to comply with IFRS a fair amount: the comparability of financial statements prepared using IFRS, the understandability of financial statements prepared using IFRS, international recognition of IFRS, the industry in which his company operates, his company's size, tender requirements, compliance with the law, his company's legal type, dividend payments, his company's debt/equity ratio, and the way in which IFRS help his company to attain its goals. The foregoing may be construed as indicative of factors which are positively associated with IFRS compliance in Company A. In addition, Mr M says that *'the use of IFRS followed a consensus of the directors'*.

Mr M also indicates that the following factors have no effect on his company's compliance with IFRS: the types of service his company renders, the position of his company as unlisted, the use of external auditors, no involvement in exporting or importing, no labour representatives, IFRS implementation costs, and the lack of FRSC visibility. These factors may be construed as indicative of factors which are negatively associated with IFRS compliance in Company A.

4.2.4 Self-prediction

The self-prophecy questions used in the questionnaire are similar to those used in prior research (e.g. Sprott et al., 1999). They include prediction and normative beliefs. For example, Mr M is asked to provide a prediction.

Suppose the IFRS take into account all the issues you raised above. How likely or unlikely would your company be to continue or start producing IFRS-compliant financial statements?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

In response to the above question, Mr M ticked the first box (i.e. a great deal). Further, he was asked to rate his company’s normative beliefs on five-point scales. Thus, five normative belief statements were used to measure the extent to which Mr M thinks that it is appropriate to comply with IFRS. The statements are based on prior research on normative beliefs and worded as follows in order to reduce social desirability bias (see Fisher, 1993; Rook & Fisher, 1995; Sprott, Spangenberg, & Fischer, 2003). The statements are: ‘I know that other companies similar to ours go to great lengths to comply with IFRS’, ‘I know that other companies similar to ours think that it is important to comply with IFRS’, ‘I know that most other companies similar to ours take steps to produce IFRS-compliant financial statements’, ‘I know that other companies similar to ours are concerned about excessively onerous or tedious IFRS requirements’, and ‘I know that other companies similar to ours should comply with IFRS’. In response to the five statements, Mr M selected the first box (i.e. ‘a great deal’) for all the normative beliefs. This means that Mr M’s answers indicate a strong normative belief. In response to the research question 2(e), according to the above and the interview held, namely, Mr M’s prediction and the normative beliefs towards IFRS use, it seems more likely that Mr M’s company will continue to comply with IFRS.

4.2.5 Case study 1 – analysis

In relation to research question 1: the analysis of Company A’s experience of and attitude towards using IFRS, Mr M says that his background and formal education has helped him in

using IFRS. Also, he highlights the degree of difficulty of using new accounting standards. Nonetheless, in recent times his company has been using IFRS for SMEs. It appears as though the experience of Company A in using IFRS is good and that Company A is showing a positive attitude towards IFRS. These findings support Kılıç et al. (2014), Rudzani and Manda (2016) who reported that the ongoing exposure, education and training in IFRS increases participant's knowledge or experience of accounting, hence they are inclined to be optimistic about IFRS. Further, some of the apparent reasons for Company A's experience is the comparability and IFRS is used widely. The evidence supports the decision usefulness theory that the IFRS are useful to Company A.

In response to research question 2(a) about the indicators which act as incentives for unlisted companies to report IFRS use, it appears at company level as though Company A has strong governance, financially knowledgeable people who prepare its financial statements, operational activities and resources, and characteristics which positively help it to comply with IFRS. At country level, the professional accounting body and the reporting culture which exists in South Africa have a strong influence. This influence is noticeable in Company A's IFRS use. In addition to the professionalism of the company's preparers of financial statements, it appears as though the company complies with South African laws (including taxation and banking regulations). Lastly, the company and Mr M appear to perceive that the company is deriving some benefits from IFRS use. This means that Company A's findings support Al-Shammari et al. (2008), Guerreiro et al. (2008), Barth et al. (2012), and IASCF (2012) findings and arguments that the country's law requirements, comparability of IFRS, understandability of IFRS and the status of being involved in the accounting profession do influence a company to use IFRS. For example, Mr M says that he likes using IFRS because it is internationally recognised, understandable and comparable.

These benefits are three of those that standard-setters, researchers, and companies at the international level generally agree upon. In addition to the decision usefulness theory mentioned above, the evidence supports the stakeholder theory that powerful stakeholders, such as the tax authority and banks, are prioritised by this company. Thus, based on these findings the influence of the mixed legal system is confirmed.

4.3 CASE STUDY 2

4.3.1 Company profile

Company B operates in a retail sector with two offices in Limpopo province. The company sells vehicles, parts, and services vehicles, and has one shareholder. Company B has been operating for 15 years at the time of this dissertation. This company was selected because it was willing to participate in this study. At Company B, Mr G assisted me with this dissertation. He is a financial manager and head of the finance department at Company B.

Mr G indicates that the purposes of preparing the financial statements of his company are for compliance with the law and measuring the profits. The annual financial statements of Company B are prepared by using IFRS for SMEs by an employee of the company. Mr G says that he is responsible for preparing his company's financial statements and has 16 years of experience. Company A's turnover for 2015 ranges between R100 million and R50 billion. Table 5 presents detailed information on Company B.

Table 5—Company B Information	
Legal type	Close corporation
Industry	Retail
Types of good & service	Selling vehicles, servicing vehicles, and supplying parts
Years in operation	15
Number of offices	Two offices in one province
Number of full-time employees	130
Number of executive directors	2
Number of shareholders	1
Managerial experience of executive directors (years)	25+
Body/persons in authority	Directors/owners
Foreign shareholding	0%
Executive shareholding	100%
Name of external auditors	Diemont, Zimmerman and Bolink
Latest audit opinion	Unqualified
Latest annual financial statements	2015
AFS were prepared by	Financial manager
Experience of the preparer	16 years
Qualification of the preparer	Degree
Was the preparer outsourced or a staff member?	Employee of the company
Reporting framework	IFRS for SMEs

4.3.2 IFRS experience, attitude

Mr G does not indicate any problems which the company has had to deal with when implementing IFRS. However, Mr G expresses that he wishes the ‘IFRS to be simplified, because some standards are still complex for a small business’. Mr G also says ‘it can be costly to maintain proper accounting records’. Mr G’s perception of the effect of IFRS on his company is good because he says that

'IFRS make financial data comparable and reliable. Also, it gives financial statement preparers or readers assurance that the contents of a set of financial statements were prepared on the same basis. Further, it sets out the rules, and accountants like rules.'

Mr G describes his experience of using IFRS as follows.

'At the start it was very daunting. Having done my articles at a Big Four firm, this certainly helped me a lot with understanding IFRS. I feel that in modern times, reporting has become very onerous. People are only doing it because it is required by legislation. To me, it is the management accounts that are most important. To analyse departmental profit/losses is far more exciting than drafting a set of financials.'

Overall, Mr G expresses a positive attitude towards IFRS. He says that he likes using financial statements prepared in accordance with IFRS because

'IFRS gives financial statement preparers and readers assurance that the contents of a set of financial statements were prepared on the same basis'.

Lastly, Mr G says that his management team has no opinion regarding IFRS.

'They have a fair understanding of the basic principles of accounting, but they do not know about IFRS. Because IFRS does not affect them at operational level.'

4.3.3 Indicators

The questionnaire was hand-delivered to Mr G's office for the purpose of ascertaining the indicators which he perceives to have an impact on his company's IFRS compliance. Later, the indicators were confirmed with him in the written interview. Mr G indicates that the following factors have helped his company to comply with IFRS a fair amount: the

comparability of financial statements prepared using IFRS, the company's size, his company's use of external auditors, compliance with the law, and measurement of his company's profits. Insignificant costs were also incurred when implementing IFRS. The foregoing may be construed as indicative of factors which are positively associated with IFRS compliance in Company B.

Mr G also indicates that the following factors have no effect on his company's IFRS compliance: the types of good it sells and services it renders; the industry in which his company operates; his company's lack of involvement in exporting or importing; his company's financial performance, position, cash flows, and future prospects; labour representatives; the lack of FRSC visibility; and the fact that IFRS are not helping his company to attain its goals. These factors may be construed as indicative of factors which are negatively associated with IFRS compliance in Company B.

4.3.4 Self-prediction

Mr G selected the second box (i.e. a fair amount) regarding his prediction whether his company will continue to use IFRS, assuming that the standards take into account all the changes he has suggested. Further, he was asked to rate his company's normative beliefs on five-point scales. Thus, five normative belief statements were used to measure the extent to which Mr G thinks that it is appropriate to comply with IFRS. In response to the five statements, Mr G selected the first box (i.e. a great deal) for 'I know that other companies similar to ours should comply with IFRS'; the second box (i.e. a fair amount) for 'I know that other companies similar to ours think that it is important to comply with IFRS' and 'I know that most other companies similar to ours take steps to produce IFRS-compliant financial statements'; and the middle box (i.e. no comment) for 'I know that other companies similar to

ours go to great lengths to comply with IFRS’ and ‘I know that other companies similar to ours are concerned about excessively onerous or tedious IFRS requirements’. The average of his answers places his normative beliefs at ‘a fair amount’, which means that Mr G’s answers indicate a strong normative belief. In response to the research question 2(e), according to the above, namely Mr G’s prediction and the normative beliefs towards IFRS use, it seems more likely that his company will continue to comply with IFRS.

4.3.5 Case study 2—analysis

In relation to research question 1: the analysis of Company B’s experience of and attitude towards using IFRS. Mr G says that his formal education and training has helped him in using IFRS. Also, he highlighted that there is a high degree of difficulty for novice users to use IFRS for novice users. However, in recent times, because of his continuous use of IFRS, its degree of difficulty has reduced. He indicated that generally companies use IFRS to comply with the law. This view supports Schutte and Buys’ (2011) findings who found that most unlisted companies use IFRS for the purposes of formality only and not necessarily for informational and decision-making purposes. It appears as though the experience of Company B in using IFRS is good. This finding supports Rudzani and Manda’s (2016) findings who found that the education and training in IFRS increases participant’s knowledge or experience of accounting, hence they are inclined to be optimistic about IFRS. Further, Mr G’s attitude towards IFRS suggests that he is tolerant of IFRS, but somewhat cautious because he says that he prefers to use management accounts as compared to IFRS. Nonetheless, the evidence supports the decision usefulness theory that the IFRS are useful to Company B and also supports the stakeholder theory that powerful stakeholders, such as the tax authority, influence Company B’s IFRS use.

In response to research question 2(a) about the indicators which act as incentives for unlisted companies to report IFRS use, at company level it appears as though Company B has a simple governance structure, a small accounting department, strong operations, and characteristics which are not negative with regard to IFRS compliance. In addition, Company B has external auditors which help it to comply with IFRS. At country level, the professional accounting body and the reporting culture which exists in South Africa have a strong influence. This influence is noticeable in Company B's IFRS use. In addition to the reporting culture of the company's preparers of financial statements, it appears as though the company complies with South African laws. This means that Company B's findings support Ali et al. (2004), Al-Shammari et al. (2008), Barth et al. (2012), and IASCF (2012) findings and arguments that the country's law requirements, comparability of IFRS, understandability of IFRS and level of enforcement do influence companies to comply with IFRS. Lastly, the company and Mr G appear to perceive that some benefits are derived from IFRS use. For example, Mr G says that he likes using IFRS because it is comparable and leads to fair representation. These benefits are some which standard-setters, researchers, and companies at the international level generally agree upon. In line with the decision usefulness and stakeholder theories mentioned above, the evidence in relation to research question 2 supports both theories. Further, based on these findings the influence of the mixed legal system is confirmed.

4.4 CASE STUDY 3

4.4.1 Company profile

Company C operates in the construction sector with six offices over two provinces and it has subsidiaries in Zambia and Namibia. The company has six shareholders and has been operating for 24 years at the time of this dissertation. This company was selected because it

was willing to participate in this study. At Company C, Mr S assisted me in this dissertation because he is an external auditor of Company C.

Mr S indicates that the purposes of preparing the financial statements for Company C are for the reporting of financial information to shareholders, for decision-making, and tender applications. At the time of this study, the annual financial statements of Company C are prepared using the full IFRS by an employee of the company. Mr S says that the financial manager is responsible for preparing Company C's financial statements. The financial manager has 15 years' experience of preparing annual financial statements. Further, Mr S indicates that Company C will be converting to IFRS for SMEs for the 2016 financial year. The turnover of Company C for 2015 ranges between R100 million and R50 billion. Table 6 presents detailed information on Company C.

Table 6—Company C Information	
Legal type	Private company
Industry	Construction
Types of good & service	Civil engineering contractors
Years in operation	24
Number of offices	Six operations in two provinces
Number of full-time employees	345
Number of executive directors	Three
Number of shareholders	Six
Managerial experience of executive directors (years)	75+
Body/persons in authority	Board of directors
Foreign shareholding	0%
Executive shareholding	25%
Name of external auditors	Diemont, Zimmerman and Bolink
Latest audit opinion	Unqualified
Latest annual financial statements	2015
AFS were prepared by	Financial manager
Experience of the preparer	15 years
Qualification of the preparer	CA (SA)
Was the preparer outsourced or a staff member?	Employee of the company
Reporting framework	IFRS

4.4.2 IFRS experience, attitude

Mr S does not indicate any problems which the company has had to deal with when implementing IFRS. However, Mr S states that Company C's perception of IFRS and its management team is bad. He says that they do not like using IFRS because they see IFRS as being

'very complicated for a private company. Company C was original a family company that has sold some of its shares to some of its employees. Thus, it is owned by a small group of people and they are all much involved in the management of the company. Using full IFRS is such a waste of time, because their company doesn't get added

benefit from using it. Rather, it requires extra time and costing them extra money to implement.'

Mr S describes the experience of Company C of using IFRS as follows.

'It's too onerous for the company. The company does not have the staff with knowledge or expertise to prepare financials on full IFRS.'

Further, Mr S expresses that he wishes the

'IFRS to be simplified and there is no need for consolidation'.

Lastly, Mr S says the following in support of Fox et al. (2013) finding

'I think the important accounting issues are all addressed, but it is over-complex for unlisted entities, especially the consolidation requirement and credit risks disclosures. This is of no use to the average private business and just carries additional costs'.

4.4.3 Indicators

The questionnaire was handed to Mr S during a workshop which was held in Polokwane for tax updates. The purpose of the questionnaire was to collect data for this dissertation. Later, the information obtained through the questionnaire was confirmed with him in the face-to-face interview. Mr S indicates that his familiarity with the content of IFRS, and the familiarity of the financial manager of the company with the content of IFRS, have helped the company to comply with IFRS a great deal. With regard to the following indicators, Mr S says that they have helped the concerned company to comply with IFRS a fair amount: the comparability of financial statements prepared using IFRS and the company's return on investment, foreign subsidiaries and tender requirements. The foregoing may be construed as indicative of indicators which are positively associated with IFRS compliance in Company C.

Mr S also says that the following indicators have no effect on the concerned company's IFRS compliance: the types of good it sells and services it renders; the existence of non-executive directors; the company's financial performance, position, cash flows, and future prospects; the company's size; the position of the company as unlisted; no involvement in exporting or importing; labour representatives; IFRS implementation costs; the lack of FRSC visibility; and the fact that IFRS are not helping the concerned company to attain its goals. These indicators may be construed as indicative of indicators which are negatively associated with IFRS compliance in Company C.

4.4.4 Self-prediction

Mr S selected the first box (i.e. a great deal) regarding the prediction whether the concerned company will continue to use IFRS, assuming that the standards take into account all the changes he has suggested. Further, he was asked to rate the concerned company's normative beliefs on five-point scales. Thus, five normative belief statements were used to measure the extent to which Mr S thinks that it is appropriate to comply with IFRS. In response to the five statements, Mr S selected the first box (i.e. a great deal) for 'I know that other companies similar to ours are concerned about excessively onerous or tedious IFRS requirements'; the second box (i.e. a fair amount) for 'I know that other companies similar to ours should comply with IFRS'; and the fourth box (i.e. not very much) for 'I know that other companies similar to ours go to great lengths to comply with IFRS', 'I know that other companies similar to ours think that it is important to comply with IFRS' and 'I know that most other companies similar to ours take steps to produce IFRS-compliant financial statements'. The average of his answers places the concerned company's normative beliefs in the centre box, which means that Company C has a neutral normative belief. In response to the research question 2(e), according to the above, namely Mr S's prediction and the normative beliefs

towards IFRS use of the concerned company, it seems more likely that the concerned company will continue to comply with IFRS.

4.4.5 Case study 3—analysis

In relation to research question 1: the analysis of Company C's experience of and attitude towards using IFRS, Mr S says that there are few qualified people to implement IFRS in Company C, which means this increases the degree of difficulty in implementing IFRS. Thus, it appears as though Company C's experience of using IFRS is negative. Further, Company C's perception of and attitude towards IFRS is bad, because this company feels like IFRS compliance leads to additional costs. The evidence supports the institutional theory that Company C uses IFRS in order to maintain legitimacy and the agency theory that executive management is interested in generating profits thereby increase their wealth. However, the above findings are in contrast to Kılıç et al.'s (2014) findings who found that there was no significant effect of experience of accounting professionals on their perception of IFRS.

In response to research question 2(a) about the indicators which act as incentives for unlisted companies to report IFRS use, at company level it appears as though Company C has strong governance, operational activities and resources, a knowledgeable financial manager who prepares financial statements, and average characteristics (such as the company's size and others) which positively help it to comply with IFRS. In addition, Company C has external auditors which help the company to comply with IFRS. At country level, the professional accounting body and other institutions (e.g. those which call for tenders and contracts) and the reporting culture which exists in South Africa have a strong influence. This influence is noticeable in Company C's IFRS use. At international level, Company C has foreign operations that it consolidates; hence IFRS is used for comparability. Based on Scapens and

Varoutsas's (2010) argument, the rationale for this company to be influenced by external parties for its IFRS compliance, is because it wants to maintain its legitimacy, power relations between the principals and agents, and compete for resources against other similar companies. Lastly, the company and Mr S appear to say that the company derives no benefits from using IFRS. In addition to the institutional and agency theories mentioned above, the evidence supports the stakeholder theory that powerful stakeholders, such as government and auditors, are very influential in this company's IFRS use.

4.5 CASE STUDY 4

4.5.1 Company profile

Company D operates in the telecommunications, media, and advertising sector with two offices in Gauteng province. The company sells advertising content and airtime in the television industry and does not indicate how many shareholders it has. However, it is a non-profit company which is owned by the Soweto community. Company D has been operating for eight years at the time of this dissertation. The researcher obtained access to this company through a friend. At Company D, Mr AM and my friend completed this study's research questionnaire. Mr AM has been working at the company for over two years and is head of the finance department.

Mr AM indicates that the purposes of preparing the financial statements for his company are reporting to the Soweto community and attracting investors and sponsorship. The annual financial statements of Company D are prepared using the full IFRS by an employee of the company. Mr AM indicates that the preparer of his company's financial statements has an honours degree and three years of experience in preparing annual financial statements. The

turnover of Company D for 2015 ranges between R20 million and R50 million. Table 7 presents detailed information on Company D.

Table 7—Company D Information	
Legal type	Non-profit company
Industry	Telecommunications
Types of good & service	Sells content and airtime in TV industry (adverts)
Years in operation	Eight
Number of offices	Two operations in one province
Number of full-time employees	95
Number of executive directors	Six
Number of shareholders	0 (Owned by community)
Managerial experience of executive directors (years)	Not given
Body/persons in authority	Not given
Foreign shareholding	0%
Executive shareholding	0% (Owned by community)
Name of external auditors	Ernest & Young
Latest audit opinion	Unqualified
Latest annual financial statements	2015
AFS were prepared by	Financial manager
Experience of the preparer	Three years
Qualification of the preparer	Honours degree
Was the preparer outsourced or a staff member?	Employee of the company
Reporting framework	IFRS

4.5.2 IFRS experience, attitude

Mr AM indicates that the company encountered no problems during IFRS implementation. However, Mr AM expresses that he wishes the ‘IFRS could cater for small entities’. Mr AM’s perception of the effect of IFRS on his company is good because he says that

‘IFRS is internationally recognised’.

Mr AM describes his experience of using IFRS as follows.

'For me, I was fortunate in a sense that I was studying CTA, which involved financial accounting (i.e. IFRS). So it was easy to apply it practically.'

Overall, Mr AM expresses a positive attitude towards IFRS. He says that he likes using financial statements prepared in accordance with IFRS because

'IFRS makes reporting easier and it is easy for the stakeholders to interpret the results or whatever, we report using IFRS than when we just opt to use our own reporting framework'.

Lastly, Mr AM says that his management team's opinion of IFRS is that

'[the standards are] good for financial reporting'.

4.5.3 Indicators

The questionnaire was emailed for the purpose of ascertaining the indicators which Mr AM perceives to have an impact on his company's IFRS compliance. Later, the indicators were confirmed with him in the face-to-face interview. Mr AM says that the following indicators have helped his company to comply with IFRS a fair amount: the industry in which his company operates; the existence (or non-existence) of non-executive directors; his company's financial performance, position, cash flows, and future prospects; his company's use of external auditors; his company's legal type; his familiarity with the content of IFRS; and the fact that IFRS are helping his company to attain its goals, which are to attract investors and sponsorship. The foregoing may be construed as indicative of indicators which are positively associated with IFRS compliance in Company D.

Mr AM also says that the following indicators have no effect on his company's IFRS compliance: his company's size, the lack of FRSC visibility, and his company's lack of

labour representatives. These indicators may be construed as indicative of indicators which are negatively associated with IFRS compliance in Company D.

4.5.4 Self-prediction

Mr AM selected the second box (i.e. a fair amount) regarding his prediction about whether his company will continue to use IFRS, assuming that the standards take into account all the changes he has suggested. Further, he was asked to rate his company's normative beliefs on five-point scales. Thus, five normative belief statements were used to measure the extent to which Mr AM thinks that it is appropriate to comply with IFRS. In response to the five statements, Mr AM selected the second box (i.e. a fair amount) for 'I know that other companies similar to ours go to great lengths to comply with IFRS', 'I know that other companies similar to ours should comply with IFRS', 'I know that other companies similar to ours think that it is important to comply with IFRS' and 'I know that most other companies similar to ours take steps to produce IFRS-compliant financial statements'; and the last box (i.e. not at all) for 'I know that other companies similar to ours are concerned about excessively onerous or tedious IFRS requirements'. The average of his answers places his normative beliefs at 'a fair amount', which means that Mr AM's answers indicate a strong normative belief. In response to the research question 2(e), according to the above, namely Mr AM's prediction and the normative beliefs towards IFRS use, it seems more likely that his company will continue to comply with IFRS.

4.5.5 Case study 4—analysis

In relation to research question 1: the analysis of Company D's experience of and attitude towards using IFRS. Mr AM says that his formal education made it easy for him to use IFRS. It appears as though the experience of Company D in using IFRS is good and that Company

D shows a positive attitude towards IFRS. This is because of the ease of use and the understandability of IFRS by outsiders. These findings support Kılıç et al. (2014), Rudzani and Manda (2016) findings who found that the ongoing exposure, education and training in IFRS increases participant's knowledge or experience of accounting, hence they are inclined to be optimistic about IFRS. The evidence supports the stewardship theory that Company D uses IFRS because the executive management's motives are aligned with the objectives of their principals or company.

In response to the research question 2(a) about the indicators which act as incentives for unlisted companies to report IFRS use, at company level it appears as though Company D has a strong community involvement in its governance, a small accounting department, strong operations, and characteristics which are not negative with regard to IFRS compliance. In addition, Company D has reputable external auditors which assist the company to comply with IFRS. At country level, the professional accounting body and the reporting culture which exists in South Africa have a strong influence. This influence is noticeable in Company D's IFRS use. Further, Company D perceives IFRS to have economic value because the company wants to attract investors and sponsorship by using the standards. This means that Company B's findings support Schoole (2007), Guerreiro et al. (2008), and Lin (2012) findings and arguments who found that IFRS compliance may enable a company to attract investors. Lastly, the company and Mr AM appear to perceive that the company is deriving some benefits from IFRS use. For example, Mr AM says that he likes using IFRS because it is internationally recognised. This benefit is one of those which standard-setters, researchers, and companies at the international level generally agree upon. In line to the stewardship theory mentioned above, the evidence in relation to research question 2 supports this theory's view that some managers are driven by a long-term view of the company rather

than their individual goals. Further, based on these findings the influence of the professional accounting body and the reporting culture which exists in South Africa is confirmed.

4.6 CASE STUDY 5

4.6.1 Company profile

Company E operates in the technology sector with 10 offices over eight provinces. The company offers converged networks, client infrastructure, and storage and backup facilities, and has four shareholders. Company E has been operating for 20 years at the time of this dissertation. The researcher obtained access to this company through a friend. At Company E, Mr P completed my questionnaire. Mr P is head of a department at Company E.

Mr P indicates that the purposes of preparing the financial statements for his company are tax, reporting to shareholders, and compliance with the law. The annual financial statements of Company E are prepared using IFRS for SMEs by an employee of the company. Mr P also indicates that the preparer of his company's financial statements has a Chartered Institute of Management Accountants (CIMA) qualification and 11 years of experience in preparing annual financial statements. The turnover of Company E for 2015 ranges between R500 million and R1 billion. Table 8 presents detailed information on Company E.

Table 8—Company E Information	
Legal type	Private company
Industry	Technology (ICT)
Types of good & service	Converged networks, client infrastructure, storage & backup facilities
Years in operation	20
Number of offices	10 operations in eight provinces
Number of full-time employees	250
Number of executive directors	19
Number of shareholders	Four
Managerial experience of executive directors (years)	306
Body/persons in authority	Board of directors
Foreign shareholding	0%
Executive shareholding	70%
Name of external auditors	PricewaterhouseCoopers
Latest audit opinion	Unqualified
Latest annual financial statements	June 2015
AFS were prepared by	Group financial manager
Experience of the preparer	11 years
Qualification of the preparer	CIMA
Was the preparer outsourced or a staff member?	Employee of the company
Reporting framework	IFRS for SMEs

4.6.2 IFRS experience, attitude

Mr P indicates that most of the problems which the company has encountered in using IFRS occurred when there were changes in accounting standards. Company E addressed such problems by having further IFRS training. Mr P also expresses that he wishes that there could be an ‘alignment of IFRS with our country’s legislation, especially tax laws’. He highlights that training for non-financially literate staff must be improved in order to appreciate the importance of IFRS and enhance the company.

Mr P's perception of the effect of IFRS on his company is good because he says that

'IFRS are useful for global integration, improving transparency, and unifying business transactions'.

Mr P describes his experience of using IFRS as follows.

'It was complex at first and lacked clear understanding of its relevance. More exposure led to more appreciation and better understanding. Continuous use led to serious improvement and understanding of purpose.'

Overall, Mr P expresses a positive attitude towards IFRS. He says that he likes using financial statements prepared in accordance with IFRS because

'His company deals with international partners to negotiate terms and [IFRS has] global integration'.

Lastly, Mr P says that his management team's opinion of IFRS is as follows.

'They are very satisfied with IFRS as it enables them to compare between periods and peers and competitors.'

4.6.3 Indicators

The questionnaire was emailed for the purpose of ascertaining the indicators which Mr P perceives to have an impact on his company's IFRS compliance. Later, the indicators were confirmed with him in the telephone interview. Mr P says that the following indicators have helped his company to comply with IFRS a fair amount: the comparability and transparency of financial statements prepared using IFRS; international recognition of IFRS; the industry in which his company operates; his company's size; the existence (or non-existence) of non-executive directors; his company's financial performance, position, cash flows, and future prospects; the types of good it sells or services it renders; his company's involvement in exporting or importing; his company's unlisted status; his company's use of external auditors;

complying with the law; dividend payments; his company's return on investment; and the fact that IFRS help his company to attain its goals, including to attract investors. Interestingly, Mr P also says that the following indicators have helped his company to comply with IFRS a great deal: familiarity with the content of IFRS by the people in his company. The foregoing may be construed as indicative of indicators which are positively associated with IFRS compliance in Company E.

Mr P also says that the following indicators have no effect on his company's IFRS compliance: his company's lack of labour representatives, IFRS implementation costs, and the lack of FRSC visibility. These indicators may be construed as indicative of indicators which are negatively associated with IFRS compliance in Company E.

4.6.4 Self-prediction

Mr P selected the second box (i.e. a fair amount) regarding his prediction about whether his company will continue to use IFRS, assuming that the standards take into account all the changes he has suggested. Further, he was asked to rate his company's normative beliefs on five-point scales. Thus, five normative belief statements were used to measure the extent to which Mr P thinks that it is appropriate to comply with IFRS. In response to the five statements, Mr P selected the second box (i.e. a fair amount) for 'I know that other companies similar to ours go to great lengths to comply with IFRS', 'I know that other companies similar to ours should comply with IFRS', 'I know that other companies similar to ours think that it is important to comply with IFRS', and 'I know that most other companies similar to ours take steps to produce IFRS-compliant financial statements'; and the third box (i.e. no comment) for 'I know that other companies similar to ours are concerned about excessively onerous or tedious IFRS requirements'. The average of his answers places his normative

beliefs at ‘a fair amount’, which means that Mr P’s answers indicate a strong normative belief.

In response to the research question 2(e), according to the above, namely Mr P’s prediction and the normative beliefs towards the use of IFRS, it seems more likely that his company will continue to comply with IFRS. Mr P also said ‘using IFRS has become a culture for his company, therefore he does not see a reason why should it be changed’.

4.6.5 Case study 5 – analysis

In relation to research question 1: the analysis of Company E’s experience of and attitude towards using IFRS. Mr P says that there is a high degree of difficulty of using IFRS and lack of understanding of IFRS relevance for novice users. However, through ongoing use one tends to appreciate the degree of difficulty associated with using IFRS and the understanding of IFRS relevance does improve. Further, it appears as though the experience of Company E in using IFRS is good and that Company E shows a positive attitude towards IFRS. These findings support Kılıç et al. (2014), Rudzani and Manda’s (2016) findings that the ongoing exposure in IFRS increases participant’s knowledge or experience of accounting, hence they are inclined to be optimistic about IFRS. The evidence supports the decision usefulness theory that the IFRS is useful to Company E as well as the stewardship theory that Company E uses IFRS because the executive management’s motives are aligned with the objectives of their principals or company.

In response to the research question 2(a) about the indicators which act as incentives for unlisted companies to report IFRS use, it appears at company level as though Company E has strong governance, financially knowledgeable people who prepare its financial statements,

operational activities and resources, and characteristics which positively help it to comply with IFRS. In addition, Company E has external auditors which help the company to comply with IFRS. At country level, the professional accounting body and the reporting culture which exists in South Africa have a strong influence. This influence is noticeable in Company E's IFRS use. In addition to the professionalism of the company's preparers of financial statements, it appears as though the company complies with South African laws (including taxation regulations). This means that Company A's findings support the findings and arguments of Davis et al. (1997), Al-Shammari et al. (2008), Guerreiro et al. (2008), Barth et al. (2012), and IASCF (2012) that performance contracts for executive managers, the country's law requirements, comparability of IFRS, understandability of IFRS and the status of being involved in the accounting profession do influence a company's IFRS use. Lastly, the company and Mr P appear as though they perceive that the company derives many benefits from using IFRS. For example, Mr P says that he likes using IFRS because the standards are internationally recognised, transparent, and comparable. The standard-setters, researchers, and companies at international level generally agree upon such benefits. In addition to the decision usefulness and stewardship theories mentioned above, the evidence supports the stakeholder theory that powerful stakeholders, such as tax authority, are very influential in this company's IFRS use. Further, based on these findings, the influence of the mixed legal system is confirmed.

4.7 Combined findings across cases

This section presents a discussion on a cross-case analysis of unlisted companies' experiences of, and attitudes towards, IFRS use; and factors which influence unlisted companies' IFRS compliance; and predictions on continued use of IFRS by unlisted companies (Ayers,

Kavanaugh, & Knafl, 2003; Waweru & Spraakman, 2012). This section is in line with the analysis section under the research design, the first part of stage 3.

4.7.1 In relation to research question 1: Experiences and attitudes

It appears that the experiences and attitudes regarding IFRS are divided into three perspectives: preparer perspective, management perspective and company perspective. First, the preparer perspectives seem to indicate that the educational and training background in IFRS, ongoing use of IFRS, and the perceived degree of difficulty (or ease) of IFRS by the people using IFRS influence their views. Second, the management perspectives seem to indicate that the comparability of IFRS, understandability of IFRS, and the perceived degree of difficulty (or ease) of IFRS influence the management of unlisted companies' views. Third, the company perspectives seem to suggest that the benefits and costs relating to IFRS use by unlisted companies influence the views of the preparers. Since, the experiences and attitudes regarding IFRS among four of the five companies are good and positive, except for those of Company C. Thus, the interpretation of the above analysis, the experiences and attitudes of the sampled unlisted companies are good and positive.

Further, based on the analysis of individual cases, it seems that the good experiences and positive attitudes of the sampled unlisted companies are attributable to the stakeholder theory because powerful stakeholders, such as tax authorities, are influencing their IFRS use; decision usefulness theory because the IFRS are useful to these companies' economic decision making process; and stewardship theory because the managers' motives are aligned with the objectives of their principals rather than their individual goals (Davis, et al., 1997). Thus, this is a demonstration that IFRS might be delivering on the expectation or promise it makes, such as comparability (Barth et al. 2008). Further, Sinclair, Hooper and Ayoub (2009,

cited by Oluwadare & Samy, 2015) argue that stewardship can be found in some companies, but not in all companies. In this dissertation, in Company D and E, there are indications of stewardship because it seems like their managers' motives are aligned with the objectives of their principals (Davis, et al., 1997).

Even though Company C shows a negative attitude towards IFRS use, it prepares IFRS-compliant financial statements. This company's experience of, and attitude towards using IFRS could be explained by the agency theory that executive management is interested in generating profits thereby increase their wealth; stakeholder theory that powerful stakeholders, such as government and auditors, are influential its' IFRS use; and institutional theory that the company uses IFRS in order to maintain legitimacy when it is compared with other companies. According to Maroun and van Zijl (2016), IFRS use is relevant for ensuring conformance to the societal interests. Further, the practice of Company C seems to be decoupled from the intended outcome of the use of IFRS (Masum & Parker, 2013). As a result, Masum and Parker (2013) argue that the decoupling practice does not create managerial incentives for managers of unlisted companies to be accountable.

4.7.2 In relation to research question 2(a): Factors

a) Global level indicators

Concerning the global indicators, some of the participants highlight the international recognition of IFRS, transparency, comparability, understandability, foreign operations, and importing and exporting as some of the indicators which are positively associated with their companies' IFRS compliance. These indicators are at the international level, and they are already addressed by the IFRS and prior literature (Al-Shammari et al., 2008; Barth et al., 2008; Armstrong et al., 2010; Bassemir, 2012).

b) National level indicators

1. Economic indicators

Concerning the economic indicators, some of the participants highlight the payment of dividends and attracting investors as some of the indicators which are positively associated with their companies' IFRS compliance. Arguments by El-Gazza et al. (1999) and Schoole (2007) support these findings in terms of attracting investments.

2. Legal indicators

Concerning the legal indicators, some of the participants highlight compliance with the law as one of the indicators which is positively associated with their companies' IFRS compliance. According to Ali et al. (2004) and Schutte and Buys (2011), the use of IFRS is due to the requirements indicated in the Companies Act. The fact is, in addition to the Companies Act, there are many laws that require companies to present their financial statements (Chamisa, 2000). The above finding supports Bushman and Piotroski (2006) discussion of the influence of legal institutions in companies' use of IFRS.

3. Cultural and professional indicators

Concerning the cultural and professional indicators, some of the participants underscore that their companies have external auditors and tender requirements. These are two of the indicators which are positively associated with their companies' IFRS compliance. In support of this finding, Rudzani and Manda (2016) found that some companies prepare financial statements in order to comply with tender processes.

4. Analysis

First, the interpretation of the above three sub-headings' (i.e. legal, economic, and professional and cultural factors) findings contribute to the literature on the usefulness of IFRS and stakeholder power in the South African context. First, the findings show some of the interests of the shareholders of the sampled companies, and the relative importance of South African institutions such as SAICA, SAIPA and industry bodies; banks; and government institutions such as the tax authority, government departments, municipalities and state-owned entities, in influencing IFRS compliance by unlisted companies. Second, non-auditing and/or non-accounting companies are highly reliant on their external auditors in order to (1) comply with the IFRS, and (2) instruct them on which reporting framework they must use. This finding is in line with the Gray's (1988) adjusted hypotheses, which argue that South African unlisted companies are likely to demonstrate high professional institutional power. In addition, since South Africa has a mixed legal system these findings are unsurprising. However the sampled companies highlight that they have not interacted with FRSC, which means that South Africa lacks monitoring and is weak on enforcement of accounting standards implementation. Lastly, it could be assumed that at country level, these findings are influenced by the economic factors, as well as the reporting culture emerging from the country's institutions (Bushman & Piotroski, 2006)), and the country's laws (Chamisa, 2000).

c) Company level indicators

1. Governance

Concerning the governance indicators, the involvement of shareholders in managing their businesses, performance contracts for executive managers, and tender requirements are some of the indicators which are positively associated with the companies' IFRS compliance. In

Company A, it was noted that because of the company's high debt/equity ratio and performance contracts it had with the executive directors, the directors are very interested in knowing their company's financial performance, position, and cash flows. According to decision usefulness, stakeholder and stewardship theories, directors influence IFRS-compliant financial information and also use such information to make decisions. Thus, directors have great power to influence IFRS compliance inside a company. Whilst, according to agency theory, shareholders require IFRS-compliant financial information in order to monitor management performance and also use such information to reward or penalise management. This finding also extends Bova and Pereira's (2012) finding that IFRS compliance in unlisted companies is associated with foreign ownership.

2. People

Concerning the people working for a company, it was noted that familiarity with the content of IFRS by finance department staff and experienced staff who are accounting graduates, are two indicators which contribute positively to a company's IFRS compliance. In addition, employees' attitude towards IFRS also plays a major role in a company's IFRS compliance. According to stewardship theory, employees may influence their companies' IFRS compliance. As an extension to Guerreiro et al. (2008) finding, this dissertation found that respondents' familiarity with IFRS, the experience and qualification of the preparer of financial statements in using IFRS are important for a company's IFRS compliance.

3. Operations and resources

Concerning the operations and resources of a company, it was noted that the use of borrowed funds or intention for applying for loans and company's financial performance, position and future prospects, are two indicators which contribute positively to a company's IFRS

compliance. According to decision usefulness and stakeholder theories, lenders influence IFRS-compliant financial information and also use such information to make lending decisions. Contrary to Tower et al.'s (1999) finding, leverage and profitability are associated with compliance with IFRS by unlisted companies.

4. Company characteristics

Concerning companies' characteristics, standard-setters and policymakers may first consider characteristics such as company size, business life cycle, and the industry in which a company operates before mandating unlisted companies to comply with IFRS. According to institutional theory, companies' characteristics and other indicators influence and specifically push unlisted companies to comply with IFRS.

5. Analysis

The above four sub-headings' findings are some of the indicators representing factors and theoretical frameworks at company level which could be considered when accounting policies or standard development processes related to SMEs or unlisted companies are undertaken. The findings illustrate that, in regard to unlisted companies, there is no objective reality but rather multiple social constructed realities. Hence, the theories used in this dissertation might have failed to address the sampled companies as a group. In addition to the above factors and theoretical frameworks, companies do not operate in isolation. They are also influenced by external factors such as the country-wide and global factors.

4.7.3 In relation to research question 2(e): Predictions

The last research question of this dissertation is as follows: if the foregoing issues are taken into account in the standard-setting process, would they lead to improved IFRS compliance?

The five sampled companies predict that they are likely to continue to comply with IFRS, even though there were differences in relation to normative beliefs. Based on these results, it seems reasonable to assume that the self-prophecy effect will be demonstrated by the sampled companies. Consequently, the sampled companies will continue to comply with IFRS as long as they continue to believe that using IFRS is a socially desirable behaviour. This supports Spratt et al.'s (2003) argument that companies with strong beliefs are more likely to act in way consistent with their prediction.

Apart from the above, there are a variety of explanations could explain why the sampled companies would continue to comply with IFRS. These may include compliance with law, reporting to shareholders, tender requirements and others (see above, the answer to research objective number two). This finding is also explained by the five theories used in this dissertation. However, this dissertation does not rule out other possible explanations for the continuing use of IFRS by unlisted companies.

4.8 NATIONWIDE QUESTIONNAIRE

4.8.1 Experience of, attitudes towards and objectives of using IFRS

A textual analysis is used to identify contradictory information supplied in the returned questions by each sampled unlisted company. Starting with the low response rate, it seems to suggest the following. First, over 90% of the sampled unlisted companies did not return the questionnaires, which might suggest that they are not preparing the financial statements or have not heard of IFRS and this could be construed as they are not using IFRS. Hence, that may mean that they don't have experiences of using IFRS in order to share. Second, the opposing view to the above is that some companies may not have answered or returned the questionnaires because they don't know the researcher who is conducting this study, they

don't have an incentive or the time to answer the questionnaire, the questionnaire is too long and asks confidential information in some areas (Leedy & Ormrod, 2014).

In terms of the 41 completed questionnaires. The participants were asked which reporting framework used by their companies when preparing financial statements. About one third of the participants (34.1%) stated that they are not using the IFRS nor IFRS for SMES, and another 7.3% stated that they don't know whether their companies were using the IFRS or IFRS for SMEs (See Figure 6.1). However, when the participants' responses are analysed in detail, it become evident that more than a half of the participants (51.2%) are not using the IFRS nor IFRS for SMES. The discrepancy is due to the following. First, the participants were asked whether they have heard of IFRS or IFRS for SMEs. In Figure 6.2, a similar number of participants (34.1%) as in Figure 6.1 had never heard of them and 9.8% were not sure. This finding indicates that majority of the directors or employees of unlisted companies lack accounting skills and are unfamiliar with IFRS. Second, the participants were asked to indicate whether the job of preparing financial statements is outsourced or done by an employee of the company (See Figure 6.4). Most (56.1%) of the participants declared that their financial statements are prepared by an employee of their companies. However, due to the lack of resources such as accounting staff, size and knowledge about the IFRS, these companies could not have prepared their financial statements internally. Third, the participants were asked whether their companies have external auditors. In Figure 6.3, most (63.4%) of the participants declared that their companies do not have external auditors. Therefore, majority of unlisted companies don't have experience of using IFRS. However, 75% of the companies (out of 48.78%) that are using IFRS have a good experience of using IFRS.

The participants were asked whether they liked using IFRS/reading financial statements prepared using IFRS. Unsurprisingly, a number of them were uncertain whether they like using IFRS/reading financial statements prepared using IFRS or not (46.3%) and 12.2% were not. Thus, only 41.5% of the participants indicated that they like using IFRS/reading financial statements prepared using IFRS (See Figure 6.6). Even if we analyse the companies that are using IFRS, its only 55% of them that indicated a positive attitude towards using IFRS, contrary to the argument by Djatej et al. (2012), that the attitude towards IFRS by unlisted companies is related to their use of IFRS. For instance, a number of unlisted companies could not express their views on IFRS because they are not using IFRS. This finding supports the view that majority of unlisted companies do not prepare annual financial statements. If some do, they outsource the accounting services. This finding supports the studies by Hassan (2013) and Rudzani and Manda (2016) who found that majority of micro-sized and very small-sized unlisted companies do not prepare financial statements. Further, this is confirmed by the results of the following questions.

In regard to the objectives of using IFRS, in nationwide survey, the majority of the sampled unlisted companies indicated that they prepare financial statements to comply with the law. This objective is discussed in detail under section 4.9 below. Nonetheless, the evidence above supports the stakeholder theory that powerful stakeholders, such as the tax authority, banks and potential investors, are influencing the sampled companies' IFRS use. In addition, the behaviour of directors with an accounting background in the sampled companies could be explained by the institutional theory, where they feel they are obligated by their professional requirements to use IFRS. These findings are in line with Gray (1988), Chamisa (2000), Bushman and Piotroski (2006) and Bassemir's (2012) findings.

4.8.2 Factors influencing the use of IFRS

The participants were asked to rate the extent to which certain factors influence their companies' use of IFRS. Figure 7 presents detailed results of the indicators perceived to be influencing their companies' use of IFRS in terms of being high, medium, or low ranked factors. If more than 44% of the participants selected the options 'likely' and 'very likely' for an indicator, that indicator would be classified as high ranked. But if more than 44% of the participants selected the options 'unlikely' and 'very unlikely', that indicator would be classified as low ranked. Lastly, if an indicator does not fall into the above categories, that indicator would be classified as medium ranked. The results in Figure 7 show that compliance with the law (see Bushman & Piotroski, 2006 for a similar finding); the company desire to attract investors; the governance structure of the company; the company's legal structure; and the company's financial performance, position and future prospects are the highest ranked factors. These findings are contrary to Bova and Pereira's (2012) finding that IFRS compliance is associated with foreign ownership in unlisted companies. Low ranked indicators are the industry in which a company operates; whether IFRS training was provided or not; the number of years a company has been operating; and exporting of goods, importing of goods, foreign partners and/or foreign operations.

In accordance with the above indicators, there are four factors that seem to be influencing the sampled unlisted companies' IFRS compliance, these are: legal, economic, governance, and operational and resources related factors. However, given that majority of the surveyed companies do not comply with or use IFRS this means the above factors are not influential enough to affect those companies' compliance. A key issue that was raised by Prof Maroun in his interview is that unlisted companies may not prepare general purpose financial statements but they do have ways of accounting or measuring their progress such as relying on management accounts, even though they might not be formalised. He further stated that

general purpose financial statements are meant for external users but in contrary the sampled companies may have no external investors or lenders such as banks to provide the annual financial statement to. In addition, the information in this dissertation shows the sampled companies' lack of awareness of IFRS and lack of resources and majority of the sampled companies do not have auditors to assist them with the preparation of financial statements. Thus, this reflects a limitation on the side of the professional institutions such SAICA, SAIPA or CIMA in assisting and monitoring unlisted companies in complying with IFRS. Finally, all these issues might explain why the majority of the surveyed companies seem not to be influenced by the above mentioned indicators in order to comply with IFRS. Nonetheless, the evidence supports the stakeholder theory that powerful stakeholders (such as the directors, lack of accounting skilled people and tax authority) influence the surveyed companies' IFRS use, or lack thereof.

4.8.3 Prediction and normative norms

The participants were asked to predict whether it was likely or unlikely that their companies would continue or start producing IFRS compliant financial statements. Of the participants, 62.5% predicted they would continue or start using IFRS (See Figure 6.7). This prediction consists of the participants who selected the options 'a fair amount' and 'a great deal' for this question. However, 35% of the participants did not make a prediction, but selected the option of 'no comment'. Further, in terms of their normative beliefs, a significant number of participants did not indicate what others should do which is socially and morally acceptable in relation to IFRS and few others have weak normative beliefs. In accordance with Sprott et al.'s (2003) argument, it is a relief to know that in this dissertation, over 60% of the participants made a favourable prediction, even though the majority have weak normative beliefs about using IFRS, it is more likely that they will prepare IFRS compliant financial

statements. Thus, majority of the sampled unlisted companies in South Africa are likely to produce IFRS compliant financial statements. This means that only around 35% of unlisted companies in South Africa may not use IFRS or IFRS for SMEs.

4.9 Does the IFRS address the indicators which are mentioned by the sampled companies? (In relation to research question 2.b)

This section traces the factors that influence the sampled unlisted companies' IFRS compliance to the IFRS and prior literature. Hence, Table 9 presents combined indicators which positively influence IFRS compliance in each of the five unlisted companies. These indicators are as follows.

- Comparability and understandability are considered to have a positive relationship with IFRS compliance. Both comparability and understandability are mentioned in the IASB's objectives and is one of the enhancing qualitative characteristics stated in the conceptual framework.
- Transparency and international recognition of IFRS are considered to have a positive relationship with IFRS compliance. Both transparency and international recognition are mentioned as part of the IASB's objectives.
- Company size is considered to have a positive relationship with IFRS compliance, whether one uses turnover amount, total assets, profitability, or any other similar measurement. This finding is in accordance with the literature (Andre et al., 2012; Bassemir, 2012). Different reporting frameworks for different sized companies are also covered in the IFRS.
- External auditors are considered to have a positive relationship with a company's IFRS compliance. This finding is in accordance with the literature (Gray, 1988).

- The extent to which financial performance, position, cash flows, and future prospects (including profit measurement and return on assets) has assisted company compliance with IFRS is rated as high. These factors are addressed throughout the IFRS, specifically in IAS 1 Presentation of Financial Statements. Moreover, the objective of the presentation of financial statements is to provide information about the financial position, performance, and cash flows of an entity, information which is useful for making economic decisions (IFRS, 2015). In addition, some of the financial calculations which these companies use for decision-making or planning are based on IFRS-calculated figures.
- IFRS implementation costs are considered to have an effect on IFRS compliance. However, such costs are reduced by the following: IFRS have different reporting frameworks for different size companies; unlisted companies can choose their external auditors from a number of audit firms, all of which are less expensive than the Big Four; and unlisted companies can outsource the accounting function to other persons or run a small accounting/finance department.
- Compliance with the law, such as company tax laws, is considered to have a positive relationship with IFRS compliance (Chamisa, 2000; Bushman & Piotroski, 2006; Companies Act, 2008; SAICA, 2012). This means that some of the financial calculations used for taxation are based on IFRS-calculated figures. Further, the law requires companies to comply with IFRS.
- Familiarity with the content of IFRS is ranked high because the companies have experience in IFRS use. The preparers of financial statements hold accounting-related educational qualifications. They also have a number of years of experience undertaking financial reporting. Thus, the people who work at these companies are knowledgeable about IFRS (Guerreiro et al., 2008).

- Tender requirements are considered to have a positive relationship with IFRS compliance (Bushman & Piotroski, 2006). They are addressed in IFRS 15 under the contract costs paragraphs.

Table 9: Indicators which positively influence IFRS compliance in each of the five unlisted companies

Unit of analysis for each factor	A	B	C	D	E
<u>Global level</u>					
International recognition of IFRS	✓				✓
Comparability of financial statements prepared using IFRS	✓	✓	✓		✓
Transparency of financial statements prepared using IFRS					✓
Understandability of financial statements prepared using IFRS	✓			✓	
Company involvement in exporting or importing					✓
The company has foreign operations			✓		
<u>National level—economic</u>					
Attract investors				✓	✓
Dividend payments	✓	✓	✓		✓
<u>National level—legal</u>					
Compliance with the law	✓	✓			✓
<u>National level—professional and cultural</u>					
Tender requirements and other institutions	✓		✓		
The company has external auditors		✓	✓	✓	✓

<u>Company level—governance</u>					
The existence (or non-existence) of non-executive directors	✓			✓	✓
Number of non-executive directors			✓		✓
Percentage of executive directors' shareholdings	✓	✓	✓		✓
Governance structure	✓	✓	✓		✓
Performance contract for executive managers	✓		✓	✓	✓
<u>Company level—people</u>					
Familiarity with the content of IFRS	✓		✓	✓	✓
Experience and qualification of the preparer	✓		✓		✓
Attitude and perception towards IFRS	✓	✓		✓	✓
IFRS training	✓				✓
<u>Company level—operations and capital resources</u>					
The types of good it sells or services it renders					✓
The company's return on assets			✓		✓
The company's financial performance, position, cash flows, and future prospects	✓	✓		✓	✓
IFRS helps businesses to attain their goals	✓			✓	✓
Insignificant costs to implement IFRS		✓			
The debt/equity ratio of the company	✓				
Financial reporting needs	✓	✓	✓	✓	✓
<u>Company level—characteristics</u>					
Company size	✓	✓			✓
Company is being unlisted					✓
The industry in which a company operates	✓			✓	✓
Company's legal structure/type	✓			✓	
Operational years (i.e. business life cycle)	✓	✓	✓		✓

- The extent to which the existence (or non-existence) of non-executive directors has helped a company to comply with IFRS is rated high because non-executive directors are the same people who are executive directors (i.e. in an owner-managed business). This situation may also be affected by the legal type of company because in accordance with the Companies Act, a personal liability company requires the directors, both past and present, to be jointly and severally liable for the company's contractual debts and liabilities.
- The industries in which some of the sampled companies operate are considered to have a positive relationship with IFRS compliance. However, Tower et al. (1999) found that industry classification was not a significant indicator of compliance with IFRS, and IAS 1 Presentation of Financial Statements prescribes general-purpose financial statements for

all companies as a minimum requirement. Thus, there is no separation in terms of different presentations and compliance requirements in accordance with different industries in the IFRS.

- The legal structures of the sampled companies are considered to have positive relationships with IFRS compliance. IAS 1 Presentation of Financial Statements prescribes general-purpose financial statements for all companies as a minimum requirement. Thus, there is no separation in terms of different presentations and compliance requirements in accordance with the legal types of the sampled companies in the IFRS.
- Leverage (i.e. debt-equity ratio) is considered to have a positive relationship with IFRS compliance. However, Tower et al. (1999) found that leverage was not a significant indicator of compliance with IFRS. Leverage is addressed throughout the IFRS, specifically in IAS 1 Presentation of Financial Statements, because its calculation is based on IFRS-calculated figures.
- The extent to which IFRS have helped some of the sampled companies to achieve their goals (including to attract investors) is rated high. This is in accordance with the IFRS goal of providing companies and investors with useful information on which to base their economic decisions.
- Dividends payouts are considered to have a positive relationship with IFRS compliance. They are addressed in IAS 1 Presentation of Financial Statements because their calculation is based on IFRS-calculated figures.
- Foreign subsidiaries and foreign operations are considered to have a positive relationship with IFRS compliance. Foreign subsidiaries and operations are addressed in IFRS 3 Business Combinations, IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements, and in many other standards.

- Companies which are involved in exporting or importing have a positive relationship with IFRS compliance. This is in accordance with the literature (El-Gazzar et al., 1999; Bassemir, 2012). Moreover, international recognition of IFRS is mentioned as part of the IASB's objectives.
- The position of some companies as unlisted is rated high in connection with IFRS compliance because the IASB has different reporting frameworks for different sized companies. This issue is also covered in the IFRS and in the literature (Street & Bryant, 2000; Street & Gray, 2002).
- The types of good which a company sells or services it renders are considered to have a positive relationship with IFRS compliance. Sales transactions are addressed in IFRS 15, IAS 2, IAS 21, and other similar standards.
- None of the chapters or standards in the IFRS discusses the number of operational years (i.e. the business life cycle) of companies as a differential criterion. This factor is not considered in prior research.

In conclusion, based on the foregoing it seems that a number of the indicators raised by the sampled companies are addressed by the IFRS and prior literature.

4.10 Why are other indicators not addressed by the IFRS? (In relation to research question 2.c)

None of the chapters or standards in the IFRS discusses the number of operational years (i.e. the business life cycle) as a differential criteria. Moreover, this indicator is not considered in prior research.

As a follow-up procedure, an IASB member (Dr Paul Pacter, 10 August 2016) was asked via email, which of the IFRSs (or accounting standards, basis for conclusions, dissenting opinions and interpretations) looks at the ‘business life cycle of companies’ as a characteristic which companies may consider for choosing a reporting framework? This question was asked for the purpose of understanding the reasons why the ‘business life cycle of companies’ is not addressed in the IFRS. Thus, Dr Pacter highlighted the following (in his personal capacity).

‘In most jurisdictions, it is the government (through laws or regulations) or the accounting profession (empowered by laws or regulations) that decides the financial reporting framework that a company must use. Companies are not normally free to choose the accounting framework they want. In almost every jurisdiction, an accounting framework is prescribed for publicly accountable entities like listed companies and banks and other financial institutions. Most jurisdictions also prescribe the accounting framework for many, and sometimes all, unlisted companies. It is a public interest decision.’

Further, in accordance with the Basis for Conclusions on the Amendments to IFRS for SMEs (2015), the IASB board is aware of the inflexible and restrictive nature of the scope of the IFRS. However, the IASB’s discussions mainly focus on public accountable entities, comparing these with companies which are not public accountable entities. Thus, the IASB has not provided guidance regarding the IFRS which companies may use in a given jurisdiction (i.e. country).

4.11 How can an indicator be incorporated in the IFRS? (In relation to research question 2.d)

First, the scope of IFRS may need to be revised in relation to the IASB’s insistence that companies use the standards. For example, IFRS may be mandated to unlisted companies after they have been operating for a certain number of years. Second, the national standard-

setting body or authorities may have to consider compliance exemption for some start-up companies. Given the current position (see the literature review), in which South Africa has ceded its standard-setting power to the IASB and thus its ability to amend IFRS in its jurisdiction, this second option may not be possible. Further, two additional face-to-face interviews were conducted on November 2017, with an academic at Witwatersrand University (Professor Warren Maroun) and a director at SAICA (Ms Bongeka Ndaba), to probe the reasonability of the above arguments (See Appendix D). These interviews lasted for 35 and 31 minutes, respectively; and both participants were asked the following questions:

In relation to research question 1: unlisted companies' experiences of, attitudes towards, and objectives of using IFRS.

- Based on your interactions with unlisted companies (or position you hold at SAICA), what can you say about unlisted companies' use of IFRS?
- Kindly, describe unlisted companies' (1) experience of, and (2) attitude towards using IFRS or IFRS for SMEs.

In relation to research questions 2(a) and (d): factors which influence unlisted companies' IFRS use.

- Which factors are likely to be influencing unlisted companies in South Africa to comply with IFRS or IFRS for SMEs?
- Since the business life cycle of a company is not addressed on the IFRSs, how can it be addressed or incorporated in the IFRSs?

On one hand, Professor Maroun emphasises the issue of the company's intention as being fundamental in its decision to use IFRS or not to use IFRS. For example, he said a company might be a start-up and it intends to obtain a bank loan or offer its shares to the public through a stock exchange. Thus, its intention accords greater weight to its use of IFRS as compared to the number of years it has been operating (i.e. business life cycle). On the other,

Ms Ndaba argued that if there could be a change in the scope of IFRS to exempt certain unlisted companies from using IFRS that ‘may compromise comparability and lead to an unnecessary process or increase in complexity of IFRS’. However, she supported the view by Dr Pacter that the most appropriate place to have such an exemption is in the legislation. Third, the public interest score (PIS) framework which is in place in South Africa may be extended to include a factor which accounts for the number of years unlisted companies have been operating. Thus, a PIS represents a legislative framework that can incorporate the number of years it has operated. Further, Ms Ndada and Prof Maroun were asked what do they think needs to be done by the standard-setting bodies such as IASB, SAICA, SAIPA, FRSC and others; in order to improve unlisted companies participation in IASB standard-setting process, and to contribute in the above suggestions? Thus, both agreed that there is a need to educate unlisted companies about the importance of participating in the standard-setting processes when required. This is because education in IFRS may lead to inputs from a wider audience thereby improve the use of IFRS.

4.12 Comparing the indicators to the theoretical frameworks

At this point, the foregoing information must be compared with the theoretical propositions of five selected theories. The theories are introduced and discussed in order of their prevalence in the sampled unlisted companies. In terms of the analysis section under the research design, this section forms a second part of stage 3.

Stakeholder theory

Stakeholder theory has two branches. However, only the positive (managerial) branch is considered in this dissertation. The managerial branch suggests that powerful stakeholders will be attended to first (Nasi, Nasi, Phillips, & Zyglidopoulos, 1997). The indicators which influence the five unlisted companies to comply with IFRS and which meet this branch of stakeholder theory are:

- Compliance with the law
- Tender requirements
- The existence (or non-existence) of non-executive directors
- The body which has authority in a company
- The percentage of executive directors' shareholdings
- Company's use of external auditors

The above indicators appear to support the assumption that the sampled unlisted companies' IFRS use is influenced by the powerful stakeholders. These indicators mainly reflect influences at the level of a country's legal system, professional institutions, and the governance level.

Decision usefulness theory

Decision usefulness theory has two branches. These consider the reactions of decision-makers to alternative accounting information (i.e. the consequential results of using IFRS)

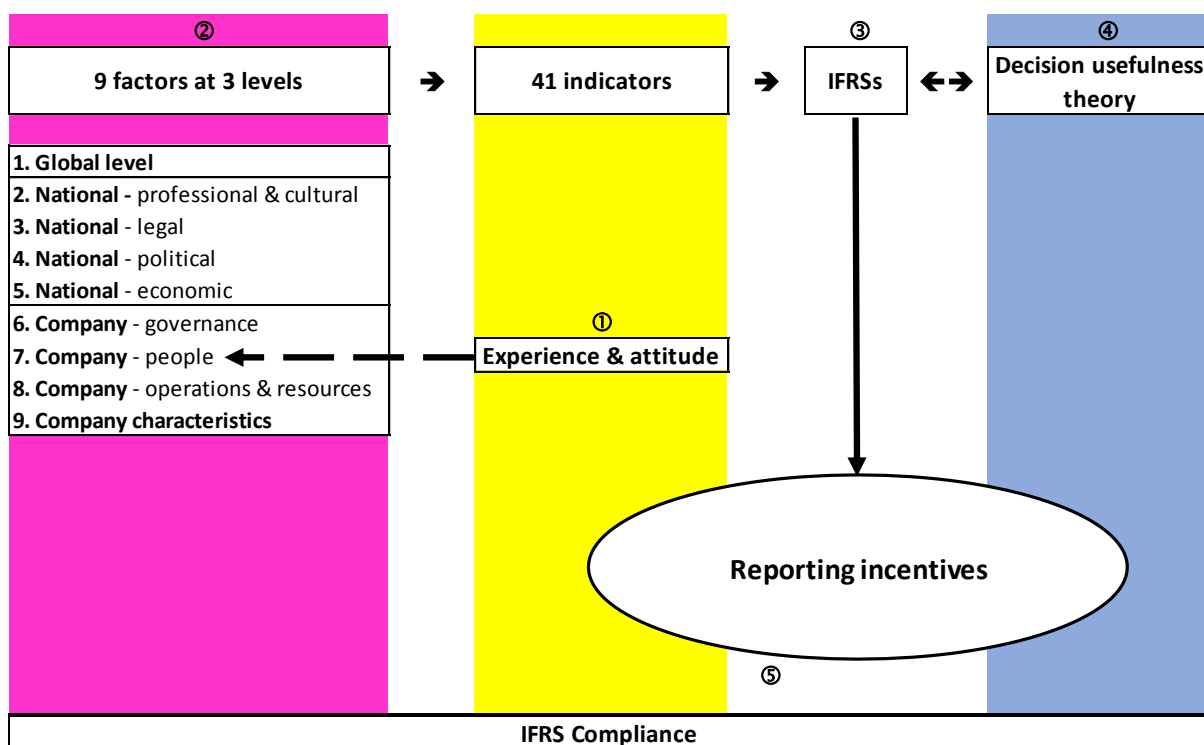


Figure 3: Linking research questions 1 to 4, decision usefulness theory and reporting incentives or data collected.

and the inductive derivation of preferred reporting alternatives (i.e. pushed IFRS compliance). Figure 3 represents a diagram linking research questions one (1) to four (4), decision usefulness theory and reporting incentives or data collected. The diagram has a set of 5 numbers associated with the arrows. Numbers one to four represent research questions 1 to 4. Number five shows how this dissertation has identified the reporting incentives.

The indicators which influence the five unlisted companies to comply with IFRS and which meet both branches of decision usefulness theory are:

- International recognition of IFRS
- Comparability of financial statements prepared using IFRS
- The understandability of financial statements prepared using IFRS
- Compliance with the law
- Tender requirements
- The existence (or non-existence) of non-executive directors
- The body which has authority in a company
- The percentage of executive directors' shareholdings
- Attracting investors
- Performance contracts for executive directors
- The financial performance, position, cash flows, and future prospects
- The debt/equity ratio of a company
- The return on assets of a company

The above indicators appear to support the decision usefulness of IFRS in the sampled unlisted companies. These indicators mainly reflect influences at the international level, the level of a country's legal system, and the governance level.

The indicators which influence the five unlisted companies to comply with IFRS and which suggest a push aspects of decision usefulness theory are:

- A company with external auditors
- A company with foreign subsidiaries or operations
- A company involved in exporting and exporting
- Familiarity with the content of IFRS among the people in a company
- The preparer's experience and qualifications
- The attitude and perception towards IFRS
- The industry in which a company operates
- A company's size
- A company's legal structure
- The number of years a company has operated (e.g. In addition to Section 4.8 above, according to decision usefulness theory, the number of years a company has operated (i.e. business life cycle) may push an unlisted company to comply with IFRS in order to determine its financial performance, position, cash flows, and future prospects.
- The types of good a company sells or services it renders
- A company is being unlisted

The above indicators appear to support the decision usefulness theory branch of inductively deriving preferred reporting alternatives in the sampled unlisted companies. These indicators mainly reflect influences from a country's professional and cultural context, the employees with financial expertise, and a company's characteristic indicators. However, these indicators push or force unlisted companies to use IFRS, therefore they are not reporting incentives in terms of this dissertation.

The indicators which influence the five unlisted companies to comply with IFRS and which suggest a consequential branch of decision usefulness theory are:

- The transparency of financial statements prepared using IFRS
- A company's financial reporting needs
- The help which IFRS can offer businesses in order to attain their goals
- Dividend payments

The above indicators appear to support the decision usefulness theory branch of decision-makers' reactions to alternative accounting information in the sampled unlisted companies. Dividend payments in unlisted companies are related to the existence and involvement of shareholders in business and financial performance, position, cash flows, and future prospects. These indicators mainly reflect influences from an operations level.

Stewardship theory

A further possible explanation for IFRS use by unlisted companies is the stewardship theory which is concerned with situations in which managers are not motivated by individual goals; instead, they are stewards whose motives are aligned with the objectives of their principals (Davis et al., 1997). Based on the foregoing, it seems that the management of the sampled companies are motivated by their companies' interests. This does not mean that managers do not have personal goals. Hence, the performance of a manager is instead affected by whether the structural situation in which he/she is located facilitates effective action (Davis et al., 1997). Further, Davis et al. (1997) argue that it is essential that executives' behaviours are aligned with shareholders' interests. This situation could be achieved through bonus schemes or incentives. Lastly, the risk that the sampled companies may encounter under stewardship theory is minimal in terms of management's self-interest behaviour. This is because the sampled companies' shareholders, apart from the non-governmental organisation, are

involved in managing their businesses. The indicators which influence the five unlisted companies to comply with IFRS and which meet this theory are:

- Familiarity with the content of IFRS among the people in a company
- The preparer's experience and qualifications
- The attitude and perception towards IFRS
- The help which IFRS can offer businesses in order to attain their goals
- The financial performance, position, cash flows, and future prospects
- The return on assets of a company
- Dividend payments

Agency theory and institutional theory

These two theories were found in Company C. Possible explanations why these theories are related to this company's IFRS use are the following:

- Company's legal type
- The preparer's bad experience
- The attitude and perception towards IFRS that is negative
- The number of years a company has operated (e.g. In addition to Section 4.8 above, according to institutional theory, the number of years a company has operated (i.e. business life cycle) may place pressure on or create expectations of an unlisted company to comply with IFRS in order to seem to conform to other companies or influential groups and institutions.)
- A perception that there are no benefits or value attained from using IFRS
- The existence of principal-agent relationship
- A company's use of external auditors for preparation of financial statements

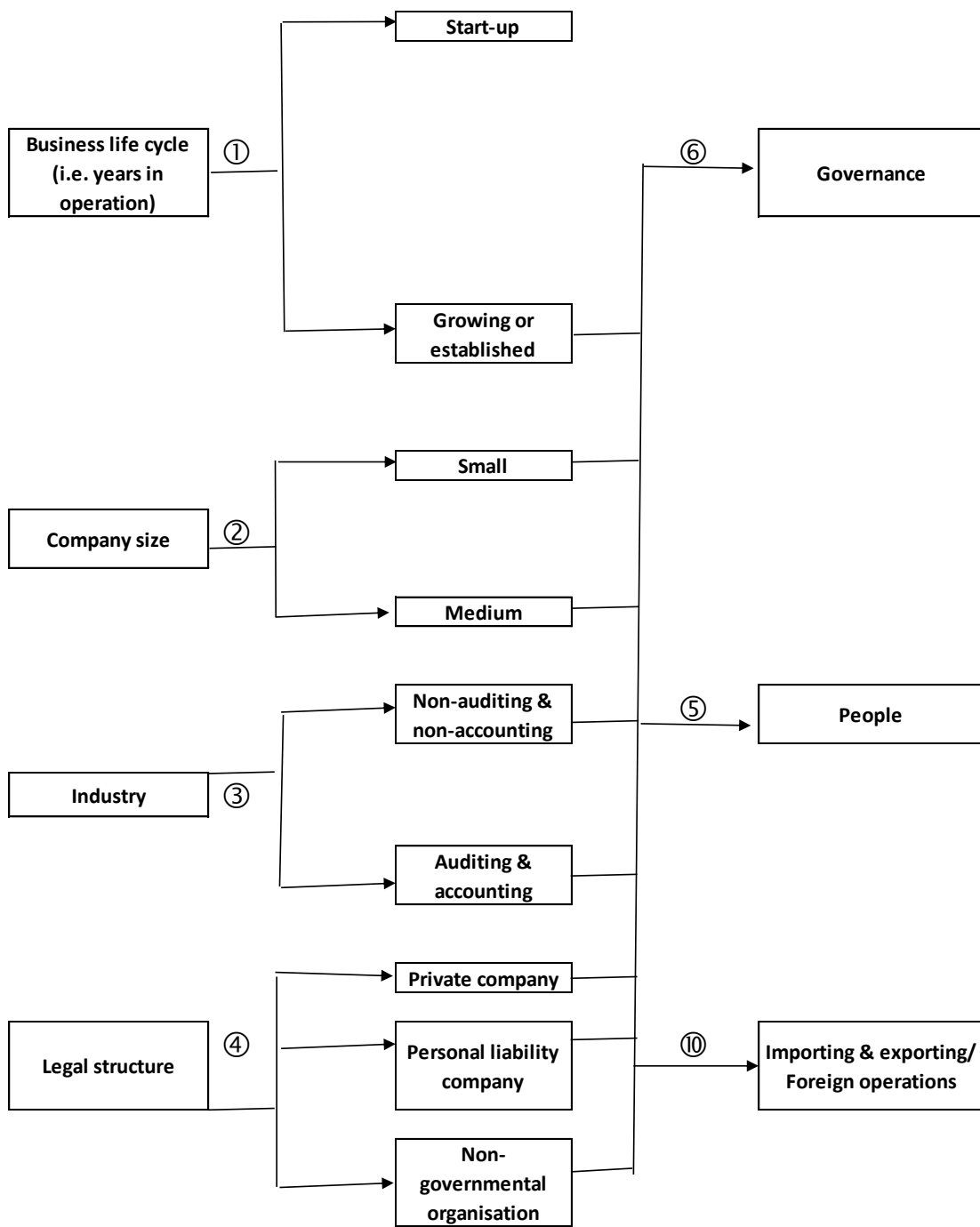
The above indicators appear to support the assumption that this sampled unlisted company's IFRS use is influenced by the national environment in South Africa (Chamisa, 2000). This is also supported by Kostova, Roth, and Dacin (2008) who argued that the notions of agency, isomorphism, decoupling, and legitimacy need to be modified in order to make sense in the changing national environment because, these indicators mainly reflect the employees' limited financial expertise, concerned company's characteristic indicators and influences at the governance level.

In order to explain the above results and theories further, this dissertation develops a framework, in Figure 4 below, to analyse the indicators which influence IFRS compliance by unlisted companies at company level. The indicators flow across a series of boxes and arrows reading from left to right in the figure. The figure suggests that some of the sampled unlisted companies rely on external auditors, whilst the companies which operate in the auditing and finance industry do not rely on external auditors for their IFRS compliance because they employ people who are trained and have expertise in using IFRS. At company level, shareholders' involvement in managing a business, the use of performance contracts for executive management, experienced and qualified people working in the finance department and the size of the finance department may influence unlisted companies' IFRS compliance. The model also has a set of 10 numbers associated with the arrows in the figure. Each of the 10 represents an option for the sample companies. For example, Company A is a growing medium-sized company. Company A is a personal liability company which operates in an auditing and finance industry. Shareholders of Company A are fully involved in managing the company; the company also has performance contracts for its executive management. The finance team of Company A is experienced and qualified in using IFRS; hence, the company does not rely on external auditors in order to comply with IFRS. Another example, Company

D, is a growing small-sized company with a small accounting function. Company D is a non-governmental organisation which operates in the telecommunications and marketing industry. Company D does not have shareholders; instead, the company belongs to a community of a town in Gauteng. Company D has performance contracts for its executive management and expresses a positive attitude towards IFRS. Company D relies highly on its external auditors in order to comply with IFRS.

The model further was tested with the information obtained from the nationwide survey (41 companies) which provided the following insights. Excluded from the data collected through the nationwide survey are the companies operating in accounting and auditing sector, thus three scenarios were identified, which are:

- Small-sized unlisted companies with five or less employees, where the respondents are not familiar with IFRS and they do not have people who are qualified in using IFRS. For such companies to comply with IFRS, they outsource the preparation of financial



- Company A ① ② ③ ④ ⑤ ⑥ ⑨
- Company B ① ② ③ ⑤ ⑥ ⑦
- Company C ① ③ ⑤ ⑥ ⑩ ⑦
- Company D ② ③ ④ ⑤ ⑥ ⑦
- Company E ① ② ③ ⑤ ⑥ ⑩ ⑦

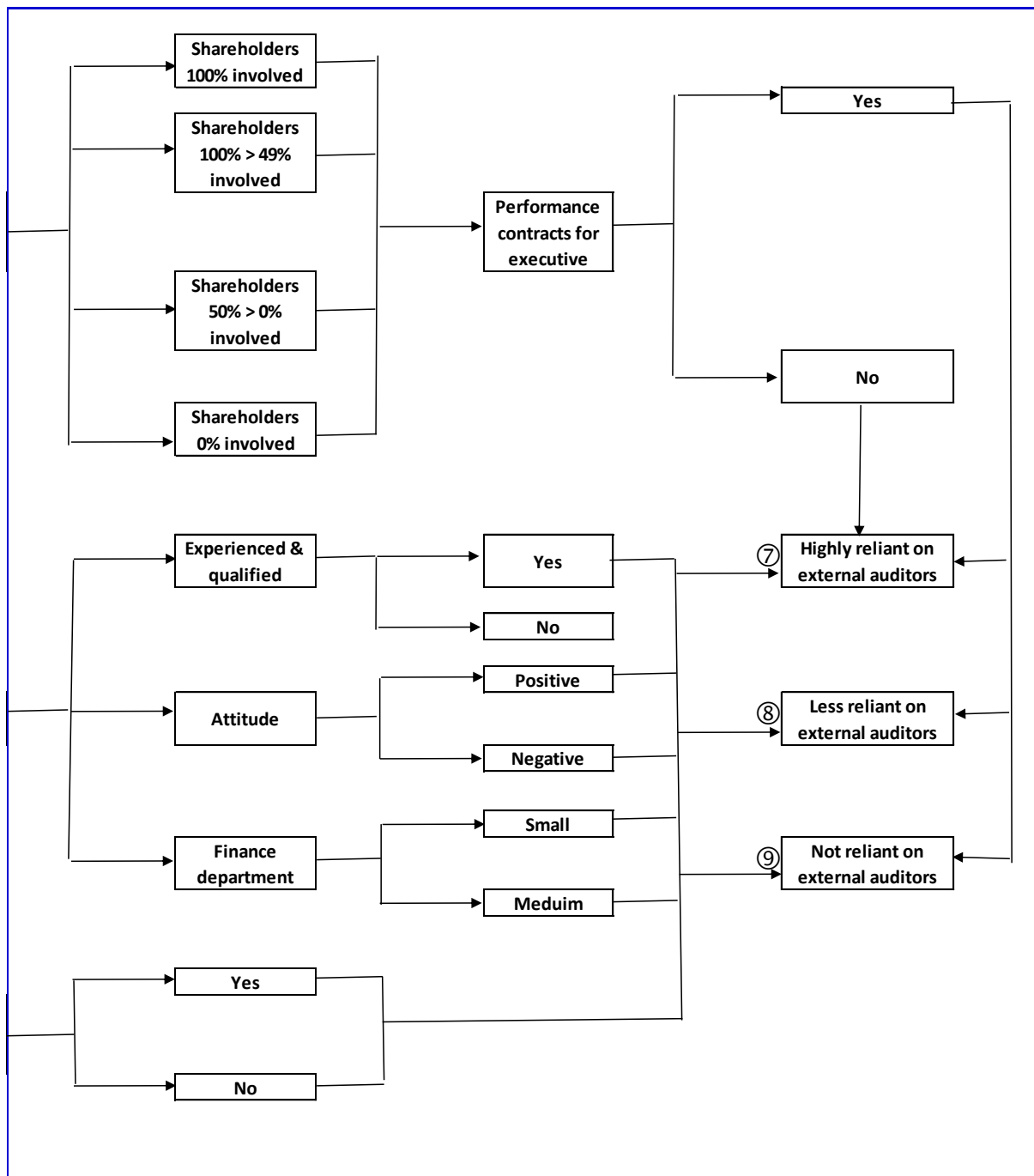


Figure 4: Evidence of the main indicators which lead unlisted companies to comply with IFRS

statements and they have external auditors. In addition, some of the shareholders are non-executive directors and they have borrowed funds from the lenders, who are interested in receiving audited annual financial statements. In terms of unlisted companies, contrary to Tower et al.'s (1999) finding, leverage is associated with the use of IFRS.

- Small-sized unlisted companies with five or less employees, where the respondents are familiar with IFRS. For such companies to comply with IFRS, they have external auditors. In addition, some of the shareholders are non-executive directors and they have borrowed funds from the lenders, who are interested in receiving audited annual financial statements. Similar to the previous point, contrary to Tower et al.'s (1999) finding, leverage is associated with the use of IFRS.
- Medium-sized to large unlisted companies with more than five employees, where the respondents are familiar with IFRS and they have people who are experienced and qualified in using IFRS. This argument supports Gray's (1988) view about professionalism of companies. For such companies to comply with IFRS, they seem to have external auditors and their main intention for using IFRS is to comply with the law (Ali et al., 2004; Schutte & Buys, 2011).

Therefore, the above findings seem to indicate that the influence of the lenders and existence of non-executive shareholders, outsourcing of accounting function and compliance with law need to be added in the suggested model.

Other indicators

The indicators which do not influence the five unlisted companies' compliance with IFRS are:

- Non-existence of foreign ownership
- A company is being unlisted
- IFRS training
- IFRS implementation costs

These indicators reflect influences from a company level. A possible explanation why the above are not identified as influencing IFRS compliance is that unlisted companies do not have to be publicly accountable; most of them are not searching for foreign investors but instead protect their investments or businesses from outside attention; and their concerns such as the lack of IFRS training and high IFRS implementation costs are not considered by the accounting standard-setting bodies in their processes. Nonetheless, with regard to IFRS training, such training was provided in two of the five sampled companies; however, the people who work with financial statements in the sampled companies are proficient in IFRS, unless they require additional training in order to refresh their knowledge. The sampled companies implement IFRS even though there are costs involved in IFRS use; thus, the benefits (i.e. non-monetary benefits) of IFRS use appear to exceed the costs (i.e. non-monetary costs). Thus, these findings are inconsistent with those of Street and Bryant (2000), Street and Gray (2002), Schoole (2007), Guerreiro et al. (2008), Lin (2012), Fox et al. (2013) and Chand et al. (2015) who reported that compliance with IFRS is positively associated with the intention of attracting foreign investors, listing status and condition that the benefits of use of IFRS exceed the costs.

Modifying/revising the theoretical framework

First, the focus of stakeholder theory is powerful stakeholders who could influence the company's operations. Second, the focus of decision usefulness theory is economic decision-makers, some of whom are outside and some of whom are inside a company. Third, the focus of stewardship theory is a harmonious relationship between the managers and the shareholders. The evidence in the above subsection shows that some indicators at company level do not influence the five unlisted companies' compliance with IFRS. Thus, the argument in this dissertation is that the focus of a theory which targets an unlisted company

may need to be focused on the company rather than on people. For example, if the goal of the company is to expand its operations or double its revenue, this goal is about the company not management or shareholders. Further, the goal of most SMEs and unlisted companies is to grow their businesses, which means (if a business is a start-up) one of its aims is to move to the next level of business growth and become a well-established company. Hence, this point links perfectly with the indicator identified from the collected data which says that the business life cycle is one of the significant indicators associated with IFRS compliance by unlisted companies. In that case, these companies may need to borrow funds in order to grow their businesses, this means that lenders need IFRS compliant financial statements to make lending decisions. In addition, it was shown that basically unlisted companies use IFRS to comply with the law.

Based on the above argument that the focus of the relevant theories need to be on a company rather than on people, the question is: to whom does the company belong? The answer is the shareholders or directors. However, history suggests that it is not always the case; that shareholders at all times make decisions which are in a company's best interest. For example, (1) the sale of Jaguar to the British Motor Corporation in 1966 by Sir William Lyons, a managing director and co-founder of Jaguar, may not be viewed as the best decision for the company because he sold it for several reasons, including personal reasons, even though the company was profitable (Funding Universe, n.d.; Gould, 2015). The personal reasons were that his son was killed driving at Le Mans in 1955 and he did not have a succession plan for his company in view of the fact that he was growing old. Another example relates to 2007 (2) when Vodacom introduced an Instant Messaging service which was meant to compete with MXit (Muller, 2011). A few years later, Vodacom's Meep project was closed down because it proved to be a bad investment. Lastly, in the early 2000s, (3) the board of directors of

Albertsons Inc. decided to hire Lawrence R. Johnston, the manager of one of General Electric's divisions, as its CEO (Anders, 2012). The directors of Albertsons Inc. employed a CEO who was unfamiliar with the retail industry. Johnston failed dismally in his position as CEO of Albertsons Inc. After he had been CEO for five years, the company had to be sold (Anders, 2012). Thus, the theories discussed above may need to consider unlisted companies as separate beings with lives of their own (Mullins, 2010), separate from powerful stakeholders, economic decision-makers, or shareholders. Thus, we may not simply assume that shareholders can be identified as one and the same as their company because legally a company has an independent status from its owners (Companies Act, 2008). In addition, unlisted companies in South Africa are open systems because companies have internal subsystems, although they are impacted by, and have an impact on, the external environment (Chikere & Nwoka, 2015). They are also highly concerned about secrecy and are less open to public scrutiny, as shown in the literature review and the low response rate on the survey conducted in this dissertation. The modified theories are shown in Figure 5.1-5.3. In accordance with this dissertation, the change in focus is depicted with a solid line in Figures 5.1-5.3.

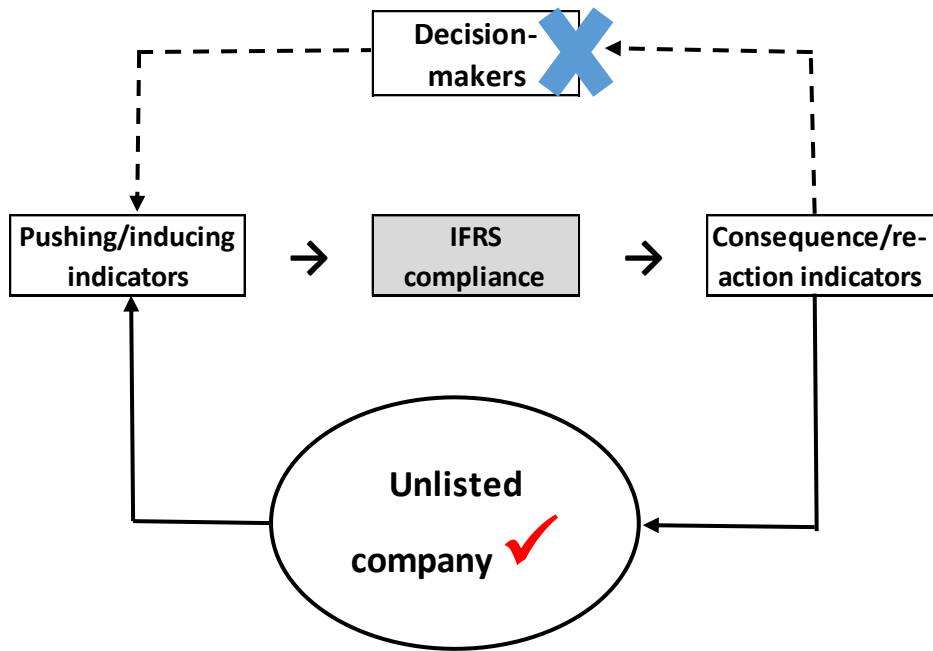


Figure 5.1: Revised decision usefulness theory

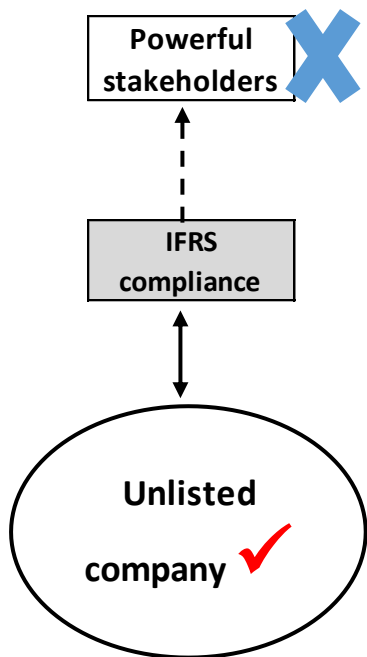


Figure 5.2: Revised stakeholder theory

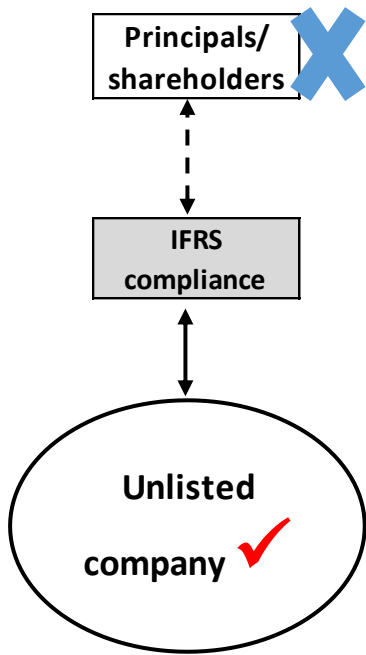


Figure 5.3: Revised stewardship theory

Chapter Five: Conclusion

5.1 Key findings and conclusions

This dissertation first attempts to understand unlisted companies' experiences, attitudes, and objectives, all of which could influence IFRS compliance. Second, this dissertation investigates factors which act as incentives for unlisted companies to continue to report using IFRS, at three levels (that is: the global level, the country level, and the company level). This dissertation was conducted after the 2015 amendments to the IFRS for SMEs, and it applies a mixed research approach to examine its research questions. Further, it traces the factors that influence South African unlisted companies' IFRS compliance to the IFRS, after which it compares the factors to five theories (decision usefulness theory, agency theory, stewardship theory, institutional theory and stakeholder theory). Lastly, this dissertation predicts whether sampled unlisted companies are going to continue or start using IFRS in accordance with the self-prophecy effect.

In terms of the first objective, this dissertation concludes that when an unlisted company demonstrates a good experience of using IFRS, and a positive attitude towards using IFRS, and an alignment of company or management objectives with using IFRS, it may be expected that the company is using IFRS because they are useful to its management and powerful stakeholders (including, shareholders). Conversely, when an unlisted company demonstrates a bad experience of using IFRS, and a negative attitude towards using IFRS, and the existence of opportunistic behaviour by management, it may be expected that the company is using IFRS because it is under pressure from the society or stakeholders (including, shareholders) and there is personal desire by management to increase their wealth. Another important finding, in this dissertation, is that a substantial number of unlisted companies

(over 90%) do not prepare financial statements or have never heard of IFRS and IFRS for SMEs, thus they do not have experience of using IFRS.

In terms of the second objective, the findings in this dissertation align with what is reported in the literature about IFRS compliance or implementation overall. For instance, seven factors which are found to be most important in influencing IFRS compliance by unlisted companies in South Africa are global, economic, legal, cultural and professional, governance, people, and company characteristics. However, among the five (5) case studies and 41 surveyed unlisted companies, there are significant differences in the importance assigned to each indicator of a factor; moreover, others are not even mentioned/ranked. The stakeholder, decision usefulness and stewardship theories, and above-mentioned factors lead to this interpretation regarding unlisted companies' IFRS use. It appears that unlisted companies' IFRS use is influenced by the usefulness of IFRS (that is, the benefits a company attained from using IFRS), management, the company's objectives or intention, mixed legal system in South Africa, and powerful stakeholders (including, shareholders and tax authority). Further, the concerning result is that the majority of the sampled unlisted companies do not prepare annual financial statements because they are not funded with external loans and they lack relevant accounting or IFRS skills and they do not export and import goods, do not have foreign partners and/or foreign operations. Hence, they have no major reason to prepare IFRS compliant financial statements. The influential factors or indicators mentioned in this dissertation, such as complying with the law, aiming to attract investors or to measure performance and determine future prospects, may not lead to a strong argument to use IFRS individually. Thus, an aggregated effect of the factors, benefits and challenges relating to the use of IFRS may give a proper answer to the question: what can be done to improve IFRS compliance by unlisted companies?

In order to identify the reporting incentives, this paragraph uses the procedure outlined in stage 4 of the analysis section under the research design (pp. 88). The reporting incentives of unlisted companies in South Africa to comply with IFRS may be deemed to be linked to those indicators which meet (1) the positive (managerial) branch of stakeholder theory, (2) both branches of decision usefulness theory and those which meet only the consequential branch of decision usefulness theory, and (3) stewardship theory. The reason for this approach is that these indicators deal with incentives (i.e. benefits) for a company to comply with IFRS. These incentives are: international recognition of IFRS; the comparability of financial statements prepared using IFRS; the transparency of financial statements prepared using IFRS; the understandability of financial statements prepared using IFRS; compliance with the law; tender requirements; the existence (or non-existence) of non-executive directors; the body which has authority in a company; dividend payments; the percentage of executive directors' shareholdings; performance contracts for executive directors; the financial performance, position, cash flows, and future prospects; the debt/equity ratio of a company; the return on assets of a company; the financial reporting needs of a company; and the fact that IFRS helps businesses to attain their goals. Based on these incentives, it seems the effect of reporting incentives is positively associated with IFRS compliance by unlisted companies. This dissertation has identified an additional indicator (i.e. business life cycle) for companies' characteristics. This indicator seems to be an addition to the known indicators. However, this indicator (i.e. business life cycle) is not classified as a reporting incentive in the context of this dissertation because it explains the push aspects of decision usefulness theory and also, institutional theory. Further, in the nationwide survey results, it was ranked lowest in terms of influencing IFRS use in the sampled unlisted companies.

Overall, the findings in this dissertation highlight the importance of qualitatively engaging unlisted companies in South Africa, not only to use desk research when conducting research because a qualitative approach can also test the theories (Peshkin, 1993). In this dissertation, this approach obtained richer information and provided deeper insight into unlisted companies' views of IFRS (University of Surrey, n.d.) than Stainbank (2010) and Schutte and Buys (2011) and others. Lastly, based on the findings relating to the experiences, factors influencing IFRS use and self-prediction by the sampled unlisted companies, it can be assumed that the sampled unlisted companies who are using IFRS will continue to use IFRS. Thus, it can be expected that the use of IFRS by unlisted companies may increase from 48.8% to be around 60%.

5.2 Contributions

Unlisted companies' experience of using IFRS has seen limited research by accounting scholars. For instance, existing studies examine the benefits attained and challenges faced by SMEs from using IFRS (Rudzani & Manda, 2016); behavioural attributes of accounting practitioners towards IFRS (Djatej et al., 2012); and whether the experience of the accounting professionals affect their perceptions of, and preparedness for IFRS (Kılıç et al., 2014) using a quantitative approach. This dissertation extends past research by investigating the experience of using IFRS by unlisted companies in South Africa in depth. This means that, in this dissertation the unlisted companies' experience of using IFRS in a South African context are analysed using a mixed methods approach (multiple case study and a national wide survey). First, the national wide survey provided complementary information because the case study method used in this dissertation has a small sample. Second, it provide confirmatory information because, for example, 75% of the companies that are using IFRS have been found to have a good experience of using IFRS. This finding is similar to the

combined case study results. Thus, a mixed methods approach strengthens the findings of this dissertation and testing of the selected theories as compared to prior research (Djatej et al., 2012; Kılıç et al., 2014; Rudzani & Manda, 2016).

Literature on factors which act as incentives for companies to report using IFRS have been studied extensively (Chamisa, 2000; Street & Gray, 2002; Zanzig & Flesher, 2006; Al-Shammari et al., 2008; Schutte & Buys, 2011, and others). However, contrary to the existing literature, this dissertation traces the indicators of factors which influence unlisted companies' IFRS compliance from the preparers' views (or from the prevailing practise) to the IFRS. Thus, this dissertation confirms previous reporting incentives (or factors) at three levels (that is, global, country and company levels) and also contributes to the factors which influence unlisted companies' IFRS compliance by identifying an additional indicator (that is, the business life cycle) at company level. However, in this dissertation, it is argued that a business life cycle of a company is not a reporting incentive. At a practical level, the above contribution led to a logic model (see Figure 4 and Figure 7) of issues which the standard setters should perhaps consider when they rewrite the accounting framework or standards relating to unlisted companies in order to improve compliance

This dissertation contributes to the literature by testing five theories (these are, decision usefulness theory, agency theory, stewardship theory, stakeholder theory and institutional theory) on unlisted companies. Agency and institutional theories were not supported by the findings. However, stakeholder, decision usefulness, and stewardship theories were supported to some extent. These theories are explained in the following ways. First, one of the focuses of stakeholder theory is powerful stakeholders who could influence the company's operations (Ullmann, 1985; Deegan, 2007). Second, the focus of decision usefulness theory is economic

decision-makers, some of whom are outside and some of whom are inside a company (Young, 2006; Deegan, 2007). Third, the focus of stewardship theory is a harmonious relationship between the managers and the shareholders (Donaldson & Davis, 1991; Davis et al., 1997). This dissertation's theoretical contribution is on each of these theories, the focus of which need to be on a company rather than on people, because managers or shareholders do not always make decisions which are in their companies' best interest. Thus, this dissertation suggests that the theories discussed above may need to consider unlisted companies as separate beings with lives of their own (Mullins, 2010), separate from powerful stakeholders, economic decision-makers, or shareholders.

Furthermore, there is no accounting study that applies the self-prophecy effect (Sherman, 1980; Spangenberg & Greenwald, 1999; Sprott, Spangenberg, & Fisher, 2003) to predict unlisted companies' continuing use of IFRS. Thus, this dissertation also contributes to the literature by predicting whether unlisted companies in South Africa will continue (or start) complying with IFRS. Using the self-prophecy effect, this dissertation showed that the use of IFRS by unlisted companies may increase to around 60% in future.

5.3 Recommendations, limitations and possible future research

In relation to research objective number one: Since companies change with the passage of time (in terms of their experience of using IFRS and business life cycles), their financial reporting practice may have gone through various modifications. For example, Procházka (2016) finds that because the number of areas in which management utilises IFRS-based measures is increasing, management's (subjective) perception of IFRS importance is also increasing. Thus, this means that it is important for standard-setting bodies and regulators to

constantly engage the unlisted companies in matters relating to financial reporting that they encounter in their companies, and new standards that have been issued (or to be issued).

In relation to research objective number two: This dissertation examines selected indicators to deepen the understanding of the factors which influence IFRS use by unlisted companies in South Africa. In so doing, it creates a logic model of issues which the standard setters should perhaps consider when they rewrite the accounting framework or standards relating to unlisted companies in order to improve compliance (see Figure 4). The logic model given in this dissertation may require consideration from the IASB or standard-setting bodies in their post-implementation reviews.

In addition, as part of the evidence obtained, a few financial reporting needs are raised by unlisted companies. These needs are:

- The alignment of IFRS with our country's legislation, especially its tax laws.
- Training for non-financially literate staff and continuous development is also crucial.
- There is no need for consolidation for a private company, or it must have exclusions.
- Financial instruments need to be simplified or done away with.
- IFRS need to be simplified because some standards are too complex for a small business or they do not cater for small businesses. For example, employee benefits; estimation of useful lives of property, plant and equipment; income and deferred taxes standards are some of them.
- The requirement whether a company should use IFRS for SMEs or not needs to be clarified

According to stewardship theory and decision usefulness theory, the above financial reporting needs should be considered by the standard-setting bodies in order to achieve increased

compliance and benefits or satisfactory experiences by unlisted companies. Further, according to stakeholder theory and decision usefulness theory, the unlisted companies can communicate their needs through the accounting standard-setting bodies' processes and/or committees in order to have their views heard by the standard-setting bodies (Ram, 2012). Further, Ms Ndada and Prof Maroun agreed that there is a need to educate unlisted companies about the importance of participating in the standard-setting processes when required.

Further, at the theoretical level, this dissertation argues that the five theories applied may need to be targeted at unlisted companies as separate legal entities when policies or standards are developed, rather than at people such as shareholders and investors. A need may exist to develop a theory which explains or advances the idea highlighted above.

The limitations of this study are as follows. This dissertation is limited to five cases and 41 completed survey questionnaires; thus, because of the small number of respondents, care must be taken in statistically generalising the results. Another limitation is that this dissertation examines IFRS compliance and decision usefulness theory without addressing specific issues in accounting or the accounting system overall. A further limitation is that the interview and questionnaire approaches are not free of subjectivity from the respondents. The recommendation is that future researchers may need to consider examining more companies and more reports or other sources of evidence in order to obtain other perspectives.

In addition, this dissertation highlights the ineffective role FRSC plays in monitoring and enforcement of IFRS in South Africa. This could be pointing to the fact that few people seem to understand the operations of the FRSC. Thus, this in turn, raises questions about the role of the FRSC and how, if at all, does it assist in IFRS compliance by unlisted companies in South

Africa? Further research can investigate these questions in order to provide a better understanding of the FRSC role.

Lastly, this dissertation tests five theories on unlisted companies. Further, it argues that some of these theories may need to be targeted specifically at unlisted companies as separate legal entities, rather than at people such as shareholders, investors, and others. This dissertation draws attention to a possible problem that may exist between the five theories and practice, because it seems likely that these theories are disconnected from practical matters facing unlisted companies (such as the purpose of preparing financial reports by unlisted companies). This raises the following question. Is there a need to develop new, or consider the existing theories in accounting through integrating research and practice? Further research can investigate new or existing theories at all levels down to the smallest possible accounting item applicable to any company.

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APPENDIX A: Cover letter and questionnaire



Executive Director: Finance
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30 November 2015

Dear participant

Thando Loliwe is pursuing a PhD at UCT. I have agreed to be his supervisor and would appreciate your collaboration as requested by Thando in the following letter.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Enrico Uliana'.

PROF ENRICO ULIANA

RE: IFRS compliance by private/unlisted companies' questionnaire

I would like to invite you to participate in a research study which aims at collecting data for a PhD thesis. My thesis goal is to investigate whether IFRS compliance by unlisted companies is the effect of factors such as the ownership structure, achievement of business goals, reporting environment, expertise within the company, cost factor, external auditors influence and others.

Therefore, the aim of this questionnaire is to ascertain the: (1) financial reporting needs of the few selected companies and close corporations; (2) previous financial information regarding profitability, assets, leverage, shareholding and dividend; (3) attitude towards, intention, subjective norms and effects of using IFRS; and (4) dealings with accounting standards monitoring and enforcement body

The questions should only take you about 50 minutes to complete. Your answers will not be released to anyone. All responses you provide for this study will remain confidential and only grouped information from all questionnaires will be made available. When the results of the study are reported, you will not be identified by name or any other information that could be used to infer your identity. It will only be my supervisor and me that will have access to view any data collected during this research.

The researchers intend to abide by all commonly acknowledged ethical codes. If you have any questions or comments, please feel free to contact me at:

- thando_loliwe@yahoo.com or 073 199 3312; PO Box 36339, Menlo Park, 0102.

I hope you will enjoy completing the questionnaire and look forward to receiving your response.

Many thanks

Thando Loliwe – CA (SA)

Work telephone: 015 628 2293; work email: thando.loliwe@ul.ac.za

Section one: Company information and financial reporting needs (Where there is a table, please answer by putting a cross (X) in the appropriate box.)

1.1 What type of legal entity is your company?

Company:	
Private company	
Public company	
Personal liability company	
Non-profit company	
External or foreign company	
Close corporation	
Co-operative	
If other (Please specify: _____)	

1.2 In which industry does your company operate?

Mining and resources		Retail	
Agriculture		Education	
Travelling		Manufacturing	
Technology		Telecommunication	
Finance		Oil and Gas	
Media and advertising		Industrial Goods and Services	
Construction		Chemicals	
Automobiles and Parts		Food and beverage	
Health Care		Personal and Household Goods	
Utilities (e.g. electricity)		Other	
Government			
If other: (Please specify: _____)			

1.3 To what extent is the industry your company operates in assisting it to comply with IFRS.

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

1.4 What type of services or goods your company offer, in order to make money?

1.5 Does your company operate in the exporting business and/or any foreign country?

Yes	
No	

1.6 Does your company operate in the importing business?

Yes	
No	

1.7 To what extent have the services or products your company sell/offer assisted your company to comply with IFRS.

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

1.8 How many years has your company been operating? _____

1.9 How many locations and/or offices your company have in South Africa? _____

1.10 In which provinces and towns does your company operate?

	Province	Town		Province	Town
1.			6.		
2.			7.		
3.			8.		
4.			9.		
5.			10.		

1.11 How many fulltime paid employees does your company have in South Africa? _____

1.12 How many executive directors or senior managers does your company have? _____

1.13 Are some of the payments (e.g. performance bonuses) to executive directors or senior managers linked/subject to performance conditions?

Yes	
No	

1.14 Does your company have an organogram or organisational chart?

Yes	
No	

1.15 How many shareholders or owners your company have? _____

1.16 How many combined years of managerial experience do executive directors or senior managers in your company have? _____

1.17 To what extent has your company's size (i.e. big local, SME or very small: owner-managed) assisted it to comply with IFRS?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

1.18 In your company, who assigns responsibilities to employees, approves policies and systems, and plans an oversight of management? _____

- 1.19 What is the percentage of foreign shareholding in your company? _____%
- 1.20 What is the percentage of your company's shares that are owned by the executive director/s or management? _____%
- 1.21 To what extent does the existence (or non-existence) of non-executive shareholder/s in your company assist it to comply with IFRS.

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

- 1.22 Does your company have auditors?

Yes	
No	

- 1.23 If yes, which audit firm performs your audit?

Deloitte	
Ernst & Young	
Pricewaterhouse Coopers	
KPMG	
If other: (Please specify: _____)	

- 1.24 What was your company's audit opinion in the latest audited financial statements?

Unqualified	
Emphasis of matter	
Qualified	
Disclaimer	
Adverse	

- 1.25 Why is your company's audit opinion (unqualified/emphasis of matter/qualified/disclaimer /adverse)?

- 1.26 To what extent has the value-add by the auditors assisted your company to comply with IFRS.

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

- 1.27 What was the last period the annual financial statements were prepared? And what is the position of the person/s who prepared them?

The latest year in which the annual financial statements were prepared:	The position of the person/s who prepared these annual financial statements:
= _____	= _____

1.28 How many years of experience in preparing annual financial statements, do the preparers of the annual financial statements have? _____

1.29 What are the highest level of education and/or professional qualification of preparer/s of the annual financial statements?

Grade 9		CA (SA)	
Matriculate		IIA	
Post matric certificate		CIMA	
Diploma		SAIPA	
Degree			
Honours			
Masters and above			
If other: (Please specify: _____)			

1.30 Is the job of preparing the annual financial statements outsourced or done by an employee of your company?

Outsourced	
Employee of our company	

1.31 What is your job level (i.e. the respondent)?

Employee or staff at a lower level	
Senior employee	
Supervisor	
Manager	
Head of department	
Partner	
Owner or director	
If other: (Please specify: _____)	

1.32 What is your email address? _____

1.33 When your company prepares financial statements or reports, it prepares them to serve what purpose? (*E.g. report financial information to shareholders/management/ holding company; attract investors; apply for a loan; measure performance i.e. profitability/revenue/cash-flow; decision making; compliance with law and so forth.*) [For who? And why?]

1.33.1 _____

1.33.2 _____

1.33.3 _____

1.34 What business goals does your company have? (*I am seeking to understand what plans, if any, you have made for the progression of your company.*) Or what is it that your company seeks to accomplish in next 5 years to 15 years or more?

1.34.1 _____

1.34.2 _____

1.34.3 _____

1.35 Does your company have labour representatives or shop stewards of any union?

Yes	
No	

Section two: Financial information

2.1 Approximately, what was the financial performance for your company in respect of the following, in the last year-end date?

	Profit	Revenue	Depreciation and amortization expenses	Net book-value of assets	Level of cash available (i.e. the amount of cash or money remaining after all transactions have been completed, at year-end date.)
Under R0					
R0					
R1 – R9,999					
R10,000 – R29,999					
R30,000 – R49,999					
R50,000 – R99,999					
R100,000 – R149,999					
R150,000 – R499,999					
R500,000 – R7,999,999					
R800,000 – R999,999					
R1,000,000 – R1,999,999					
R2,000,000 – R4,999,999					
R5,000,000 – R9,999,999					
R10,000,000 – R19,999,999					
R20,000,000 – R34,999,999					
R35,000,000 – R99,999,999					
R100,000,000 – R49,999,999,999					
R50,000,000,000 – R499,999,999,999					
R500,000,000,000 – R999,999,999,999					
Over R1,000,000,000,000					

2.2 What was your company’s percentage of long-term debt to total shareholders’ equity (debt/equity), in the last year-end date? _____ %

2.3 What was your company’s return on investment, in the last year-end date? _____ %

2.4 List three types of major assets your company has:

- 2.4.1 _____
- 2.4.2 _____
- 2.4.3 _____

2.5 Does your company declare dividends?

Yes	
No	

2.5.1 If yes, what was the last dividend per share which was declared? _____

2.5.2 And what was the dividend cover? _____

2.6 To what extent have your company's financial performance, position and future prospects assist it to comply with IFRS.

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

Section three: Use of and attitude towards IFRS

3.1 Have you heard of International Financial Reporting Standards (IFRS)?

Yes	
No	

3.2 How familiar are you with the content of IFRS?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.3 Does your company use the IFRS when preparing its financial statements?

Yes	
No	

3.3.1 If yes, which year did your company start implementing or using IFRS? _____

3.3.2 If no, which year your company intends implementing or using IFRS? _____

3.4 What is the date of transition to IFRS for your company? (An example of date of transition: if your company's financial statements show figures for two annual periods i.e. current and prior year figures, therefore the date at the beginning of the year or period before the implementation of IFRS is your company's date of transition to IFRS. On condition that prior year figures were restated using IFRS). _____

3.5 Why your company has (or has not) implemented IFRS?

3.6 Has IFRS training been provided to your company?

Yes	
-----	--

No	
----	--

- 3.6.1 If yes, who (or which organisation) provided the IFRS training? _____
- 3.6.2 And, how many workshops or courses on IFRS have been attended or offered? _____
- 3.6.3 If no, how much training do you think you'll need?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.7 How do you perceive IFRS on your business (i.e. is it good/do not know/bad)? And why?

	Good	Do not know	Bad
IFRS is:			
Give reasons, why?			

3.8 What major problem/s have you had to deal with in implementing IFRS? How did you resolve it/them?

- 3.8.1 _____
- 3.8.2 _____
- 3.8.3 _____

3.9 What value or benefits has your business attained from using IFRS?

- 3.9.1 _____
- 3.9.2 _____
- 3.9.3 _____

3.10 To what extent, do you think the adoption of IFRS by your company has helped (or will help) it to attain your business goals?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.11 Did (or would) adoption of IFRS had (or have) an impact on costs of running your business (or costs outweigh benefits, resources or time consuming)?

Yes	
No	

3.12 Approximately, what percentage of revenue was (or will be) spend on costs related to the implementation of IFRS (i.e. training employees, modifying accounting processes, appointing auditors or consultants, lost revenue, new computerised system and so forth) in your company?

0% - 19.9%	
------------	--

20% - 39.9%	
40% -59.9%	
60% - 79.9%	
80% - 100%	
None	

3.13 Do you know about Financial Reporting Standards Council (FRSC)?

Yes	
No	

3.14 Has your company had any interaction with Financial Reporting Investigation Panel (FRIP) or been referred to FRIP for review?

Yes	
No	

3.15 Do you like using IFRS/reading financial statements prepared using IFRS?

Yes	
No	

3.16 Why you (or don't) like using IFRS/reading financial statements prepared using IFRS?

3.17 Suppose you are given a choice to make changes in the IFRS, list one or more things you would like to change. (*I am looking for two things: 1) an honest assessment of IFRS and reflection on the potential shortcomings of IFRS which it doesn't address; and 2) whether the company has adjusted in order to reach its goals.*)

3.18 Suppose the IFRS take into account all the issues you raised above, how likely or unlikely would your company continue or start producing IFRS compliant financial statements?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.19 Other companies similar to ours, I know go to great lengths to comply with IFRS

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.20 Other companies similar to ours, I know think it's important to comply with IFRS

A great deal	
A fair amount	

No comment	
Not very much	
Not at all	

3.21 Most other companies similar to ours, I know take steps to produce IFRS compliant financial statements

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.22 Other companies similar to ours, I know are concerned about too onerous or tedious requirements of IFRS

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.23 Other companies similar to ours, I know should comply with IFRS

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.24 What does your management team say about IFRS? And why?

3.25 In order for relevance of IFRS to be improved in your company, which business management or operational issue/s you think should be addressed (or included) in the IFRS?



Matching the questions with the aims of the questionnaire		
Aims	Questions addressing the identified aim	Comments
SECTION 1		
Company information and assessing perceptions	1.1-1.23	Will be useful to avoid double counting, provide support of other information and draw parallels e.g. industry, ownership structure, size, etc.
External audit related questions	1.24-1.28	
Preparation of the annual financial statements	1.29-1.32	
Business objectives/goals	1.36	
Financial reporting needs of the selected company and close corporation	1.35	
Union/s and shop-steward related question	1.37	
Responded details	1.33-1.34	Will be kept confidential
SECTION 2		
Previous financial information regarding profitability, assets, leverage, shareholding, dividend and assessing perceptions	2.1-2.6	
SECTION 3		
Awareness of, training on, experience on and attitude towards IFRS	3.1-3.8	
Costs-benefit	3.9-3.12	
Dealings with accounting standards monitoring and enforcement body	3.13-3.14	
Attitude	3.15-3.16	
Improvements	3.17 & 3.25	
Prediction/intention	3.18	
Normative behaviour	3.19-3.24	

.....

APPENDIX B: Three sections of the interview protocol

Section A Overview

I would like to invite you to participate in the second round of data collection which aims at confirming the previously collected data. In the present round, I will be conducting interviews (at your office, via telephone or at a location of your choice) as part of a PhD study to confirm the information provided with regard to the: (1) experiences of, (2) benefits attained and challenges encountered in, (3) attitudes towards, and (4) motivations for using the IFRS by unlisted companies. Further, I will be confirming the factors influencing IFRS compliance by unlisted companies. The interview will take around 30 minutes. The aim of this round of data collection is to corroborate the findings obtained earlier through the questionnaire in order to strengthen the validity and reliability of the research study findings. During the interview, I will ask you the attached questions (see, the attached).

Your answers will not be released to anyone. All responses you provide for this study will remain confidential. When the results of the study are reported, you will not be identified by name or any other information that could be used to infer your identity. It will only be my supervisor and me that will have access to view any data collected during this research.

Please let me know when it will be convenient for you to have the interview. I will appreciate if you could suggest a day and time that suits you.

If you have any questions please do not hesitate to ask me.

Section B Data collection procedures

1. Before the interview, I need to call all the interviewees to build rapport and also, send them the questions in advances.
2. Draft an email requesting an interview (see, Section A)
3. Allow the interviewees to select the type of interview they prefer, venue and day/time for the interview.
4. If the interview is recorded, I will need to ask the permission to record the interview.
5. I will assure interviewees of anonymity and confidentiality.
6. At the end of the interview: allow the interviewee to add anything that I may not have asked during the interview.
7. I wish to thank you for your time.

Section C Data collection questions

Date:					
Duration:		Started:		Ended:	
Venue:					

Interview	Face-to-face	
	Telephone	
Company name		
Participant		
Position		
Email address		
Details about how we met		

Questions	
<p>1. Is your company using IFRS for SMEs or full IFRS?</p> <p>2. Why did your company decide to adopt IFRS for SMEs or full IFRS?</p>	<p>I would like to know whether your company is using IFRS for SMEs or full IFRS.</p> <p>Why does it use this reporting IFRS?</p> <p>Should the IFRS for SMEs be revised to clarify whether your company is eligible to use it?</p>
<p>3. Do you like using IFRS/reading financial statements prepared using IFRS?</p> <p>4. Why do you (or don't) like using IFRS/reading financial statements prepared using IFRS?</p>	<p>In the questionnaire you said....</p> <p>Could you say something more about that?</p> <p>You then mean that IFRS are (or not) useful to your company</p>
<p>5. Describe your company's experience of using IFRS? Do you find them useful? If yes why?</p>	<p>How is your experience of using IFRS?</p> <p>In the questionnaire you said....</p> <p>Can you tell me about....</p> <p>What do you think is the effect of your educational qualification on training ongoing use of, familiarity with, value you place on IFRS on your experience of using IFRS?</p> <p>Does the expression "your company's IFRS experience is good [or tolerant of IFRS, but somewhat cautious]" cover what you have just said?</p>
<p>6. How do you perceive IFRS on your business (is it good/do not know/bad)? Give reasons, why?</p>	<p>In the questionnaire you said....</p> <p>Do you have examples of this?</p>
<p>7. When your company prepares financial statements or reports, it prepares them to serve what purpose?</p>	<p>In the questionnaire you said....</p> <p>I would like to know, is that correct?</p>
<p>8. What value or benefits has your business attained from using IFRS?</p>	<p>In your judgement what have been the principal benefits on your company for using IFRS?</p> <p>Do you have examples of this?</p> <p>You then mean that...</p>
<p>9. Suppose you are given a choice to make changes to the IFRS, provide one or more</p>	<p>In your judgement what have been the principal practical problems in</p>

things you would like to change.	implementing the IFRS? In the questionnaire you said.... You then mean that...
10. Suppose the IFRS take into account all the issues you raised, how likely will your company continue or start producing IFRS compliant financial statements?	You then mean that...
11. What do you think needs to be done by the standard-setting bodies such as IASB, SAICA, SAIPA, FRSC and others; in order to improve unlisted companies participation in IASB standard-setting process?	Can you give me a more detailed description of what you think needs to be done by the standard-setting bodies such as IASB, SAICA, SAIPA, FRSC and others; in order to improve unlisted companies participation in IASB standard-setting process?
12. What are the factors which influence your company's IFRS compliance?	Based on the information in the questionnaire, am I correct to say that your company's IFRS compliance is influenced by.....
13. At the end of the interview: allow the interviewee to add anything that I may not have asked during the interview.	I wish to thank you for your time.

APPENDIX C: Cover letter and survey



Department of Finance & Tax Faculty of Commerce

Private Bag X3, Rondebosch, 7701, South Africa.
Leslie Social Science Building, Upper Campus. UCT
Rondebosch, Cape Town
Tel: +27 (0) 21 650 2598 Fax: +27 (0) 21 650 4487
Website: <http://www.commerce.uct.ac.za/FinanceandTax>

**YOU DON'T NEED TO ANSWER
ALL THE QUESTIONS**

Wednesday, 10 January 2018

If you feel uncomfortable with any question, you are free to leave it unanswered.

To whom it may concern:

Dear Sir/Madam

I invite you to kindly participate in this PhD research study by completing the attached questionnaire and return it using the enclosed envelope to:

T Loliwe, P.O. Box 36339
Menlo Park 0102

(or complete the on-line survey, by typing this URL <https://goo.gl/forms/kDMOom5k067xRhB83> into a browser).

I am a PhD student with the Department of Finance and Tax, Commerce Faculty, University of Cape Town. My doctoral thesis investigates '*The use of International Financial Reporting Standards (IFRS) by unlisted companies in South Africa*'. This study is important because it will contribute to the society by documenting the experiences of using IFRS by unlisted companies in South Africa, and the factors that are likely to be influencing their use (or aversion) of IFRS.

The average time it will take you to complete the attached questionnaire is 20 minutes. If you have any questions please feel free to contact me (or, should you wish to email the questionnaire please return it to): thando.loliwe@ul.ac.za or contact me on mobile number +27 (0) 73 199 3312.

Thank you for your kind cooperation, and I look forward to hearing from you.

Sincerely

A handwritten signature in black ink, appearing to read 'T. Loliwe'.

Loliwe Thando - B.Acc B.Compt(Hons) M.Com CA(SA)

"Our Mission is to be an outstanding teaching and research university, educating for life and addressing the challenges facing our society."

Section one: Factors influencing IFRS use (Where there is a table, please answer by putting a cross (X) in the appropriate box.)

1.1 Have you heard of International Financial Reporting Standards (IFRS) or IFRS for Small and Medium Enterprises (SMEs)?

Yes	
Maybe	
No	

1.2 When the company prepares financial statements or reports, it prepares them to serve what purpose? Please rate on the scale **1 being Not important to 5 being extremely Important**

Factor	1	2	3	4	5
Comply with the law					
Help in Decision Making					
Measure performance					
Apply for a loan					
Provide financial information to shareholders					
Attract investors					
If other: (Please specify: _____)					

1.3 Which factors are likely to be influencing the company to use (or comply with) IFRS or IFRS for SMEs?

1.4 Please rate the extent to which the following factors have influenced you company's use (or comply with) IFRSs. **1 being Not at all to 5 being extremely high**

Factor	1	2	3	4	5
The industry that you operate in					
The products or services that you offer					
Size of the company					
Company's financial performance, position and future prospects					
Legal structure of the company					
The status of being a listed (or unlisted) company					
Number of years in operation					
Assist in attracting investors					
Use of borrowed funds					
Cost of implementing IFRS					
Company's experience of and attitude towards IFRS					
Existence (or non-existence) of non-executive shareholders					

Governance structure of the company					
Performance contracts of executive directors or senior managers					
IFRS training					
The value-add by the external auditors					
Compliance with the law					
IFRS address the company's financial reporting needs					
IFRS assist the company to attain its business goals					
Exporting of goods, importing of goods, foreign partners and/or foreign operations					
If other: (Please specify: _____)					

Section two: Financial information

2.1 What is the name of the company that is cited (or used) in this survey?

2.2 Which reporting framework does the company use when preparing its financial statements?

IFRS	
IFRS for SMEs	
None of the above	
If other: (Please specify: _____)	

2.3 In which year did the company start implementing or using IFRS? _____

2.4 Why the company has (or has not) implemented IFRS?

2.5 Describe the company's experience of using IFRS.

2.6 What does the management team say about IFRS?

2.7 Do you like using IFRS/reading financial statements prepared using IFRS?

Yes	
Maybe	
No	

2.8 Why you (or don't) like using IFRS/reading financial statements prepared using IFRS?

2.9 How do you perceive IFRS on the business (i.e. is it good/do not know/bad)?

Good	
Do not know	
Bad	

2.10 Give reasons for the previous answer?

2.11 Has IFRS training been provided to the company?

Yes	
No	

2.12 If yes, who (or which organisation) provided the IFRS training? _____

2.13 If no, how much training do you think you'll need?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

2.14 Do you know about Financial Reporting Standards Council (FRSC)?

Yes	
No	

2.15 Has the company had any interaction with Financial Reporting Investigation Panel (FRIP) or been referred to FRIP for review?

Yes	
No	

2.16 The following are some of the benefits the business may have attained from using IFRS? Please rate them in order of Importance (**1- Not important to 5 Extremely Important**)

Benefits	1	2	3	4	5
Attracted more business					
Easier to get loans from banks					
Our users like our financial statements					

Support tax declarations					
Attain business goals					
Achieve better public image					
If other: (Please specify: _____)					

2.17 The following is a list of problems you may had to deal with in the implementing of IFRS? Please rate them in order of importance (**1- Not important to 5 Extremely Important**)

Problems	1	2	3	4	5
Lack of Accounting Skills					
Too costly to implement					
We adopted against our will					
Users complain that our financials are more complicated					
We require more staff					
If other: (Please specify: _____)					

2.18 Suppose you are given a choice to make changes in the IFRSs, list one or more things you would like to change.

2.19 In order for relevance of IFRS to be improved in the company, which business management or operational issue/s you think should be addressed (or included) in the IFRS?

Section three: Normative beliefs and prediction

3.26 Suppose the IFRSs take into account all the issues you raised above, how likely or unlikely would the company continue or start producing IFRS compliant financial statements?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.27 Other companies similar to ours, I know go to great lengths to comply with IFRS

A great deal	
A fair amount	

No comment	
Not very much	
Not at all	

3.28 Other companies similar to ours, I know think it's important to comply with IFRS

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.29 Most other companies similar to ours, I know take steps to produce IFRS compliant financial statements

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.30 Other companies similar to ours, I know are concerned about too onerous or tedious requirements of IFRS

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

3.31 Other companies similar to ours, I know should comply with IFRS

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

Section four: Company information and respondents details

4.1 How familiar are you with the content of IFRSs?

A great deal	
A fair amount	
No comment	
Not very much	
Not at all	

4.2 What is your position in your company?

Employee or staff at a lower level	
Senior employee	
Supervisor	
Manager	
Head of department	
Partner	
Owner or director	
If other: (Please specify: _____)	

4.3 What is your email address?

4.4 What is your relationship to the company that you are citing (or using) in this survey?

4.5 What type of legal entity is the company?

Company:	
Private company	
Public company	
Personal liability company	
Non-profit company	
External or foreign company	
Close corporation	
Co-operative	
If other (Please specify: _____)	

4.6 How many years has the company been operating? _____

4.7 How many locations and/or offices the company have in South Africa? _____

4.8 In which industry does the company operate?

Mining and resources		Retail	
Agriculture		Education	
Travelling		Manufacturing	
Technology		Telecommunication	
Finance		Oil and Gas	
Media and advertising		Industrial Goods and Services	
Construction		Chemicals	
Automobiles and Parts		Food and beverage	
Health Care		Personal and Household Goods	
Utilities (e.g. electricity)		Other	
Government			
If other: (Please specify: _____)			

4.9 How many fulltime paid employees does the company have in South Africa? _____

4.10 How many executive directors or senior managers does the company have?

4.11 How many shareholders or owners the company have? _____

4.12 What is the percentage of foreign shareholding in the company? _____%

4.13 What is the percentage of the company's shares that are owned by the executive directors or management? _____%

4.14 Does the company have external auditors?

Yes	
No	

4.15 If yes, which audit firm performs the external audit?

Deloitte	
Ernst & Young	
Pricewaterhouse Coopers	
KPMG	
If other: (Please specify: _____)	

4.16 What was the company's audit opinion in the latest audited financial statements?

Unqualified	
Emphasis of matter	
Qualified	
Disclaimer	
Adverse	

4.17 Why is the company's audit opinion (unqualified/emphasis of matter/qualified/disclaimer /adverse)?

4.18 When was the last period (year) that annual financial statements were prepared?

4.19 Is the job of preparing the annual financial statements outsourced or done by an employee of the company?

Outsourced	
Employee of our company	

4.20 What is the position of the person/s who prepared them?

4.21 What are the highest level of education and/or professional qualification of preparer/s of the annual financial statements?

CA (SA)	
CIMA	
SAIPA	
Diploma	
Matric	
Degree	
Honours	
Masters and above	
If other: (Please specify: _____)	

4.22 Approximately, what was the revenue or sales for the company in respect of the following, in the last year-end date?

	Revenue or sales
Under R0	
R0 – R159,999	
R160,000 – R599,999	
R600,000 – R2,999,999	
R3,000,000 – R15,999,999	
R16,000,000 – R49,999,999	
R50,000,000 – R499,999,999	
R500,000,000 – R999,999,999	
R1,000,000,000 – R49,999,999,999	
Over R50 billion	

4.23 What business goals does the company have? (or What is it that the company seeks to accomplish in next 5 years to 15 years or more?)

- 1.35.1 _____
 1.35.2 _____
 1.35.3 _____

Thank you



APPENDIX D: Interview questions

Questions	
<i>Participant's background</i>	
1. What is your role at the South African Institute of Chartered Accountants (SAICA)?	
2. Are you involved with SAIPA and FRSC, in anyway?	
3. Have you ever worked for an unlisted company before?	If yes, what was its' experience of using IFRS? And, why?
<i>IFRS use by unlisted companies</i>	
4. Based on your interactions with unlisted companies (or position you hold at SAICA), what can you say about unlisted companies' use of IFRS?	Do you have examples of this?
5. What do you think is an appropriate reporting framework for unlisted companies to use when preparing their financial statements?	Is it the IFRS for SMEs or full IFRS?
6. Which factors are likely to be influencing unlisted companies in South Africa to comply with IFRS or IFRS for SMEs?	
7. What do you think are the benefits the unlisted companies receive for using IFRS or IFRS for SMEs?	Does this mean that IFRS is (or not) useful to unlisted companies?
8. What do you think are the challenges the unlisted companies encounter when using IFRS or IFRS for SMEs?	
9. Which one of the IFRSs (i.e. accounting standards, basis of conclusions, dissenting opinions and interpretations) considers the 'business life cycle of companies' (or years in operation of a business) as a characteristics which companies may consider for selecting a reporting framework to use?	
10. If the issue in number 9 (i.e. business life cycle of companies) is not addressed on the IFRSs, how can it be addressed or incorporated in the IFRSs?	
11. Kindly, describe unlisted companies' (1) experience of, and (2) attitude towards using IFRS or IFRS for SMEs.	
<i>Standard-setting process</i>	
12. What do you think needs to be done by the standard-setting bodies such as IASB, SAICA, SAIPA, FRSC and others; in order to improve unlisted companies participation in IASB standard-setting process?	One of IASB goals is to consider 'users financial reporting needs' its standard-setting process. Can you give me examples of what IASB, SAICA, SAIPA, FRSC and others; are doing in order to improve unlisted companies

	participation in IASB standard-setting process.
13. How do FRSC monitor or enforce unlisted companies' IFRS compliance?	Do you have examples of this?

DIAGRAMS AND FIGURES

Figure 6.1

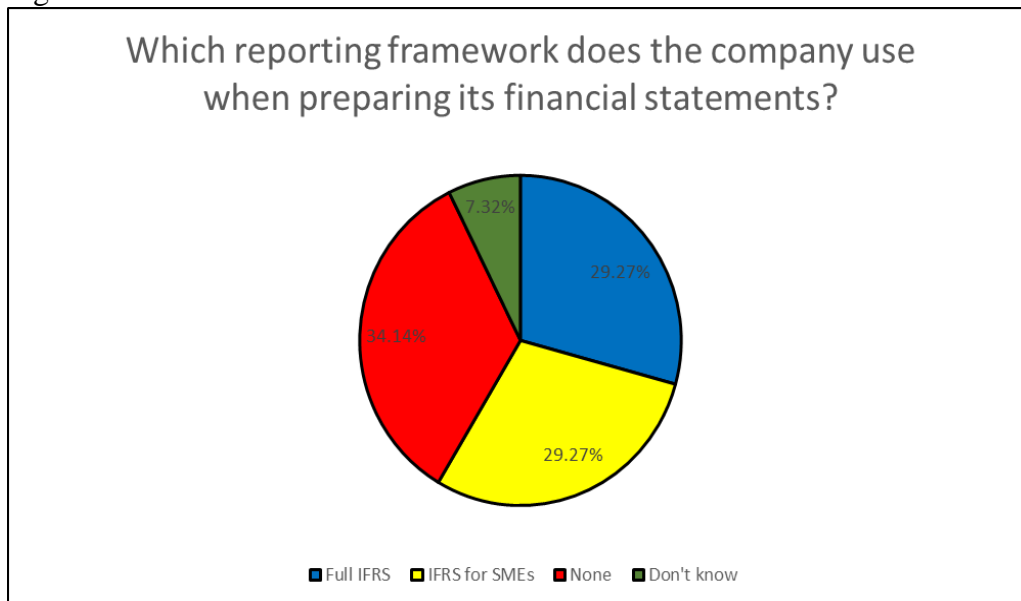


Figure 6.2

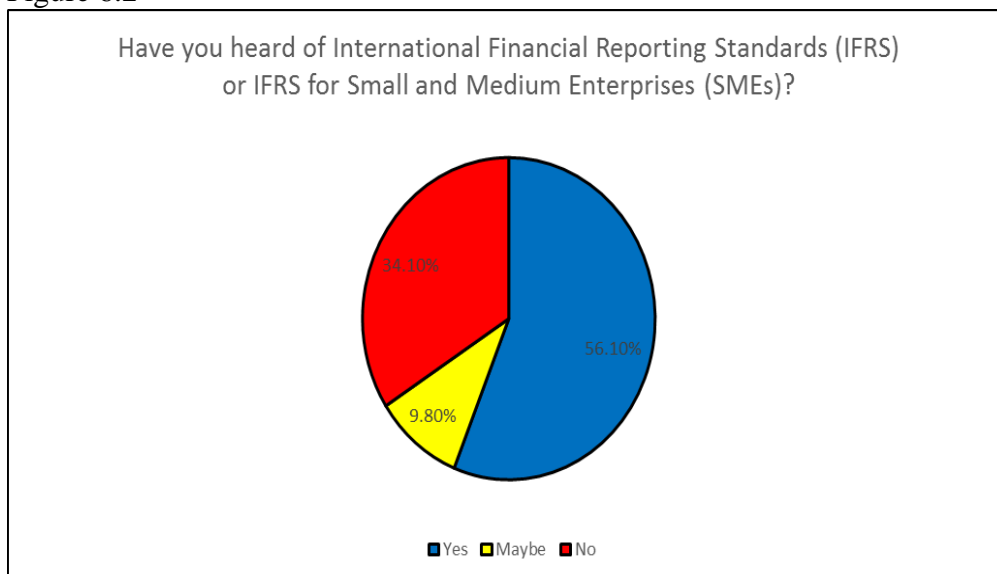


Figure 6.3

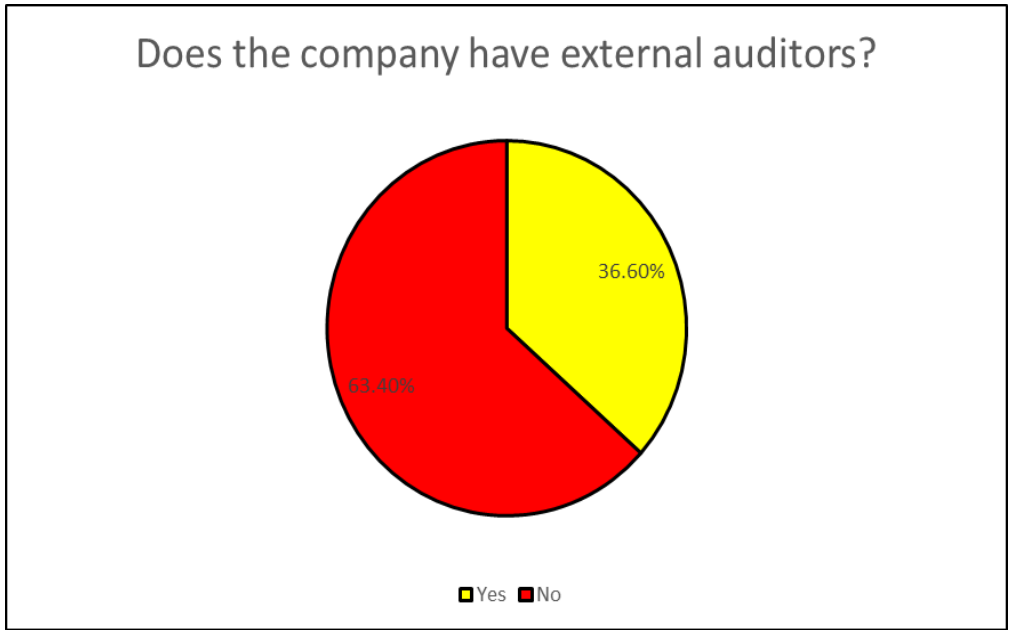


Figure 6.4

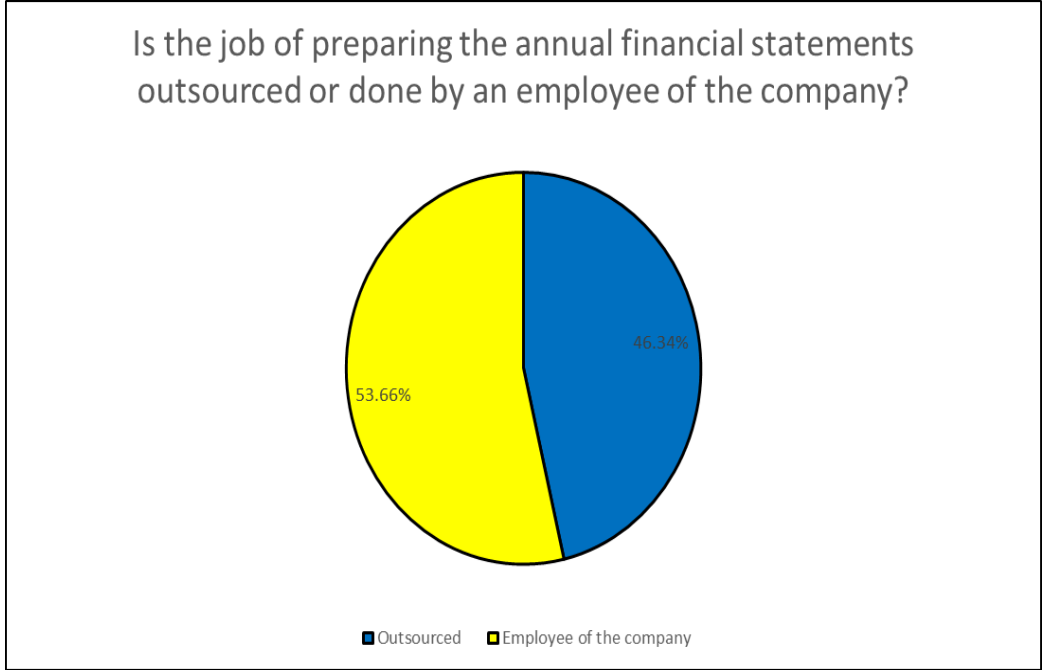


Figure 6.5

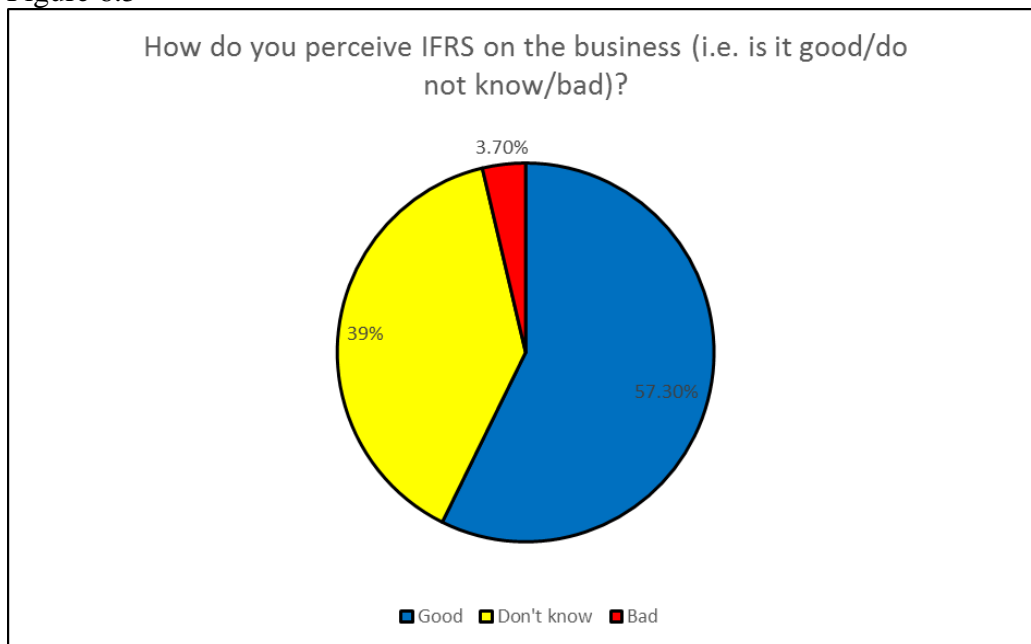


Figure 6.6

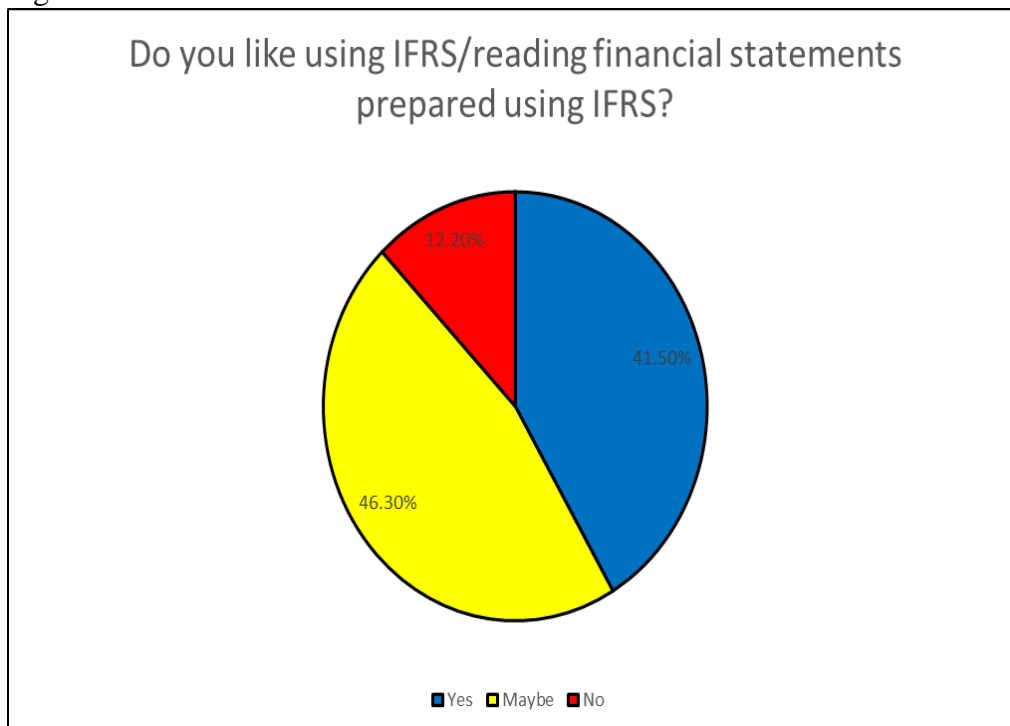


Figure 6.7

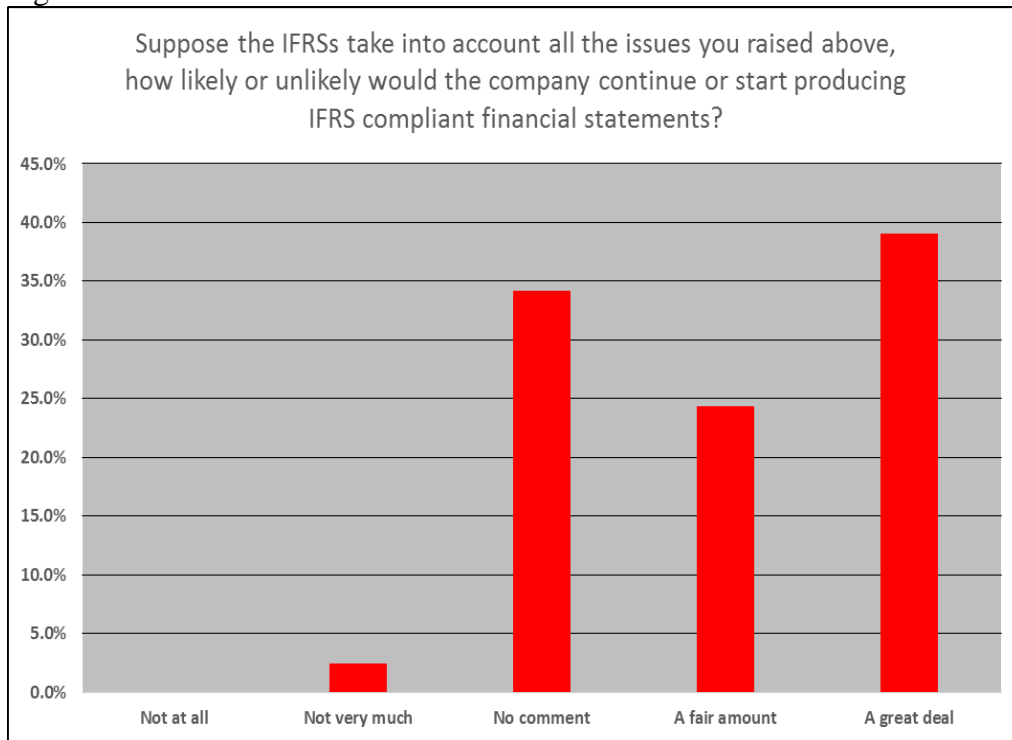


Figure 7

