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Benefit or Burden: Should Asean Countries Adopt Global Accounting Standards for Smes?

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ABSTRACT

In their efforts to assist accountability for small and medium-sized enterprises globally, the International Accounting Standards Board issued the Exposure Draft: International Financial Reporting Standards for Small and Medium sized Enterprises (*IFRS for SMEs)* in 2007. Three countries from the Association of South East Asian Nations (ASEAN) are amongst the 66 jurisdictions to state they would adopt the *IFRS for SMEs.* This paper critically examines the forces driving adoption, participation of stakeholders in the processes of development of the *IFRS for SMEs*, implementation issues and possible dysfunctional consequences for entrepreneurs in developing countries. We question the suitability of the *IFRS for SMEs* for adoption, particularly by the emerging economies within ASEAN. We find the one-size-fits-all-standard for SMEs, with a capital markets orientation, does not accommodate well the differing cultures, ways of doing business, regulatory frameworks, underlying philosophies, or needs of users of financial reports from SMEs. We conclude that adoption without modifications or exemptions would provide few benefits for SMEs in emerging economies; rather it would be burdensome to entrepreneurs and inappropriate for achieving national economic growth targets. Imposition of the *IFRS for SMEs* may inadvertently result in reduced entrepreneurship activity in response to onerous financial reporting requirements. Our paper contributes to the discussion on the adoption and implementation of the internationalisation of accounting standards. Our special contribution is two-fold: the focus on entrepreneurs in the emerging countries in South East Asia, in particular for the ASEA members; and the possibility of discouraging entrepreneurship activities that may result a reduction in both the numbers of registered entrepreneurial entities and growth aspirations.

Keywords: Accounting standards, Financial reporting, *IFRS for SMEs*, Developing economies, Convergence, ASEAN countries
Classification Code: M41, M48.

1. Introduction

Small and medium scale enterprises (SMEs) are seen by many Governments to be important in providing opportunities for job creation, innovation, and investment in many emerging economies. Initiatives to encourage entrepreneurs in business, and for their survival and growth are incorporated in development plans of many countries (e.g. the Tenth Malaysia Plan (2011-2015) and the Philippine Development Plan 2011-2016). Agencies such as the World Bank and the Asian Bank require certain standards of financial accountability from their aid recipients (Mir & Rahaman, 2005; Singh & Newberry, 2009), and it is these agencies that have provided strong support for the adoption of the International Financial Reporting Standard for Small and Medium Enterprises (*IFRS for SMEs*) developed and released by the International Accounting Standards Board (IASB).

Many of the initiatives used by Governments, such as credit guarantee schemes and start-up loans, require entrepreneurs to provide accountability for the support they receive. The United Nations

Conference on Trade and Development (UNCTAD) identifies a lack of accountability as one factor that contributes to financial instability, discourages foreign direct investment and deters lending by aid panels (UNCTAD, 2009). The lack of a developed accounting infrastructure has been identified by many multilateral aid agencies, such as the World Bank, the Organisation for Economic Co-operation and Development (OECD), and the Asian Development Bank, as a major obstacle to economic development in the developing nations (Kurtzman et al. 2004). Accordingly, the World Bank supports global accounting standards as an easy path for emerging economies where no national standards exist (Lungu et al. 2007). In their efforts to assist accountability for SMEs globally, the International Accounting Standards Board issued the Exposure Draft: International Financial Reporting Standards for Small and Medium sized Enterprises (*IFRS for SMEs*) in 2007. Two countries from the Association of South East Asian Nations (ASEAN) are amongst the 66 jurisdictions to state they would adopt the *IFRS for SMEs*.

It is argued that if SMEs use the *IFRS for SMEs* then confidence in their reports would be enhanced (Bunea-Bontas et al. 2011). Adoption would lead to improved financial reporting, improved national comparability of business results, and improved access to capital (Hope, Jin, & Kang, 2006; Lungu et al. 2007; Mage 2010). Access to capital bu entrepreneurs is important as "the boundaries between economies and financial markets have been removed and mutual dependence has increased" (Alp and Ustundag 2009, p. 681). Further, increasing accountability would enable SMEs to reach their potential as 'growth engines' for their respective national economies. For emerging economies which do not have well developed accounting standard-setting mechanisms, the *IFRS for SMEs* provides a ready-made set of standards. The cost of maintaining national standards is predicted to be significantly reduced (Bunea-Bontas et al. 2011). The arguments promoting global accounting standards are persuasive; however, the implications of adoption need to be examined closely.

Uddin et al (2011) urge accounting researchers to reflect on the political nature and implications of economic reasoning. They note "accounting plays a significant role in meaning-making and justifying reforms, as well as controlling organizations" (p. 289) and "accounting technology have been used to shape distant countries." (p. 294). We challenge a presumption that adopting the *IFRS for SMEs* would improve financial records of small businesses and support entrepreneurs in their goals to survive and thrive. We present a critical perspective on the claims of suitability for emerging economies, particularly in ASEAN countries. We take "an evaluative attitude towards reality, a questioning rather than an acceptance of the world as it is, a taking apart and examining and attempting to understand the world." (Marcuse 2009, p. 185) and in so doing have opened up the debate on where or not ASEAN member countries should adopt the global accounting standards *IFRS for SMEs*. In this paper we take cognisance of "how social structures are intertwined by power and political medication and by taking a critical approach in direct opposition to dominant functionalist ideologies" (Higgins et al 2013, p. 470).

We used critical theory as the foundation to exploring literature and exposing the underlying (and often not made explicit) values, beliefs and assumptions. We examined extent literature, predominantly from Africa and Europe, on the experiences of adopting and implementation the *IFRS for SMEs*. Peer reviewed articles from 2004 onwards[1] were identified by *GoogleScholar.com*, using such search terms as '*IFRS for SMEs*', 'emerging economies', and 'developing economies'. We also examined documents and press releases produced by the professional accounting bodies involved in the production and implementation of the *IFRS for SMEs*.

Our study provides new insights into the applicability of the *IFRS for SMEs* to the ASEAN members.

Is the *IFRS for SMEs* appropriate for ASEAN countries?

Is the *IFRS for SMEs* likely to create burdens or benefits for Entrepreneurs?

Does the *IFRS for SMEs* accommodate the differing cultures, ways of doing business, regulatory frameworks, and underlying philosophies of the member countries?

We contribute to the literature by synthesising the current literature on the development of the *IFRS for SMEs* and issues experienced in implementing the standard. Our analysis reveals that several countries within ASEAN are not ready to adopt or implement the *IFRS for SMEs*. They do not have the necessary resources or a sufficiently developed infrastructure to support implementation and subsequent monitoring. The *IFRS for SMEs* does not reflect the culture or accounting and business practices existing in those economies. The capital markets assumption does not sit well with the SMEs and the *IFRS for SMEs* is likely to be more burden than benefit to entrepreneurs.

[1] This year was chosen because the *IFRS for SMEs* came onto the agenda of the IASB in 2003.

Section 2 of this paper provides context of the ASEAN countries, and identifies forces that influence the propensity to adopt the *IFRS for SMEs*. Section 3 examines user interests and Section 4 discusses implementation issues. Section 5 suggests better representation in the standard setting processes. Section 6 argues a case for future development of standards for SMEs. Section 7 summarises our findings, presents recommendations for emergent economies and our conclusions.

2. ASEAN Context and *IFRS for SME* Adoption

The Association of South East Asian Nations (ASEAN) was formed in August 1967 and aims "to accelerate economic growth, social progress, and cultural development among its members and to promote regional peace" (ASEAN 2013). ASEAN consists of ten member countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, Singapore and Vietnam. These ten countries bring together peoples with an array of currencies, languages. One common bond lies in their relatively recent acquisition of self-rule: Indonesia, Malaysia, Philippines, Singapore and Thailand obtained accession in 1967, to be followed by Brunei (1984), Vietnam (1995), Laos (1997), Myanmar (1997), and Cambodia (1999). Table 1 highlights some of the diversity (population, wealth, language, currency and accession to independent rule dates) which indicates that gaining convergence in accounting standards within the 10 ASEAN countries is likely to present several challenges.

Table-1. ASEAN countries overview

Country	Population in millions	GDP (PPP) per capita USD	Official Language	Currency	Accession
World	7,450.00	16,000			
ASEAN	670.71	8,369			
Brunei	0.44	75,410	Malay	Brunei dollar	1/7/1984
Cambodia	16.19	3,886	Khmer	riel	4/30/1999
Indonesia	266.15	7,487	Indonesian	rupiah	8/8/1967
Laos	6.93	4,896	Lao	kip	7/23/1997
Malaysia	32.59	23,324	Malay	ringgit	8/8/1967
Myanmar	71.75	2,076	Burmese	kyat	7/23/1997
Philippines	107.63	6,133	Filipino English	peso	8/8/1967
Singapore	5.99	77,076	Malay Mandarin English Tamil	Singapore dollar	8/8/1967
Thailand	65.94	14,636	Thai	Thai baht	8/8/1967
Vietnam	97.1	5,090	Vietnamese	Vietnamese đồng	7/28/1995

Source: Adapted from International Monetary Fund *Estimates for 2018* (http://en.wikipedia.org/wiki/List_of_ASEAN_countries_by_GDP_(nominal)) and ASEAN official website (http://www.aseansec.org/)

There are 12 Official languages, 10 official currencies and widely ranging levels (GDP) of wealth. Brunei and Singapore maintain high GDP levels of productivity, whilst Cambodia and Myanmar are the least developed as measured by GDP per capita. Only two countries use English, the language used by the IASB for publishing their news, declarations, decisions, discussions and standards.

The media release (IFRS 2013a) following a survey by IASB on the progress of the adoption of the *IFRS for SMEs* states:

> Of the 66 jurisdictions that responded to the survey, 29 have adopted the *IFRS for SMEs*. It is also currently under consideration in a further 9 jurisdictions.
>
> For the 29 jurisdictions that have adopted the *IFRS for SMEs*:
>
> - 5 jurisdictions require the *IFRS for SMEs* for all SMEs that are not required to use full IFRS.
> - 12 jurisdictions give an SME a choice to use full IFRS instead of the *IFRS for SMEs*.
> - 11 jurisdictions give an SME a choice to use either full IFRS or local GAAP instead of the *IFRS for SMEs*.
> - 1 jurisdiction requires an SME to use local GAAP if it does not choose the *IFRS for SMEs*.

From this media release, it is seen that "adoption" appears to have different meanings, in effect, only 17 jurisdictions (26%) mandate the use of IFRS. Yet, the IASB claim "Over 80 jurisdictions have either adopted the *IFRS for SMEs* or stated a plan to do so within the next few years" (IFRS 2013b), but we are not privy to the source of their claim. Analysis of the details contained in the questionnaires (see Table 2) reveal only five ASEAN countries responded to the questionnaire; of these, two (Myanmar and Singapore) stated they adopted the *IFRS for SMEs*.

Table-2. ASEAN responses to the Questionnaire re Adoption of *IFRS for SMEs*

Jurisdiction	Adoption for some	Comment
Brunei	No	In the process of reviewing the suitable accounting standards as well as formulating criteria for SMEs and cottage industries.
Indonesia	No	Uses Indonesian Financial Accounting Standards for Entities without Public Accountability
Malaysia	No	*IFRS for SMEs* issued as Exposure Draft ED 72 for public comment. Uses either the Malaysian Financial Reporting Standard Framework or the Private Entity Reporting Standard
Myanmar	Yes	Adopted as the Myanmar Financial Reporting Standard for SMEs
Singapore	Yes	Effective 1 January 2011 (with little modification).

Source: Adapted from http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx Dated 2013/6/24 (IFRS 2013c)

Subsequently, Malaysia has announced the introduction of the Malaysian Private Entities Reporting Standards (MPERS), which is to take effect on 1 January 2016. In effect the *IFRS for SMEs* has been adopted with minor modifications. It was not surprising to us that Singapore and Malaysia have adopted the standard, as both countries have the advantages of being relatively wealthy, have established stock exchanges, a British background and use English as one of their official languages. What is surprising is the acceptance by Myanmar. We sense that Myanmar may have felt external pressure to conform.

The pressure to conform by adopting the full IFRS has been noted in the literature. Following the International Organisation of Securities Commission (IOSCO) endorsement in 2000 and the European Union's endorsement of IFRS in 2002, Australia and New Zealand and many other developed economies followed suit in their desire to achieve legitimacy (Camfferman and Zeff 2007). Chua and Taylor (2008) argue that once powerful first movers act to either adopt or endorse IFRS others follow - even in the absence of institutional pressure.

Whilst developed economies took their time to consider the merits of convergence to the full IFRS, most emerging economies were compelled through institutional pressures to commit to the convergence (Potter 2005; Zeghal and Mhedhbi 2006). When the World Bank and the International Monetary Fund, recommended the adoption of IFRS, many emerging economies in Asia complied (Chand 2005; Singh and Newberry 2009). The IOSCO endorsement 'encouraged' other emerging economies, for example, Bahrain (Joshi and Al-Basteki 1999), Zimbabwe (Chamisa 2000), Bangladesh (Hope et al., 2006), and Egypt (Hassan 2008) to adopt IFRS. Thus, the process towards a single set of IFRS issued by the IASB is argued as being more about political and social dimensions of globalisation than it is about the alleged economic benefits of IFRS convergence (Chua and Taylor 2008; Rodrigues and Craig 2007).

Countries that question the appropriateness of the IFRS for their jurisdictions experience opposition and external pressures. Efforts to represent the interests and needs of the local communities by local professional bodies in Jamaica and the Philippines were seen as opposing the globalisation efforts of the Anglo-American block (Bakre 2008; Dyball et al. 2007). Externally developed and imposed standards appear to take on an elevated status of 'best practise'.

> "... principles ... albeit originate from a developed country, that have supposedly proved their efficiency in a capitalistic context, thus acquiring a "best practice" status." (Uddin et al. 2011, p. 307).

Uddin et al (2011), using experiences of Uganda, claims that a country can become a spectator in their own destiny. This claim appears to be borne out by the experience of Jamaican firms. Bakre (2009) relates how transnational commercial firms using IFRS have forced Jamaica to follow capitalistic values of capital accumulation and profit maximisation, which conflict with the local accounting needs and practices. These experiences may serve as a caution to economies that follow socialist or community-centered values not to proceed with haste to adopt the *IFRS for SMEs*. The underlying assumptions of the *IFRS for SMEs* carried forward, perhaps unwittingly, from the full IFRS for use with SMEs need to be critically examined in the context of each economy considering adoption.

3. User Interests

The general purpose of financial reporting represented by the IFRS is "geared to the conventionally assumed interests (per economic and finance theory) of investors…. consistent with the presumption of one type of capitalism, broadly equating to the Anglo-American variant" (Gallhofer and Haslam 2007 p.

643). The *IFRS for SMEs* was derived from the full IFRSs with modifications to accommodate the perceived needs of users of SME financial statements and cost-benefit considerations. The modifications included reducing the number of topics, allowing fewer accounting policy choices and reducing disclosure requirements. Additionally, the recognition and measurement principles contained in the full IFRS were simplified. The *IFRS for SMEs* was produced in more simple English, than the full IFRS, to improve clarity and to be easier to translate (Deloitte Touche Tomatsu 2006).

Reduced disclosure requirements of the *IFRS for SMEs* whilst using the same capital-market orientation of the IFRS, appears to us, to be out of touch with SME operations and user requirements of financial reports. Further, the requirements are still too complex for smaller entities with a simple business model (Neag et al. 2009). Schutte and Buys (2011) claim that the informality of SMEs does not sit well with the imposition of accounting standards. They argue formality could restrict the culture needed for entrepreneurial endeavours. They observe SMEs, unless they are trading globally, are generally closer to their cultural communities and roots. Entrepreneurship often "rests on the exploitation of local opportunities and on simple organisational structures that rely on limited (or no) accounting procedures" (Sautet, 2013, p. 392).)

Jerman and Ivankovic (2011) argue there is no benefit for entities that operate locally to follow *IFRS for SMEs*. They are not interested in international trading (Lungu et al. 2007). Further, their accounting reports frequently take their reference point from the national taxation authorities (Briciu et al. 2009; Phuong & Nguyen, 2012; Turegun & Kaya, 2014). As the *IFRS for SMEs* are not designed for taxation purposes, they cannot be used for taxation revenue gathering. Compliance with *IFRS for SMEs* many SMEs, particularly the smallest, may require unnecessary accounting reporting (Baldarelli et al. 2007; Jerman and Ivankovic 2011; Lungu et al. 2007). Dick and Walton (2007) question whether IASB has selected appropriate transactions to incorporate in the *IFRS for SMEs.* They believe that the varied natures and sizes of SMEs create the main problems for the IASB.

The limited empirical evidence on needs of SME financial report users has been expressed (Lungu et al. 2007; Deaconu et al. 2009). Deaconu et al. (2009) analyse the comment letters to the IASB from 27 owner- managers, following the 2007 *ED: IFRS for SMEs*. They find long-term viability, cash flow estimation, past performance and future projections are the most important features the entrepreneurs require. Their work provides an indication of user needs, a topic that needs to be researched more fully. They did not set out to identify other users of SME financial reports. Empirical studies that examine comment letters find that preparers (practising accountants) are the predominant authors; other voices are noted by their absence (Königsgruber, 2013). If IASB had gathered empirical evidence on the needs of SME financial report users they would have been better positioned to develop a relevant and more acceptable '*IFRS for SMEs'.*

SMEs have different users, different objectives and different accounting demands (Baker and Barbu 2007; Cole et al. 2009; Mage 2010). In countries where the main businesses financiers are bankers, the financial statements do not play a role in enhancing relationships with bankers (Carini et al 2013). Van Wyk and Rossouw (2009) examine the needs of bankers as users and find they do not need the extensive and complex information provided by adherence to the *IFRS for SMEs* – they require limited or special purpose reports. In other countries entrepreneurs prefer to use neighbourhood money lenders because they are more familiar and deemed to be more trustworthy (Sautet, 2013).

SMEs are very different from global corporations in highly developed capital markets. SMEs not only different from big business, they also are a heterogeneous group (Devi and Samujh 2010), that are more likely to be focusing on survival than on growth and profit maximisation (Bunea-Bontas et al. 2011; Samujh 2011). They are more concerned with liquidity and solvency (Mage 2010). The focus of SME stakeholders is more likely to be on stewardship with a historical focus, rather than on future oriented focus which dominates the financial statements of public listed entities (IASB 2006; Perry and Nolke 2006).

A significant number of emerging economies in the South East Asian region do not have well-developed capital markets (Saudagaran 2004). We note that certain ASEAN countries do not have developed capital stock markets. Cambodia, Laos, and Myanmar do not have their own independent stock exchanges. The Korean Exchange operates the Lao and Cambodian exchanges, whilst Myanmar has a partnership with the Tokyo Stock Exchange with the aim to develop a Myanmar stock-exchange by 2015 (Gaeta 2012).

Provocatively, Baldarelli et al. (2011) suggest the IASB exercise of simplification is really an exercise in creating information loss for SMEs and their stakeholders! They also report a misfit between the *IFRS for SMEs* and the social ownership based Croatian economy. Their finding is supported by research in Vietnam were the state plays a significant part in "retaining non-capitalist forms of production and ideology" (Phuong & Nguyen, 2012, p. 441).

The cultural values of developing countries is typically dominated by a concepts of entity that is part of the community with respect for family and tradition, and cooperative behaviours in an hierarchical form (Liñán & Fernandez-Serrano, 2014) These values in turn influence entrepreneurship in those countries, and the specific cultural values of the country considering adoption of initiatives designed (elsewhere) to encourage entrepreneurship need to be taken into account and initiatives modified to suit. In many of the developing counties the level of informality is of concern. In East Asia and the Pacific, 50.1% of registered businesses claimed that they are competing against unregistered or informal firms (World Bank, 2012). Whilst informality enables entrepreneurs to have an unfair advantage over registered or formal businesses, through avoiding taxes and compliance and registration costs, it also increases the costs of enforcement and decreases Government revenues (Siqueira, Webb, & Bruton, 2014).

Additional regulation has been shown to have a detrimental effect by creating additional barriers for entrepreneurs in emergent economies and consequently lower numbers of registration of businesses:

> In low income countries, the regulatory barriers- in spite of being higher than in high income countries- only have the effect of pushing the entrepreneurs–predominantly necessity entrepreneurs- to the informal economy, eluding the costs associated with these institutional obstacles (Fernández-Serrano & Romero, 2014, p. 797).

We contend that mandating the *IFRS for SMEs* for all small entities could be counter-productive by placing an undue financial reporting burden on entrepreneurs and this drive more entrepreneurs to operate informally.

3.1. Implementation Issues

Sharing the experiences from Romania, Briciu et al. (2009, p. 316), state the *IFRS for SMEs* come with "a lot of interferences, convergences and divergences." Alp and Ustundag (2009) study the efforts made in Turkey to adopt IFRS. They find a number of difficulties were experienced with translation from English. They find the underlying concepts and terms of the IFRS particularly difficult to translate into the local language.

Richardson and Eberlein (2011) point out that the operating language for the standards and discussion papers is English. Although the IFRS have been translated into 41 languages, very few of the other outputs of the IASB are translated. At June 2013, the *IFRS for SMEs* had been translated from English to 26 languages of which only Mandarin (an official language in Singapore) and Khmer (the official language of Cambodia) relate to ASEAN countries (IFRS Foundation 2013a). No training materials have been provided in either Khmer or Chinese. However, some training opportunities became available in 2011 (IASB 2013), viz:

- Train the Trainers workshops have been provided for The Myanmar Institute of Certified Public Accountants, in Myanmar during August 2011
- Presentation of an IFRS Foundation *IFRS for SMEs* Workshop in Singapore during January 2011.

Training opportunities need to be extended as this is one of the challenges faced, particularly by emerging economies. Albu et al. (2011, p. 80) create a list of barriers emerging economies could experience in trying to implement IFRS, which includes:

- the lack of expertise and an underdeveloped accounting profession,
- the questionable practices of professionals, and
- the link between financial reporting and tax laws.

Education about IFRS implications for affected parties (e.g. tax authorities, investors, and owner-managers) and the public is also need attention. A low level of knowledge has been noted amongst accountants who might be expected to be in the forefront of globalisation of accounting standards (Ghio & Verona, 2014; Turegun & Kaya, 2014). Alp and Ustundag (2009) also reports a struggle with a knowledge shortfall, specifically the lack of education and training for professional accountants in Turkey. These barriers are real, particularly the lack of link with taxation laws, which has been confirmed by research showing that implementing IFRS in Romania, an emergent economy, has been resisted (Albu & Albu 2012; Fekete et al. 2012).

The complexity and structure of the standards, and interpretation of the principle-based standards (Alp and Ustundag 2009) add to the implementation difficulties. Implementing the principle-based standards requires a change in mindset for affected parties in those countries with experience only with rule-based standards (Phan, Mascitelli, & Barut, 2014; Phuong & Nguyen, 2012). Mir and Rahaman (2005, P. 834) explain the basic accounting principles may not be significantly different but "perceptions, values and beliefs about these principles do differ." Additionally, preparers and users alike have to learn to appreciate the judgments necessary to prepare the financial reports, particularly if fair-value measurements are made. Adoption of the IFRS is further complicated by a lack of resources for regulation and enforcement, within cultures of secrecy and fraud (Albu et al 2011).

A special report from The Centre for International Trade and Economics summarises their comments about the regulatory environment in the Philippines (Roberts 2012, p. 6):

> Regulatory inconsistency and lack of transparency, corruption, and inadequate infrastructure hinder investment. Dispute resolution can be cumbersome and complex, and enforcement of contracts is weak.

Although many SMEs may not be seeking investors, whilst the infrastructure is lacking and transparency is not valued then the countries so affect would find it difficult to implement, monitor and enforce changes in accounting standards. CAPA (2003) signalled accounting infrastructure in terms of an organised professional body, resources, and technical expertise was lacking in several South East Asian countries. For example, the debate in Manila revolves around whether accrual or cash accounting is more applicable for SMEs (Cudia 2008).

Some writers have foreseen difficulties with implementing a set of standards that have not been developed with understandings of the needs, culture and regulatory infrastructures (Sacho and Oberholster 2008), and particularly with standards that predominately use a principles based model of capitalism (Carmona and Trombetta 2008; Ezzamel et al. 2007; Sacho and Oberholster 2008). It seems inappropriate to use the full IFRS with minimal modifications, as the model of financial reporting for SMEs. The mix of the different cultures, stages of development and resources of emerging economies appears to us to be a recipe for failure in the attempt to gain convergence to IFRS. The IASB needs to ensure representative voices are listened to so that the needs, culture and regulatory infrastructures of the converging economies, the political agendas of the standard setting stakeholders and the local barriers to implementation are seriously considered.

4. Representative Voices from South-East Asia

Emerging economies were not sufficiently represented in the discussions leading to the formulation of the *IFRS for SMEs* (Chand et al. 2008; Bohušova and Blaškova 2012; Shutte and Buys 2011). SMEs from emerging economies had very limited opportunities to voice their concerns and make suggestions on the design and development of the *IFRS for SMEs*. SMEs have been largely absent from the international radar simply because they are not significant players in the international capital markets (Brown, 2004). Similarly, most of the ASEAN members would have been overlooked. The voices of the SMEs have been ignored in debates dominated by the global players (Fearnley and Hines 2007). They have little influence and hence little impact on the decisions taken. There is a perception, driven in part by IOSCO, that the multi-national enterprises and their needs were more important (Meek and Thomas 2004).

We raise concerns about the impact of globalisation and convergence if the *IFRS for SMEs* were adopted unquestioningly without consideration of the possible implications for domestic SMEs. It may be increasingly difficult for emerging economies to sway opinions of those in power at the IASB because 'with the IASB structure already heavily weighted towards European and US interests, countries outside of the US/European realm will find it increasingly difficult to have their voices heard in debate on technical issues and the costs associated with convergence' (Chand and Cummings 2008, p. 179). Cynics suggest that exposure drafts and discussions are merely a means to legitimise standards and that comment letters are a waste of time and effort (Biondi and Suzuki 2007). However, recent declarations from the IASB seek to make it clear that questions and discussion are welcomed (IASB 2012).

Emerging economies that have experiencing pressures from western development and finance agencies may be reluctant to resist the efforts of the IASB to promote the *IFRS for SMEs*. They may feel that they have no option but to embrace the 'best practise' standards, regardless of any unintended consequences or detrimental aspects, for the sake of 'global harmony'. Yet, the drive to achieve conformity by IASB may force ASEAN member countries to elect to adopt only the portions of the *IFRS for SMEs* that are relevant, appropriate and workable for their particular business, cultural and regulatory environment within their particular jurisdiction. However, opportunities still exist for ASEAN members to take a pro-active stance to influence future developments. Two organisations could play a significant role in presenting the voices of the local SMEs and professional accountants who work with them, namely, the ASEAN and the Asian-Oceanian Standard-Setters Group (AOSSG).

The ASEAN Declaration (ASEAN 2013) sets out the aims and purposes of the organisation and includes the following:

- To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
- To maintain close and beneficial cooperation with existing international and regional organisations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

Both of the above purposes indicate that lobbying IASB to consider the particular needs of member countries is within the brief of ASEAN. ASEAN could become a strong advocate, representing the individual concerns using the combined weight of members' voices. ASEAN could work and lobby either on its own and/or through the AOSSG.

AOSSG provides an additional opportunity for ASEAN countries to be represented and heard. All ASEAN members, except Myanmar, subscribe to AOSSG. This latter group was expressly formed as a platform to discuss issues related to the adoption of the IFRS. Although not overtly related to the development of *IFRS for SMEs*, the objectives of the AOSSG indicate that it is an appropriate body through which to negotiate or persuade the IASB to consider the representations from member countries regarding the *IFRS for SMEs*. The objectives of the AOSSG (2013) are to:

(a) promote the adoption of, and convergence with, IFRSs by jurisdictions in the region
(b) promote consistent application of IFRSs by jurisdictions in the region
(c) coordinate input from the region to the technical activities of the International Accounting Standards Board (IASB) and
(d) co-operate with governments and regulators and other regional and international organisations to improve the quality of financial reporting in the region.

The AOSSG, has already been acknowledged as a significant organisation in its selection along with the Accounting Standards Board of Japan, the Australian Accounting Standards Board; and the Chinese Accounting Standards Committee, to serve on the new Accounting Standards Advisory Forum of the IASB (AOSSG 2013).

By providing for more input from the Asian-Pacific region, the IASB has mitigated some of the costs that would be incurred by smaller emerging economies from 'the extremities' to attend open meetings which are usually held in London. AOSSG can encourage local professional bodies to canvas their members and provide aggregate feedback to the organisation. This effort, whilst involving the preparers of accounts, does not guarantee representation from the SMEs or the users of the accounting reports.

Although this paper is expressly concerned with the adoption of the *IFRS for SMEs*, it is relevant to consider the stance ASEAN members have taken on the full IFRS. It may be predicted that those countries that have already adopted the full IFRS are more likely to adopt the *IFRS for SMEs*. Nine ASEAN countries with AOSSG membership have either adopted the IFRS or are converging with the IFRS for listed companies. Malaysia and Philippines are close to convergence. Further, the IFRS Foundation note Indonesia has adopted some IFRS but has no plans for full adoption; whilst Singapore has adopted many but not all IFRS (IFRS Foundation 2013b).

5. Future Development

We recorded a number of voices (Wallace 1993; CAPA 2003; IFAC 2004; Meek and Thomas 2004; Dick and Walton 2007; Carmona and Trombetta 2008; Stevenson 2010) calling for research that can provide a strong foundation for the development of accounting standards for SMEs. Dick and Walton (2007, p. 12) observe that whilst ideally 'standard-setters should be able to rely on research to shed light on the issues that confront them' there is a lack of availability of such research. However, they also observe it is difficult to research issues that might arise whilst proposals are still being developed. Our refined search for literature published in English since 2008 (following the issue of the ED: *IFRS for SMEs* in 2007) about the acceptance or implications of implementation of the *IFRS for SMEs* in ASEAN countries did not reveal any articles. The cultural and historical context of accounting in the emerging economies and in particular for the south-east Asia region needs to be understood by the IASB.

During the years of development of the *IFRS for SMEs*, various working groups and reviews were undertaken by IASB. However, we observe that there was little participation from the intended adopters of this standard and an observable absence of input from intended users of the 'simplified' financial reports that would result from the application of the *IFRS for SMEs*. At the same time we acknowledge the difficulties in gathering evidence of costs and benefits particularly in the absence of control data to compare with if the *IFRS for SMEs* were not adopted (Königsgruber, 2013). The benefits for any ASEAN country may be difficult to ascertain and at the same time reliant upon local knowledge and country-by-country studies. We concur with the comment of Brown (2011, p. 281) when referring to the full IFRS: "The potential benefits to a country and its people from adopting international financial reporting standards are manifest in different ways. …it takes more than just adopting IFRS to realise them."

Implementation challenges that ASEAN countries face need to be examined. Research from other emerging economies could provide a starting point. Issues faced by Romania and shared in the English language literature (see Albu et al. 2012; Bunea et al. 2012; Fekete et al. 2012) may be challenges to be confronted by the emerging economies of the ASEAN. While it seems easy to agree that the IFRS should conform to certain qualitative characteristics such as reliability and timeliness, it is less easy to determine what is relevant to SMEs. Without reference to what the data will be used for, any resultant financial statements could be irrelevant and the standards merely produce more useless data.

Organisations such as AOSSG could provide a convenient avenue for representation directly to the IASB for ASEAN members. Whilst the IASB encourages local professional bodies to canvas their members and provide aggregate feedback, other avenues need to be sought to ensure representation from SMEs and the users of their accounting reports. Relying on the submissions from such as the World Bank or the Asian Development Bank is presently unfair as it favours the more powerful interests of those organisations.

Engaging SME stakeholders in discussions about the IFRS is difficult. Richardson and Eberlein (2011) identify a number of engagement challenges:

- individual users are remarkably complacent or docile,
- users do not typically participate in due process of forums,
- the IASB could be susceptible to lobbying by principal players who are relied on for funding,
- aggregate representation disguises the extent of opinions being voiced.

We suggest the combined resources of ASEAN and AOSSG could provide encouragement and support for SMEs within the area to participate in providing information for the future direction and development of the *IFRS for SMEs* or an alternative more practical acceptable to the current stage of economic development of the participating countries. In this way the two organisations would be partnering to assist in SME accountability and potential for growth. Some aspects of the business environment within the ASEAN countries may need support to aid in their development. For example, the Philippines regulatory processes lack transparency, regulations are weakly enforced, and there is conflict in interests as some “regulatory agencies are often also operating agencies” (Roberts 2012, p. 6).

Our purpose is to raise awareness of the background to the IFRS development and possible implications of adopting the *IFRS for SMEs* without taking due diligence in examining the local environment and needs of financial report users. A forum needs to be created so that stakeholders can share insights about the applicability of the *IFRS for SMEs* to local businesses within the existing economic and cultural environments to ascertain local impediments, challenges and issues of concern about implementing the IASB promlogated standard.

We acknowledge

1. Support agencies (e.g. The World Bank) require reliable financial reports.
2. Appropriate accounting standards would enhance accountability and transparency of financial reports.
3. The development phase of the *IFRS for SMEs* has been long
4. The *IFRS for SMEs* are based on the IFRS, albeit simplified.
5. The capital market orientation from the IFRS has been carried over to the *IFRS for SMEs.*
6. The business infrastructures within the ASEAN region (with the exception of such as Singapore and Malaysia) are not highly developed.
7. The cultural, regulatory and economic environment of the ASEAN countries has been ignored.
8. Field testing of the *IFRS for SMEs* in ASEAN countries has been inadequate.

Although three ASEAN members (Malaysia, Myanmar and Singapore) have adopted the *IFRS for SMEs*, many questions remain unanswered. Developed economies appear to be less pressurised into adopting the *IFRS for SMEs* and they appear to be able to take their time to consider the standards before making the adoption decision. Tickell (2013) observes that seven developed economies have prohibited the *IFRS for SMEs* from being used for statutory purposes, whilst at the same time requiring adoption of the full IFRS for other entities.

Two countries in the Asia-Pacific region (Australia and New Zealand) indicated that they are not considering the *IFRS for SMEs* for adoption. New Zealand moved to reduce the compliance costs for smaller domestic entities by introducing a Financial Reporting Act 2013 (the Act). Australia communicated a more considered (politic) approach by indicating that they are monitoring the developments; whilst not actively considering adoption at this time. As a consequence, many SMEs in Australia and New Zealand may prepare special purpose financial reports to meet the requirements of end users, such as taxation authorities, financiers or management. These countries may set a trend by offering options and support for other economies that consider the *IFRS for SMEs* does not meet their needs.

The requirements of the *IFRS for SMEs* are still too complex for smaller entities with a simple business model (Neag et al., 2009). Additionally, the existing diversity of local accounting practices for SMEs, and whether they keep accounting records are affected by a large number of factors (Baker & Barbu 2007) that includes, the stage of development of the local economy, legal systems and local and national government regulations, property rights, social climate, currency stability, existence of accounting laws, a ‘recognised’ accounting professional body, and education levels.

World Bank summary of their investigations of regulations for enhancing business activities by SMEs in the ASEAN region is shown below:

Table-3. ASEAN rankings from ‘Doing Business 2014’

Country	Ease of doing Business(rank)	Starting a business	Getting credit	Protecting Investors	Paying Taxes	Enforcing Contracts
Brunei	59	137	55	115	20	161
Cambodia	137	184	42	80	65	162
Indonesia	120	175	86	52	137	147
Laos	159	85	159	187	119	104
Malaysia	6	16	1	4	36	30
Myanmar	182	189	170	182	107	188
Philippines	108	170	86	128	131	114
Singapore	1	3	3	2	5	12
Thailand	18	91	73	12	7	22
Vietnam	99	109	42	157	149	46
New Zealand	3	1	3	1	23	18
Australia	11	4	3	68	44	14

Source: Extracted from World Bank (2013).

It appears from the World Bank rankings that there is much to done to improve the business climate in many ASEAN countries. The rankings for Singapore and Malaysia indicate that those countries are well positioned to encourage entrepreneurship and may be indicative of a readiness to adopt global accounting standards. We have included New Zealand and Australia rankings by way of comparison and reminder that although these two countries might also be ready to implement global accounting standards, their governments have not adopted the *IFRS for SMEs*.

The *IFRS for SMEs* instead of aiding economic growth for MSMEs may create a burden to growth through the imposition of unnecessary financial reporting and regulatory requirements. The very purpose of the financial reports of SMEs needs examination and the underlying assumptions of the *IFRS for SMEs*, which have been drawn, perhaps unwittingly, through the adaption of the full IFRS for use with SMEs.

6. Conclusions

Based on research published to date we conclude that the *IFRS for SMEs* is not appropriate for ASEAN countries with

- Social or community centered values,
- Undeveloped business infrastructures,
- SMEs that are not focussed on global trade, and/or
- Inadequate resources for training for implementation and monitoring of the *IFRS for SMEs* for unintended and dysfunctional consequences.

The IASB aimed to create “technically competent standards to meet the needs of advanced capital markets and the regulation of international capital inflows” (Richardson & Eberlein 2011, p. 217). However most SMEs are not active in the capital markets and their activities predominately are local and internally financed. The *IFRS for SMEs* derived from the full IFRS, albeit simplified, fail to address the needs of the users of their accounting information.

The *IFRS for SMEs* instead of aiding economic growth for SMEs may create a burden to growth through the imposition of unnecessary financial reporting and regulatory requirements. Imposition of the

IFRS for SMEs may inadvertently result in reduced entrepreneurship activity in response to onerous financial reporting requirements. Further there is a possibility of discouraging entrepreneurship activities that may result a reduction in both the numbers of registered entrepreneurial entities and growth aspirations. We suggest business informality may increase as entrepreneurs aim to avoid unnecessary financial reporting requirements. Further, entrepreneurs considering registration and growing may be deterred from doing so.

We recommend that challenges to adopting the *IFRS for SMEs* be researched in each individual jurisdictions considering adoption. The needs of the users of SME financial reporting, support mechanisations, infrastructure, regulation and education and training are some aspects needing urgent study. Using data gathered within the ASEAN member countries to provide a foundation for making decisions.

a. Is it appropriate to adopt the existing 'capital market' conceptual framework of the *IFRS for SMEs*?
b. What are the implications of adoption from the individual ASEAN members' perspective?
c. What financial information do entrepreneurs in SMEs need?
d. Who are the users of SME financial information and what are those users' needs?

We consider the one-size-fits-all-standard for SMEs, with a capital markets orientation, does not accommodate the differing cultures, ways of doing business, regulatory frameworks, underlying philosophies, or many of the needs of users of financial reports from SMEs. We suggest that the effects of adopting the *IFRS for SMEs* be researched in each of the ASEAN jurisdictions considering adoption. We opine adoption of the *IFRS for SMEs* without modification or exemptions would provide few benefits for entrepreneurs; rather it would be burdensome to the SMEs and inappropriate for achieving economic growth targets.

Our paper has raised more questions than answers. Evidence exists in the literature that the adoption decision made in haste can be easy but implementation, particularly for emerging economies, can be difficult. Country specific difficulties exist in addition to inherent problems that come with the English language, principle-based, and capital market orientated *IFRS for SMEs*. However, difficulties experienced by other countries in their implementation efforts can foreshadow what ASEAN members, particularly those in emerging economies, may face when implementing the *IFRS for SMEs*. We argue that without local research on the possible implications from unmodified adoption for the *IFRS for SMEs*, and subsequent adaption or modifications to local conditions and user needs, the *IFRS for SMEs* would be a burden more than a benefit for entrepreneurs within the ASEAN group.

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