The Key Actor for IFRS Diffusion: Proposing the new category of Rule Enabler of a Global Standard Adoption

Abstract

The literature of key actors influencing the diffusion of a global standard are often too focused on the international arena. This study proposes four categories of actors as a new framework in analysing key actors both at the international and national arena of accounting standard-setting. The four categories are: Rule Makers, Rule Enforcers, Rule Takers and Rule Enablers. The four categories were developed from the institutional perspective of world society theory and and from the interview of 63 actors of IFRS adoption process in six countries namely Indonesia, the Philippines, Canada, Brazil and the US. The study discusses the case study of the Philippines to highlight the role of an accounting firm as the Rule Enabler in the IFRS adoption process. This study contributes to the discussions of global standardization process by introducing a new category of actor "Rule Enablers" which is crucial to the adoption of a global standard at the national arena.

Keywords: IFRS; world society theory, institutional theory, standardization.

1. Introduction

The rate of IFRS adoption is astonishing especially as Internationally uniform accounting rules are a leap of faith, untested by experience or by a significant body of academic result, nor other observable alternatives (Ball, 2006). IFRS has been adopted by more than 122 jurisdictions, nevertheless the level of IFRS adoption is not as clear as black and white but more of shades of grey (Pacter, 2014). Currently IFRS is adopted by countries with different endorsement mechanisms; however most of the case studies of IFRS adoption country are too focus in explaining the reasons for the adoption or the impact of the adoption to the socio-economic of the country. Case studies of IFRS adoption in developing and ex-socialist countries are significantly omnipresent compare the case studies of developed countries. Some case studies of IFRS adoption in developing countries for example are the case of Bangladesh, Pakistan, Egypt, Kazakhstan, Romania and Zimbabwe (Mir and Rahaman, 2005, Junaid and Ghani, 2005, Tyrrall et al., 2007, Albu et al., 2011, Hassan, 2008, Hussey and Ong, 2006, Chamisa, 2000).

At the moment there are few explanations of why IFRS is diffused. The first common explanation for IFRS diffusion is the realist perspectives. IFRS is diffused through capital dependency and as the new technological tools for developed countries in dominating the developing countries (Aras and Crowther, 2008, Nnadi, 2012, Bakre, 2008). The second explanation, IFRS as well as other international standards are diffused due to the financialization of the world, especially after Asian Crisis in 1998 (Arnold, 2012, Humphrey et al., 2009, Humphrey and Loft, 2009). The third explanation why IFRS diffused is simply because countries isomorph, the institutional isomorphism became popular explanation for various case studies of IFRS adoption and has been utilized in qualitative case studies for countries as well as companies.

Astonishingly, the various streams of literatures rarely make reference one another. Those analyzing the IFRS diffusion in the world level usually accentuate the transnational organization interplay and how international organizations improve the standard legitimacy and precipitate the diffusion. Often they neglect the process inside the countries as an important institutional works for the whole diffusion process. In contrast, country case studies are caught up in to too much details of why country adopt IFRS and do not perceive the country as a relevant player in the international arena.

The extant literature provides us with the snapshots from various case studies of why countries adopt IFRS and snapshots how IFRS diffused from the world-analysis papers but they rarely relate to each other. This study would be the important missing link. By investigating the IFRS adoption process in several countries, this study aim to extend the world-level analysis paper of how IFRS globally diffused to the end of the diffusion pathway: the adoption countries. This study is interested to investigate the actors who influence the adoption of IFRS at the national level and if they have resemblence with their international key actors.

The rest of paper is structured as follows: The next section provides a background of how IFRS diffused over the last three decades; the third section presents the theoretical framework and literature review and the fourth section explain the methodology used in selecting sample countries and methodology for data collection and analysis. The fifth section of empirical finding analyses the actors involved in the IFRS adoption process in six sampled countries. The paper then discusses the case study of the Philippines to highlight the role of rule enabler. The paper concludes with the discussion and conclusion how this study has improved our understanding of global standardization process.

2.Important Milestones of IFRS Diffusion (1998-2008)

There are many factors contribute to the IFRS diffusion over the past fifteen years. Major milestones include the Asian financial crisis in mid 1990s, the adoption of IFRS by European Union in 2005 and the US SEC decision in 2007 to accept IFRS based financial report for foreign private issuer in the US.

Although the idea of global accounting standard has been developed since the inception of IASC, however it was not until severe financial crisis in Asia that the international agencies believe that a global accounting standard was urgently necessary. The importance of Asian financial crisis in mid 1990s as the starting point of the new financial infrastructure regime, thus the demand for a better global accounting standard, has been highlighted in some of studies (Arnold, 2012, Humphrey et al., 2009)

The Asian financial crisis began in Thailand in 1997 with the devaluation of Thai Baht due to short term investors speculation. The crisis spread very fast to the neighbouring countries with weak currencies such as Philippines, Indonesia and Korea. The Asian financial crisis soon became a global crisis as it also impacted US hedge fund, the Russian debt crisis in 1998 and Brazilian currency crisis in 1999. Several countries like Thailand, Indonesia and Korea did not have a choice but to welcome IMF rescue programs (Arnold, 2012).

The seriousness and the scale of the crisis led to widespread consensus among western economies, world policy analyst, politician and finance ministers on the need to reform the international financial system, thus G-7 was established in October 1998. G-7 or Group of 7 are the group of finance ministers and central bank governors of seven developed countries: Canada, France, Germany, Italy, Japan, the UK and the US.

Four months after the October meeting, G-7 Finance Ministers and Central Bank Governors agreed to create another forum, Financial Stability Forum (FSF), to promote information exchange and coordination among national authorities, international institutions, and international regulatory experts. G-7 countries in their declaration on 30 October 1998 has taken numerous measures to be taken included the call on the IASC to finalise by early 1999 a proposal for a full range of internationally agreed accounting standards. IOSCO, IAIS (International Association of Insurance Supervisors), and the Basel Committee should complete a timely review of the standards. Although IASC had established contacts with Basel Committee and the World Bank for many years before, this declaration nevertheless was an important enhancement of the IASC stature in the international financial arena (Camfferman and Zeff, 2007).

FSF then conducted several meetings to discuss set of standards for the new financial infrastructure. By September 1999, this forum of finance minister and central bank governors has expanded into 20 countries which then famous for the name of G-20. On March 2000 the Forum agreed to focus attention on 12 key international standards.. Although this list does not endow any of the additional authority of the key standards, it was a clear signal that the IASC was now taken seriously at the governmental level in the developed world (Camfferman and Zeff, 2007). The international support for IFRS was also strengthen by IOSCO endorsement in May 2000 for IASC's core standards and Basel Committee in April 2000 for 15 IASC's standards that had a significant effect on banks.

G20 recommendations become an influential factor for its member to adopt IFRS and also for IASB to revise its standard. For example G20 successfully pressured IASB to revise its financial instrument standards after the global financial crisis in 2008 (Bengtsson, 2011).During its second summit in London April 2009, G20 issued a leader's statement with 29 recommendations to its country members. One of the recommendations was to strengthen financial supervision and regulation was the adoption of IFRS.

The Asian financial crisis has created the new financial infrastructure globally. The crisis form new international actors which remain influential to the IFRS making at the moment. The rise of G7 which then evolve in to G20, the creation of 12 key standards and the FSAP/ROSC Program by IMF-World Bank fostered the IFRS diffusion, especially to the Asian jurisdictions. However, after the Asian financial crisis, the world observed the audacious decision by Europe in adopting IFRS as an accounting standard which united European capital markets.

The decision to adopt IFRS by Europe Commission in 2002, to the surprise of most, is a major drive for IFRS diffusion to other part of the world. Technically, the EU maintains an independent process to evaluate each IFRS by its advisory group called EFRAG (European Financial Reporting Advisory Group) which was established in 2001. Due to modifications that can emerge in the process, the EU-version of IFRS is not identical to the issued by the IASB. Still, the adoption of all IAS standards was a surprise even to IASC/IASB member at that time.[1]

The "European Effect" pushed other country to consider similar strategic move. In July 2002 for example, Australia announced the adoption of IFRS by 1 January 2005 and the EC decision was a major push factor[2]. Beside Australia, Japan decision to harmonise with IFRS was also highly influenced by EC decision. CESR (Committee of European Securities Regulators) advice on July 2005 was the major contribution to push for BAC and ASBJ[3] to sign Tokyo Agreement with IASB in 2007. When EU adopted IFRS in 2005, CESR made an assessment of Japanese GAAP and concluded that there were 26 area differences between J-GAAP and IFRS. CESR considered J-GAAP is not equivalent to IFRS and this brought concern for Japanese companies listed in European market(Kaneko and Tarca, 2008). IFRS harmonization attempts in Japan emerged from the pressure to convince the EU that Japanese GAAP was equivalent to IFRS since Japanese companies rely heavily on European capital markets for external financing (Skinner, 2008).

Apart from Asian financial crisis and Europe adoption, other important milestone in the IFRS world diffusion was the decision of US SEC in November 2007 to exempt foreign listed companies reconcile to US GAAP if they used IFRS (as issued by IASB) as the basis of their financial reporting. When SEC issued a "Roadmap to Convergence" in 2005 in collaboration with the European Commission, the elimination of SEC's 20-F reconciliation for foreign issuers using IFRS was aimed to be effective in 2009 (Street, 2007). Thus, the swiftness of US SEC decision, from July 2007 it issued a rule proposal to drop the reconciliation to November 15, 2007, was a surprised to many even to IASB and FASB members[4].

[1]Interview with former IASB member, 23 September 2013.

[2] media released by Australia Financial Reporting Council on 3 July 2002.

[3] BAC is Business Advisory Council – and advisory council of Japanese FSA. ASBJ is Accounting Standard Board of Japan.

[4]Interview with former IASB member, 23 September 2013 and member of FASB, 26 September 2013.

After 2007 decision, the prospect of the world achieving one global accounting standard was burgeoning. In August 2008, the SEC unanimously, with enthusiastic support by all of the participating staff offices and divisions, approved a rule proposal containing a roadmap toward required adoption of IFRS by U.S.issuer. (Zeff, 2012). The US SEC warm attitude toward IFRS adoption has encouraged other countries with close economic relation to US to embrace IFRS or at least strengthen their commitment in adopting IFRS. Many countries around the globe made commitment of IFRS adoption around 2008-2010 including Malaysia, Indonesia, Singapore, South Korea, Japan and Brazil.

3. IFRS adoption process: The value of an institutional perspective and the key actors.

The dominant perspective of how IFRS diffused is due to the pressures from international bodies or even the new colonization of advanced economy in less developed countries. Aras and Crowther (2008) for example argued that IFRS is the vehicle of colonial exploitation, and continue to argue that the promotion of IFRS is an attempt to foster an environment conducive to the appropriation of the socio-economic resources of less powerful countries by the IFRS standard setting countries. Aras and Crowther (2008) as well as other scholars (Nnadi, 2012, Bakre, 2008, Arnold and Sikka, 2001) argued that the IFRS is diffused by powerful countries to their own advantage to legitimately exploit less well-developed countries in this post-colonial era. A similar perspective is shared to structure/frame the influence of British power in African countries (Nnadi, 2012) and Jamaica (Bakre, 2008).

The above perspective is common to macro-realists who believe that the nature of the international relationship in globalisation is through exploitation, domination and manipulation (see Drori, 2008 for comparison table between two perspectives). The realist perspective of the nature of social actors such as nation-states and international organisations is rational yet an often passive constituent. These actors in the realist perspective are subunit of the global capitalist structural system and the nation-state is less of a constrained actor, and more the occupant of a role defined by world economic and political/military competition (Meyer, 2010).

However this study offers different ontological perspectives of IFRS diffusion. Although this study does not deny that pressure from international organizations exist, especially towards less powerful countries, IFRS is also diffused because it is increasingly becoming a world culture. Framed by world society theory, this study perceives nation-state, the adopter of IFRS, as culturally constructed and embedded rather than as the unanalysed rational actor depicted by realist (Meyer et al., 1997). In this study IFRS adopted countries are perceived as rationalized actors and actively involved in shaping IFRS. Using world society theory IFRS should not perceived as a technological exploitation tool used in the post-colonial era, but as a reification of one global standard as a world culture. Table 1 provides the difference between a realist's perspective and institutional perspectives in IFRS diffusion.

[insert Table 1 here]

Using the world society perspective, the study argues IFRS is diffused not only because of the increasing interdependency of capital markets or intensifying transactions of global capital, but also due to one global accounting standard became a universal concept.

Understanding the key players of IFRS diffusion

Researchers have been interested to discuss the network of agents for IFRS diffusion for quite some time both in the international arena (Botzem 2012; Camfferman and Zeff 2007; Nölke and Perry 2007; Perry and Nölke 2005) or few at the national level (Albu et al. 2011; Hassan 2008; Mir and Rahaman 2005).

Scholars with transnational governance research interest have identified the key actors in the international arena. Djelic and Shahlin (2006) for example, identified four broad categories of actors in the transnational governance space. The first one is nation states and political administrations which is argued to be losing their power monopoly over regulation but remain powerful in the process. The second category is the international organization such as IMF, World Bank, WTO, and OECD who fostered and stimulated the generation of transnational governance. The third category is what Djelic and Shahlin (2006) called as "reinvented old actors", former "rule-takers" and "rule-followers" which need to reinvent themselves as active participants in the transnational governance. The fourth category is the "new actor" which is a broad category for new institutions in terms of structures, features and qualities or they also can be newly involved in the process. IASB is identified as a "new actor" in the transnational governance arena.

Other scholars identified similar key actors at international level. Boli and Thomas (1997) for example, identified three main key actors: national states, transnational corporations and inter-governmental organizations. Professors and scientists (Meyer 1994) identified as "rationalised others" give advice to the nation states and other key actors. The role of international organizations are highlighted by many scholars in the diffusion of rules and regulations which are then adopted by nation-states (Arnold 2009; Humphrey et al. 2009). The current literature on globalization mostly agreed that the power of state actors has been diminishing as they share their legislative power and authority with international organization (Boli and Thomas 1997; MÖrth 2009). To institutionalise a new set of accounting standard with different logic in a particular country, there should be individual or groups of individuals or an organization with an intention to adopt IFRS.

In contemporary world culture, the dominant global actors are nation states, transnational corporations and inter-governmental organizations (Boli and Thomas, 1997), other authors choose the broader term international organization which cover both inter-governmental and an international NGO (Drori, 2008). International organization is pivotal in shaping world culture and forming a global structure of world polity. In particular, an international NGO has proliferated from about 200 active organizations in 1900 to nearly 4000 in 1980s (Boli and Thomas, 1997). In the globalization of accounting standards, the important role of international organization is highlighted by many scholars, for example, in Arnold (2012) and Camfferman and Zeff (2007).

World cultural principles license the nation state not only as a managing central authority but also as an identity-supplying nation (Meyer et al., 1997). Thus, in the IFRS arena, nation-states contribute 'identity' of IFRS and intimately involved in the development of the IFRS. The involvement of the US in the initial establishment of IASB, thus supplying identity of IASB as an independent group of expert, has been well discussed (Street, 2007, Camfferman and Zeff, 2007). Contrary to common believe that IFRS is made by a group of expert sitting in the ivory towers writing the standard to be used by the whole world, there are many examples where new IFRS or amendments were issued from a requested of less powerful countries such as Malaysia recently successfully pushed for the revision of agricultural standard. The realist would see Malaysian lobby as interested effort to protect Malaysian palm oil industry, but it would be imprudent to refute the alternative argument that these countries may feel partly responsible to get involve in achieving a better global standard. As a part of world society, these countries may have genuine motive to improve the quality of the standard by showing the flaw in the standard and sharing the implementation challenges they face in their jurisdictions.

World society is also made up of "rationalized others": social elements such as sciences and professions for which the term of "actor" hardly seems appropriate (Meyer, 1994). The accounting profession was on the frontier of the establishment of International standard setter (IASC). When IASC became a private organisation and distanced itself from the accounting profession, Big four accounting firms became the major funding supporter of IASB. For the

IFRS diffusion, the role of the accounting profession (as a whole) and the accounting firm is profound (Nolke, 2005, Perry and Nölke, 2005).

4. Research Methodology

The design of this research adopts qualitative interpretative approach to untangle the process of IFRS adoption decision in several countries. The qualitative method is required to gain in-depth understanding on the process of decision making. Six countries selected in this study are Philippines, Brazil, Indonesia, Canada, Japan and the US. They provide a wide-spectrum explanation on how IFRS was adopted in different jurisdictions. Philippines, Brazil and Indonesia represent emerging economies with less influence in the international IFRS arena, while Canada, Japan and the US represent developed countries with a stronger influence in the IFRS making arena.

The main analytical approach of the study is archival and a documentary study, where the main source for the study comes from World Bank reports, speeches, minutes of meetings, meeting pod casts, articles in newspapers and magazines, and other relevant materials. Findings from such analysis will be complemented by in-depth semi-structured interviews and focus group discussions of key decision makers. 61 interviews have been conducted to 55 respondents for the period of four months during November 2012 – November 2013.The respondents mostly are current and former member of national standard setters in the six sampled countries (51% of total respondents), officials of capital market regulators (11%), auditors, academics, national accounting profession association as well as from international bodies such as IASB, IFRS Advisory Council, IFAC and World Bank.

Interviews are used for several purposes. Firstly interview is used to confirm the time line of the IFRS adoption. The publicly available documents mainly provide the year date of formal IFRS adoption while the discussion and the process to adopt IFRS may start several years prior to the adoption year. Secondly, interview is used to confirm the key individuals (or group of individuals or institutions) involved in the discussion of decision making process for IFRS adoption. Thirdly, interview with several key individuals is used to gain an understanding on how the decision emerged. All interviews then are transcribed and analysed using template analysis based on the common themes evolved from the interview in answering research questions.

5. Empirical Findings : Proposing the New Four Categories of Actors

Learning from the IFRS adoption process in six sampled countries, this study identifies four categories of actors engaged in the process of any international standard adopted in a country. The four actors at the national level are: Rule Makers, Rule Enforcers, Rule Takers and Rule Enablers. These four actors have roles similar to the actors at the international level.

1. **Rule Makers**

   At the international level, the rule makers of IFRS are the IASB and the IFRS Interpretation Committee who produce the international accounting standards and its interpretations. Traditionally, rule maker(s) at the national level is the institution who makes and issues the accounting standard. In the IFRS adoption process the rule maker is the body (council or board) who endorse and issue the IFRS converged local standard. National accounting standard setter such as FASB is the obvious rule makers, however I observed in some countries that the power of standard setting is often shared with another body like the case of BAC (Business Advisory Council) in Japan. BAC as a previous standard setter prior to the establishment of ASBJ remains an important rule maker in Japan especially in providing future strategic directions of IFRS adoption.

   Accounting standard setter is the main agent for IFRS adoption at the national level. During the decision period some countries created new accounting standard setter to undertake the responsibility. Amongst the sampled countries, their role and influence vary from merely the executor of decisions as in the case of Brazil or Japan, or play a more central role in initiating and shaping the IFRS decision such as Indonesia and Canada.

   National standard setters did not just influence the IFRS decision, more interestingly they were also transformed by the decision as well. As was discussed in the previous section, some standard setters reformed their governance system after the decision. Japan and Brazil was compelled to create a new private standard setter to adopt IFRS while the Canadian standard setter decided to wind up some of the committees, including Emerging Issues Committee (EIC) which since its inception in 1988 was seeking a solution of various emerging issues by looking at US GAAP. Philippines reformed its accounting standard committee in to a formal board and Indonesia established an IFRS implementation team, similar to an interpretation committee who deal with implementation issues.

2. **Rule Enforcers**

Rule enforcers are the institution which enforce the standard applied by the rule takers. Without the rule enforcers, IFRS would be the *de jure* standard but not the *de facto* standard in the country. At international level, World Bank and IMF are often classified as rule enforcers who audit the countries if IFRS has been applied, for example through the ROSC program. At national level the rule enforcer consists of capital market regulators such as SEC and financial institutions regulator such as central bank or FSA.

The role of regulator in IFRS adoption process is crucial to give legitimacy for the output of standard setter as often they have authority to mandate the standard for the regulated. In Japan, Philippines and the US, the capital market regulators played a more important role in making decision for IFRS adoption, while in Canada, Indonesia the regulator acquiesced with the decision of standard setters to adopt IFRS.

3. Rule Takers

At the international level the rule taker of IFRS is the adopting jurisdictions, while at the national level the rule takers are the preparers who need to apply IFRS such as companies and financial institutions. Rule takers are important agent in the IFRS adoption process at the national level. Their voice has significant weight to the rule makers, for example the group of giant manufacturers in Japan successfully altered the decision of IFRS adoption in 2011. In Indonesia the Banks as the rule taker of the financial instruments standards sucessfully put pressures to the accounting standard-setter to delayed the adoption of IAS 32 and IAS 39 for one year in 2009.

4. Rule Enablers

Rule enablers mainly are institutions who are involved in the capacity building activities of the country after the decision is made. Rule enablers educate and advise the rule takers and the rule makers in the country. This role is unidentified at the international level, but it is omnipresent at the national level. Accounting firms, consulting firms, universities, and professional association fall under this category. Human resource is a serious challenge for countries adopting IFRS. All sampled countries acknowledged the need to educate their stakeholders and teachers with the new rules, sometime within a very short transitional period.

Rule enablers are pivotal as IFRS, in most countries, is a standard with many new concepts and new vocabularies which requires a serious plan of re-educating the stakeholders. In some countries, they do not have knowledge in IFRS as the stakeholders are only conversant with the old standard. Upon the decision of IFRS, this enables those involved in preparing the human resources by creating education materials such as text books and other publications, producing research for the rule makers, developing a new certification and conducting seminars and workshops.

One of the role of professional association is organising professional certification and professional education to its members. IFRS adoption offers the opportunity for a new type of professional certifications. An International UK-based professional association, ACCA for example offered diplomas of IFRS as early as 2001. Indonesia created new certification in 2010 to test their accountants against the IFRS-converged Indonesian GAAP. IFRS may also offer new revenue sources for the professional association from the IFRS related professional education, seminars and publications.

Professional Associations in our sampled countries are all in support for IFRS adoption. As IFRS open new opportunities for their members for a new advisory service, it is not a surprise that professional associations are eager to support IFRS. In Indonesia, the professional association is the institutional entrepreneur who convinced other stakeholders to adopt IFRS. AICPA in the US allows the use of IFRS in 2010 for private companies. And JICPA was quoted by few respondents as too eager for the adoption of IFRS which annoyed some Japanese companies[5].

Professionals and academics in the world society theory is referred to as "rationalized Others" (Meyer, 1994). At the international arena, they are considered not as actors and their role is to give advice to the other actors in the arena. They derive their authority not from their strength as actors but from their expertise and knowledge (Meyer, 1994). Academics in particular are expected by the society to have more impartial and objective analysis about which better standard should be adopted, some academics in Japan and US are in favour for competition of standards in achieving one global accounting standard. In Indonesia, those who were against the adoption of IAS in 1994 also came from the academics who argued that IAS has inferior quality compared to US GAAP.

The role of accounting academic in the IFRS adoption process is pivotal in reforming the formal accounting education. The readiness of universities in teaching IFRS became the main concern discussed by the rule makers in the country. Academics also provide research who help the rule makers in making decisions. One of the senior staff in the

[5] Mentioned by two respondents from Japan, two of them are academics but have been involved in the accounting standard setters.

Canadian capital market regulators admitted that they have been assisted by some studies performed by Canadian academics on the comparison of Canadian GAAP and the US GAAP in making decisions[6].

In summary, the key actors of IFRS diffusion in the national arena share the same characteristic and role with the key actors in the international arena except for the rule enabler. Table 2 provides an illustration of agents in the international and national arena with its institution example.

[Insert Table 2 Here]

From all the six countries, Philippines offers a very interesting story in regard with its rule enabler. Not only the rule enabler were very influential in educating and promoting IFRS, the organisation was also very influential in pushing the IFRS adoption decision. The case study below provides a case where the rule enabler for IFRS adoption in a country is an accounting firm which also gained a lot of economic benefit from the adoption of IFRS from their consultancy and training services.

6. IFRS Adoption in Philippines: Big Firm as the "Rule Enabler"

Prior to 1996, financial accounting standards and practices in the Philippines were modelled largely on US GAAP. The ASC decided to harmonise their standards with the IAS in 1996. The decision to adopt these standards in 1996 was unexpected at the time. Starting since 2005, all companies in the Philippines, both listed and non-listed need to adopt IFRS as effective and published by IASB at that time with very few transition reliefs. Even ten years later, in 2006, the Philippines still had a dearth of textbooks on international accounting as observed by a World Bank report (World Bank, 2006).

Respondents in the Philippines argued that he decision to adopt IFRS for Philippines was mainly driven from the recommendation of World Bank ROSC report and IOSCO. Philippines SEC made commitment to IOSCO as early as 1998/1999 for full adoption of IFRS by 2005. World Bank ROSC and IOSCO has been very influential to the Philippines decision which confirm similar findings in other developing countries such as Bangladesh which identifies

[6] Disclosed by the senior staff of Ontario Securities Commission during the interview.

World Bank and Asian Development Bank as international organization pressuring Bangladesh to adopt IFRS (Mir and Rahaman, 2005).

"ROSC report suggests many things. They reviewed our accountancy law. [...] they said that the recommendation is for the Philippines to adopt IFRS by law. So there was the accountancy law in 2004 which prescribe adoption of IAS and best practices. So it's adoption by law. But prior to that, our SEC had committed in their IOSCO meeting saying that we will adopt IFRS, we will adopt this rules, it is commitment of the government. Apart from the commitment, the ROSC came over and suggest that we study what will be good for the country and the consultant at that time recommend that we should adopt IFRS and we have to have a law to make it enforcable." [Interview with the Chairman of Board of Accountancy, 11 February 2011)

The derivative of the Accountancy Act 2004, R.A 9298 created the new council FRSC which replace the ASC. FRSC was established by the BOA in 2006 while ASC was a less-formal council established and funded under PICPA (Philippine Institute of Certified Public Accountants). ASC was firstly created in 1981 by the initiative of the Chairman of ABC at that time, which then became the chairman of the ASC for 28 years. In contrast, the FRSC limit the membership term of 3 years, including the term of chairman although the membership can be renewable. In August 2006, FRSC established Philippine Interpretation Committee (PIC) to assist FRSC in issuing implementation guidance on PFRSs (Philippines Financial Reporting Standards). While FRSC members are appointed by the BOA, members of PIC are appointed by FRSC.

Most of respondents in Philippines mentioned that there were not strong rejection from the stakeholders around 2005 when IFRS was adopted. However, two respondents revealed that there were some reservation closer to adoption date of1 January 2005. One of the partner of ABC, who are close to the some key decision makers in the Philippine's SEC shared this delicate moments in December 2004.

Ya, (Phillipines had in 2005 is) bing bang approach. But, it is not as big as if we did not do our homework earlier. But, it's still difficult. Because I think i even recorded, up to the last minute up to December of 2004, when there was still no clear issues whether it goes or not. So far ABC's concern, we were ready. But, if given the choice, we would rather have more time. But at the same time, we've got SEC Philippine government commitment to IOSCO that by 2005 (made) years ago. And, I think that time there were lobbyist from several sectors, telling the SEC, can you deffer (...) I was talking to some of of my friends *in SEC at that time. So, I think if I am not wrong the SEC memo came out in last week of that year and the BSP(Central Bank) also saying, "Okay, we will be adopting IAS or IFRS 2005, effective from 2005."*(interview with Partner of ABC Firm, 12 February 2013).

ABC, the biggest accounting firm in Philippines has a dominant role in the IFRS convergence process in Philippines. The chairman for ASC has always been the managing partner of ABC since its first establishment in 1981. In fact for 28 years, ASC is chaired by one person, hold meetings at ABC office for number of years[7] and supported by ABC staff as council's secretary[8]

ABC was established in 1940s and developed to be the biggest accounting firm in South East Asia. ABC also became the first country which opens the foreign accounting firm in Indonesia in 1970s. Currently ABC audits 54 of top 100 corporations in the Philippines and 396 of top 1000. ABC is proud of its "alumni" which sit in various important positions in the Philippine government. The firm has produced more than 30,000 professionals (ABC Foundation, 2009) and the firm has significant influence in the accounting profession, accounting standard setter as well as presidential cabinet.

The networks of ABC have created competitive advantage over the other firms in regards to the IFRS adoption. For example around the decision to switch to IAS from U.S. GAAP in 1997, the chairman of standard setter and the chairman of interpretation committee were ABC partners, which become ABC managing partner in later years. As early as 1998, ABC has created an IAS Group within the firm and trained their future partners IFRS as being discussed in the interview by one of ABC partner.

"*So as early as 1998, Mr. Accountant (Managing Partner of ABC) assigned me as IFRS or IAS expert partner at that time. So, and fortunately for us, when I came back (from MBA study), they assigned me to start the derivatives and treasury risk management practice of ABC. So, I learned the financial instrument derivatives on the job with the understanding at that time because they had big job and allow me to be part of the team. So, I learned about treasury risk management and particular derivatives. So, it's good because as you know the most complicated topic in IAS is IAS 39 and IAS 32".* – Interview with ABC Partner, 12 February 2013

[7]Interview with former ASC chairman for 28 years (was managing partner of ABC), 15 February 2013

[8]) interview with current ABC partner who assist ASC as its technical advisor and secretary, 12 February 2013.

ABC Firm also for example won the grant from USAID to deliver ten days IFRS training to the officials of the tax authority or the BIR (Beureu of Internal Revenue) in 2005. Around the IFRS adoption year at the end of 2004, the Chief of Accountant of Philippines SEC was a former ABC partner, as well with the chairman of the accounting standard setter. The Philippines of SEC received some pressure from the industry to delay the effective date. However the ABC played an important role to push decision in 2005 through the informal conversation with the network of ABC former employees.

Interviewer : Who was the decision maker at that time? (to go head for the adoption)

Respondent : Of course, the Chair (of Philippines SEC). But the officer of general accountant was Mr. Enterprise (not a real name), a former partner ABC,

Interviewer : So, who was the chairman of the SEC at 2005?

Respondents : at that time… I cannot recall…. The OGA was Mr. Enterprise. I was in close coordination with him because of course we will be requested to give lecture and so on.

Interviewer : Mr. Enterprise ask you a question if we are going to go ahead at January 2005, "Are we ready?"

Respondent : (laugh - nodding) It's difficult but it can be done with the help of the regulator because who are we to tell our clients, they would say that. Of course we told them (SEC)…informally that maybe during the first two years, the regulator should be a little bit lenient. But… it's a big leap.

(Interview with ABC Partner, 12 February 2013)

During the transition period of IFRS (2001-2005), ABC became the front liner to educate Philippines accountant about IFRS. ABC hold many trainings and workshops about IFRS and charged premium compared to the trainings organised by PICPA. One of the sole practitioner accountants, who were also an ABC former employee, said in the interview that he could not afford to join ABC training because it was too expensive. Another respondent from smaller accountant firm candidly said that Big Four firms are the one who get most benefit from IFRS convergence in Philippines.

Interviewer : Who do you think get the most benefit from IFRS Convergence in Philippines?

Respondent : The Big Four of course. I can see their client increase, they can charge more fees. That is why they support IFRS convergence so much. They were creating their market

(Interview with accountant from small firm, 30 November 2012)

In summary, the IFRS adoption decision in IFRS in Philippines has a strong legal mandate from the law and also was supported by the government. The Philippines SEC took the initiative to convince IOSCO and the biggest accounting firm in the country play an important role during the transition period and to convince key decision makers to carry on with the decision.

Discussion and Conclusion

The main actor involved in the IFRS adoption process is the national standard-setter (rule maker), however in some countries, the capital market supervisory agencies (rule enforcer) have the regulatory power to impose the standard, thus these agencies are also important players. Professional accounting associations are another player which may take an active role in the adoption process (especially if the standard-setter is under the heavy influence of the accounting profession) or as "rationalised others" who provide advice to the actors. Accounting profession and accounting firm may serve as a very important role as a "rule enabler", a category of actor who are difficult to be identified in the international level.

Big accounting firms with their international networks have more competitive advantage than the small firms as they have access to a better education material developed by their global office. IFRS also offers new opportunities for accounting and consulting firm to create new products and a new line of service. Deloitte Indonesia for example created a new line IFRS Advisory Service in 2007. The case study of the Philippines revealed the role of a big accounting firm as a rule enabler in the IFRS adoption process. The case study enhanced our understanding of "Rule Enabler" category which may involved in the behind-of-scene activities of IFRS adoption process by utilising their network capital.

This study informs other international standard-setting boards who are at an earlier stage than the IASB. Learning from IFRS diffusion, the endorsement of international bodies is an important element in the diffusion of the standards; however for any standard to be successfully diffused it needs local players who bring the standard to local markets. These international boards, e.g. the IIRC and IPSASB, should identify who the actors are at national levels and how they can build strong cooperation with them. The quality of international regulation is enhanced by more rule takers adopting the standard; other international standard-setting boards also need to be cautious of the network effect of adoption which can result in invitions to other rule takers, however if one influential rule takers decided to abandon their commitment (such as in the case of the US in this study), it also has a negative network effect discouraging other prospective rule takers.

This study provides an insight for other countries who are still thinking about adopting IFRS. The UN has 193 member countries while the IFRS Foundation in their survey of IFRS use claimed that 114 jurisdictions[9] have adopted IFRS for their listed companies; thus there are about 79 countries that are still at the early stages of the decision-making process. These countries may learn various mechanisms on how to institutionalise IFRS in their countries. The study offers lessons learned for prospective adopters such as the lack of local actors at the national level may serve as impediments to the adoption process, thus countries may consider the need to establish the actors first so as to strengthen their rule enablers and rule makers.

[9] http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx, accessed 10th November 2014.

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Table 1. Comparison Realist and Institutional Perspective on IFRS Diffusion

	IFRS Diffusion from a Realist Perspective	IFRS Diffusion from the World Society Perspective (Institutional perspective)
The perception of IFRS	As technological tools serve the interest of colonialists, in less powerful nation-states.	IFRS serves as reification of the world culture: one global accounting standard.
Nation States of IFRS adopter	Subunit of the global capitalist structural system - Perceived as rational, yet passive.	Rationalized actors. Perceived as highly relevant players.
The reason of nation-states to adopt IFRS	Capital dependency to an international donor or coerced by more powerful countries.	A rationalized option as nation-states want to be accepted in world society.
The Key Players	Emphasis on international organization and international regulatory system as the main mechanism for diffusion.	International organization is important in developing world culture but nation-states are also identity suppliers for the world culture. Players include “rationalised others” who advise national actors.

Table 2. The Actors in the IFRS Diffusion: International VS National Arena

The Role of Actors	Example of Actors in the International Arena	Example of Actors in the National Arena
Rule Makers : Create the standard	IASB, IFRS Interpretation Committee	National Standard Setter for example FASB (US), AcSB (Canada).
Rule Enforcer : Enforce, endorse or recommend the standard	IOSCO, IMF, World Bank	Capital Market Regulator, Central Bank for example US SEC, Japanese-FSA.
Rule Takers : Apply the standard	Adopting jurisdictions: EU, Countries,	Preparers: Listed Companies, financial institutions, and others.
Rule Enablers: Support knowledge building of IFRS.	Unidentified	Professional Association, accounting/consultant firms, universities/academics