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Governance, Experience, and Cultural Factors in the Adoption of IFRS for SMEs: Cross-Country Evidence from 88 Nations

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ABSTRACT

This study examines the determinants of adoption of the International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs) using cross-country evidence. Despite the growing importance of SMEs in global economies, empirical research on the adoption of IFRS for SMEs remains limited compared to studies on full IFRS. Drawing on data from 88 countries that have adopted IFRS for SMEs, this study investigates whether governance quality, prior experience with full IFRS, and cultural factors influence adoption decisions. Secondary data were obtained from the IFRS Foundation and the World Bank and analyzed using regression techniques. The findings indicate that governance-related factors do not constitute significant barriers to the adoption of IFRS for SMEs. Furthermore, experience with full IFRS and language-related cultural factors are not found to be significant determinants of adoption. These results suggest that IFRS for SMEs represents a flexible and broadly applicable reporting framework that can be implemented across diverse institutional environments. The study contributes to the international accounting literature by providing large-sample empirical evidence on IFRS for SMEs adoption and offers policy-relevant insights for regulators and standard setters seeking to promote harmonized financial reporting for SMEs.

Keywords: IFRS, SMEs, Governance, Experience, Culture
JEL Classifications: M41

1. INTRODUCTION

The debate over the justification for implementing IFRS for SMEs has been a long-standing topic of discussion (Baldarelli et al., 2012), highlighting the importance of accounting standards for small and medium-sized entities (SMEs). Users of financial statements often argue about the scope and type of information that should be presented, as well as the costs involved, as a basis for supporting the need for differentiation between the financial statements of large companies and SMEs. However, the accounting literature has predominantly focused on the financial statements of large companies. This study aims to examine the governance, experience, and cultural factors in countries that have adopted the International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs).

As part of the effort to harmonize accounting standards, the International Accounting Standards Board (IASB) issued IFRS for SMEs on July 09, 2009. This move was expected to provide a solution for SMEs struggling to apply full IFRS, which is often considered too complex and burdensome. However, not all countries have adopted IFRS for SMEs. Of the 175 jurisdictions, 28 do not permit it, 47 permit it for all or some entities, 38 mandate it for some entities, 30 mandate it for all, and 32 have no available information on adoption.

These data indicate that the adoption of IFRS for SMEs varies widely across jurisdictions. Ultimately, the decision regarding which entities should use IFRS for SMEs and the appropriate timing for its adoption lies with national regulators and standard-setters, who hold the authority to determine more detailed eligibility criteria.

Various studies related to the adoption of IFRS for SMEs have been conducted by several researchers. Pais and Bonito (2018) found that not all European Union (EU) countries have adopted IFRS for SMEs. Using a sample of 84 countries, both adopters and non-adopters of IFRS for SMEs, including both developed and developing nations, they discovered that countries lacking specific accounting standards for SMEs, those with experience in implementing full IFRS, and those operating under a common law legal system are more likely to adopt IFRS for SMEs. Meanwhile, Kaya and Kooch (2015) found that countries unable to develop their own accounting standards for SMEs are more inclined to adopt IFRS for SMEs. They also noted that countries with low governance quality that have fully adopted IFRS are more likely to adopt IFRS for SMEs.

A survey conducted by Bohušova (2022) based on data from 67 countries indicates the influence of Gross Domestic Product (GDP) on the adoption of IFRS for SMEs. The study's results reveal significant differences in the adoption of IFRS for SMEs between countries with low average GDP and those with high average GDP, with the former group tending to adopt and the latter group resisting the adoption of IFRS for SMEs. Additionally, using audit quality as a proxy for the quality of financial reporting, the study found that IFRS is adopted in countries with lower-quality financial reporting systems.

Research on 177 countries, including 77 jurisdictions that adopted IFRS for SMEs between 2009 and 2015 (Damak-Ayadi et al., 2020), found that the adoption of IFRS for SMEs is closely related to the quality of law enforcement, culture, trade networks, and economic growth. The study also showed that audit quality does not have a significant impact on the adoption of IFRS for SMEs. However, the combined effect of audit quality and law enforcement quality is significantly associated with the adoption of IFRS for SMEs.

In the European Union, Masca (2012) found that accounting culture within a region influences: (1) the scale of adoption within a specific legal framework, (2) the benefits (comparability), and (3) institutional perspectives on the choice of adopting IFRS for SMEs in the EU. Devi and Samujh (2015) critically explain that the implementation of uniform standards across ASEAN countries with a capital market orientation does not accommodate cultural differences, business practices, regulatory systems, philosophical foundations, or the needs of financial statement users. According to them, unmodified adoption would burden entrepreneurs and would not align with the objectives of achieving economic growth. In this context, Lourenço (2015) explains that in seven South American countries—Argentina, Brazil, Chile, Colombia, Peru, Uruguay, and Venezuela—different approaches to adopting IFRS for SMEs have been employed, which are categorized into five groups: maintaining local financial reporting standards, adapting IFRS to local standards, full or partial adoption of IFRS, adoption of other countries' standards, and convergence between local standards and IFRS.

These phenomena and research findings underscore the significant variation in the adoption of IFRS for SMEs across jurisdictions. To reaffirm the research objective, this study aims to investigate the governance, experience, and cultural factors in countries that have adopted IFRS for SMEs. This knowledge is crucial for enriching and advancing theories on IFRS adoption and providing input to standard-setting bodies in determining the scale and modifications of IFRS for SMEs to suit the needs of the countries where the standards are applied.

2. EMPIRICAL LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Governance

The IK Vienna School of Governance explains that one of the prominent theories of governance is the theory of democracy and law. This theory has the potential to enhance citizen participation and engagement, which in turn can strengthen the capacity to resolve political issues, although critical questions remain to be addressed. Citing the views of Fierke and Wiener (1999) and Von Benda-Beckmann et al. (2016), the IK Vienna School of Governance argues that from a normative perspective, linking discourse theory with forms of democratization is one of the key issues at stake. The concept of legal pluralism reflects an epistemological, even ideological, struggle against more rigid, state-centered approaches that portray law as a singular, homogeneous, exclusive, and territorially binding category, in contrast to more pluralistic governance theories. According to this view, one of the main critical aspects of research is to demonstrate whether and how systems, networks, or political relationships are related to broader social communication processes that possess democratic legitimacy.

The modern economy is heavily reliant on cross-border transactions and the free flow of international capital. More than a third of financial transactions occur across borders, and this figure is expected to continue rising. Investors seek diversification and investment opportunities globally, while companies raise capital, conduct transactions, or have international operations and subsidiaries in multiple countries. To realize the concept of economic and legal democratization in this modern economy, the normative application of a high-quality single set of rules is required. Such rules enable all countries to be on an equal footing in achieving economic justice democratically.

In the past, cross-border transactions were often complicated by various countries maintaining their own national accounting standards. The application of national accounting standards meant that the figures reported in financial statements could be calculated based on different bases. Untangling this complexity required a deep understanding of national accounting standards, as small differences in requirements could have a significant impact on the financial performance and financial position reported by companies. Such accounting requirements often added costs, complexity, and ultimately risk, both for companies preparing financial statements and for investors and other stakeholders using those statements to make economic decisions.

Transforming national accounting standards and subsequently adopting IFRS is an effort to democratize the economy and law to create a better global order. However, implementing such enhanced governance does not come without costs and efforts. Nevertheless, academic research and studies have provided ample evidence that jurisdictions adopting IFRS have reaped net benefits in the capital markets. Documented benefits include lower capital costs for some companies and increased investment in jurisdictions that have adopted IFRS. Additionally, several companies have reported advantages from using IFRS Accounting Standards in their internal reporting, such as improved ability to compare operational units across different jurisdictions, a reduction in the number of disparate reporting systems, and the flexibility to deploy staff experienced in IFRS throughout their organization.

According to the United Nations Development Programme (UNDP), good governance is a concept focused on the development of the public sector through effective government. Good governance is considered a synergistic and constructive relationship between the state, the private sector, and civil society. The UNDP outlines nine principles that must be upheld and developed in the administration of good governance: equal participation of all citizens with voting rights; the rule of law that is just, enforced, and fully adhered to; transparency with institutional processes and information that are freely accessible; responsiveness directed at serving public interests; consensus-oriented governance that mediates differing interests; equity that ensures equal opportunities for both women and men; effectiveness and efficiency that guarantee institutional activities meet the needs; accountability where leaders are answerable to the public; and strategic vision with a broad and sustainable perspective.

Meanwhile, the World Bank has developed six governance indicators: (1) Voice and Accountability (VA), (2) Control of Corruption (CC), (3) Government Effectiveness (GE), (4) Political Stability (PS), (5) Regulatory Quality (RQ), and (6) Rule of Law (RL). These aggregate indicators combine perspectives from numerous enterprises, citizens, and expert respondents in both industrial and developing countries. They are based on more than 30 individual data sources produced by various survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

Voice and Accountability measure perceptions of the extent to which citizens can participate in selecting their government, as well as freedom of expression, freedom of association, and free media. Control of Corruption assesses the degree to which public power is used for private gain, including both petty and grand corruption, as well as "state capture" by elites and private interests. Government Effectiveness gauges perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Political Stability measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. Regulatory Quality evaluates the government's ability to formulate and implement sound policies and regulations that enable and promote private sector development. Rule of Law measures the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

Martínez-Ferrero (2014) found that companies located in regions with lower perceptions of corruption (control of corruption), within countries that have adopted IFRS and are in a business expansion cycle, have higher quality information that positively influences financial performance. Another study by Landsman et al. (2012) found that the information content increased in 16 countries that mandated IFRS adoption compared to 11 countries that continued using domestic accounting standards, although the impact of mandatory IFRS adoption depends on the strength of the rule of law in the adopting countries. Similarly, Nijam and Jahfer (2016) found that IFRS adoption leads to a reduction in the cost of capital, contingent on financial reporting incentives, law enforcement, the type of legal system, and various country-specific and capital market characteristics.

The role of government in the adoption of IFRS for SMEs represents an effort to achieve international transparency. As an institution, the government plays a central role in creating the quality of public services, the quality of the civil service, its independence from political pressure, the quality of policy formulation and implementation, and the credibility of government commitments (regulatory quality). The government's role can effectively influence a country's economy through the political and institutional decision-making process. Legalization, together with political and institutional decision-making processes, is also critical for a country. The rule of law, which emphasizes compliance with the law, can significantly impact the economy as it relates to legal transactions. Therefore, it is crucial to analyze the impact of government effectiveness and the rule of law on the economy.

Lemma et al. (2020) examined the influence of political stability and political rights on firm-level earnings management (both accrual-based and real earnings management). The researchers analyzed 63,872 firm-year observations from publicly listed non-financial companies across 39 countries during the period from 1995 to 2016. The results showed that (1) the interaction between political stability and political rights weakens accrual-based earnings management; (2) the interaction between political rights and political stability has no effect on real earnings management; and (3) the relationship between political rights and real earnings management is more pronounced in countries with better political stability. Bello (2020) tested the moderating effect of political stability on the relationship between international financial reporting standards (IFRS) adoption and foreign direct investment (FDI) in Nigeria from 2012 to 2018. The study results indicated that IFRS adoption has a significant impact on FDI in Nigeria, aided by political stability, highlighting the importance of political stability in encouraging IFRS adoption to enhance investment inflows into Nigeria. Cieślik and Hamza (2022) noted that Voice and Accountability can also be critical factors in attracting FDI.

This explanation reflects the freedom of individuals in a country and measures whether the government allows individuals to make decisions. Previous studies have introduced this factor to capture the investment climate for FDI. Unfortunately, the estimation results show that this measure of institutional quality, although positive, is not statistically significant. The estimated coefficient on the IFRS adoption variable is positive and statistically significant at the 10% level, supporting the hypothesis that a host country's IFRS adoption can enhance FDI inflows. Based on the above discussion, Hypothesis 1 is formulated as follows:

Hypothesis (H_1): A country's governance influences the extent of IFRS for SMEs adoption.

2.2. Experience

The experience of a country in fully adopting IFRS indicates its readiness and can serve as a reference for implementing similar standards, specifically IFRS for SMEs. Pais and Bonito (2018), in their study of 84 sample countries that have either adopted or not adopted IFRS for SMEs—encompassing both developed and developing nations—found evidence that countries lacking a national set of financial accounting standards for SMEs, yet with experience in implementing IFRS and a common law legal system, are more likely to adopt IFRS for SMEs. These findings suggest that the experience of adopting IFRS plays a crucial role in facilitating the adoption of IFRS for SMEs. Kaya and Koch (2015) also found that countries incapable of developing local GAAP are more likely to adopt IFRS for SMEs. Furthermore, there is evidence that in jurisdictions where full IFRS has been applied to private companies, the likelihood of adopting IFRS for SMEs increases. Based on the above discussion, the second hypothesis is formulated as follows:

Hypothesis (H_2): Experience in implementing full IFRS influences the extent of IFRS for SMEs adoption.

2.3. Language as Culture

A nation, like an organization, is an entity formed by various interconnected elements. A nation can be defined as a social group occupying a specific territory, organized under political and governmental institutions, possessing political unity, and sovereignty, thereby having the right to determine national objectives. The social group occupying that territory is referred to as a nation, characterized by shared traits such as identity, culture, language, and other features, which distinguish it from other nations. Therefore, one of the distinguishing characteristics of a country lies in the culture of the nation that inhabits it.

Robbins et al. (2015) describe organizational culture as a system of shared meaning held by members that distinguishes the organization from other organizations. Hofstede (1980) defines culture as the "collective programming of the mind that distinguishes the members of one human group from another." Each human group shares social norms consisting of common characteristics, such as the value system adopted by the majority of its constituents. According to Hofstede (1980), values are "broad tendencies to prefer certain states of affairs over others." This definition has been widely adopted in accounting research to develop a cultural framework for investigating differences in international accounting practices. Hofstede identified six cultural dimensions: Power Distance, Uncertainty Avoidance, Individualism versus Collectivism, Masculinity versus Femininity, Long-Term Orientation, and Indulgence versus Restraint.

The influence of culture in explaining behavior within social systems has been acknowledged in various studies, yet its impact on the adoption of accounting as a social system remains an ongoing area of research. Gray (1990) extended Hofstede's model by linking values and accounting systems to social values and institutional norms. Gray argued that accountants' value systems are closely related to the social values unique to each country. These accounting values subsequently influence accounting systems, so cultural factors directly affect the development of accounting systems and financial reporting at the national level (Doupnik and Tsakumis, 2004).

Hooghiemstra et al. (2015) assert that cultural variations must be seriously considered when developing or updating corporate governance codes to enhance internal control disclosure and protect investor interests. Their research indicates that international recommendations for uniform best practices in internal control disclosure may be counterproductive, as cultural differences can significantly influence actual disclosure practices. Egbunike and Ogbodo (2015) found that cultural values impact the choice of accounting techniques and behaviors, the enforcement and application of accounting standards, and the manner in which auditors perform their duties in Nigeria. Damak-Ayadi et al. (2020) found that the adoption of IFRS for SMEs is associated with legal enforcement, culture, trade relationships, and economic growth. Mhedhbi and Essid (2022) discovered that the adoption of IFRS for SMEs is more likely in countries with high levels of individualism, while other cultural dimensions were not significant in explaining the adoption of IFRS for SMEs by national accounting regulators.

This study does not employ the concept of culture as proposed by Hofstede (1980) and Gray (1990) but instead adopts Koentjaraningrat's perspective, particularly on language as a part of cultural content. According to Koentjaraningrat, culture comprises two aspects: (1) cultural forms and (2) cultural content. Cultural forms include ideas, behaviors, and tangible physical culture, while cultural content consists of language, technological systems, livelihood systems, social organization, knowledge systems, religious systems, and art systems (Koentjaraningrat, 1992).

In line with this perspective, Robbins et al. (2015) state that many organizations and their subunits use language to help members identify the culture, demonstrate their acceptance of it, and assist in its preservation. As organizations, nations have cultures, and depending on their strength, these cultures can influence national attitudes and behaviors. The strength of a nation's culture can be a driver of stability or, conversely, an impediment to change.

Huerta et al. (2013), in their study of thirty-eight participants who translated 47 phrases from five different IFRS, found that the interpretation of accounting standards depends not only on the accounting language used but also on the common language. Language can be an additional barrier to accounting harmonization, as the same standards may be interpreted differently due to translation differences, ultimately leading to variations in financial reporting. Based on the above discussion, the third hypothesis is formulated as follows:

Hypothesis (H_3): Language, as a cultural proxy, influences the extent of IFRS for SMEs adoption.

The hypothetical explanation of the determining role of governance factors, experience factors in adopting IFRS and language factors as a cultural proxy toward the level of IFRS adoption for SMEs above can be summarized in the following figure 1:

3. RESEARCH DESIGN

3.1. Population and Sample

The population in this study encompasses all countries (jurisdictions) worldwide, including those that have adopted and those that have not adopted IFRS for SMEs. According to the IFRS Foundation's publication in December 2021, there are 166 jurisdictions with varying levels of IFRS for SMEs adoption. After synchronizing with data availability from the World Bank, a sample of 88 countries was selected for this study.

3.2. Variable Measurement and Data Analysis

The independent variables in this study include the level of IFRS for SMEs adoption. It is explained that to measure the IFRS adoption decision, the measurement categories are divided into four: Category 1 to Category 4, with scores of 1 = Not Permitted, 2 = Under Consideration, 3 = Permitted, and 4 = Required/Mandatory. Other independent variables in this study include governance, country experience, and national culture. The governance variable is measured using the World Governance Index (WGI) indicators developed by Kaufmann et al. (2010). This index consists of six dimensions:

1. Voice and Accountability (VA)
2. Political Stability and Absence of Violence/Terrorism (PV)
3. Government Effectiveness (GE)
4. Regulatory Quality (RQ)
5. Rule of Law (RoL), and
6. Control of Corruption (CC).

Each dimension is measured by the country's score on aggregate indicators, expressed in standard normal distribution units, ranging from approximately −2.5 to 2.5. The rationale for using this measurement is its comprehensiveness and its relatively infrequent use by other researchers.

The experience variable refers to a country's experience in fully adopting IFRS. The IFRS® Foundation categorizes the level of IFRS for SMEs adoption into four categories: Not Permitted, Permitted, Required for Some, and Required for All, with each category being assigned a score ranging from 1 to 4, respectively.

The cultural variable is measured using the proxy of the translation policy adopted by the country in implementing IFRS for SMEs. The IFRS® Foundation categorizes translation policies into two categories: Standards in English (Not Translated) and Translated into the Local Language, with each category being assigned a score of 1 and 2, respectively.

3.3. Data Analysis

The data analysis in this study is divided into two parts: descriptive analysis and inferential analysis. The descriptive analysis aims to describe the characteristics of countries that have adopted IFRS for SMEs based on the collected data. Following this, an inferential analysis is conducted based on the hypothesis testing using a statistical model. This study employs a multivariate analysis model with the assistance of SPSS 20 software. The analysis model used in this study is as follows:

$$\text{L-IFRSSMEs} = a + \beta_1(\text{GOV}) + \beta_2(\text{CUL}) + \beta_3(\text{EXP}) + \varepsilon$$

Where:

- L-IFRSSMEs: Level of IFRS for SMEs adoption
- GOV: Governance
- CUL: Culture
- EXP: Experience
- a: Constant
- β_i-n: Model parameters to be estimated
- ε: Margin of error.

4. EMPIRICAL RESULTS AND DISCUSSION

Table 1 below presents the mean values and standard deviations for the sample consisting of 88 observed countries. As shown in the table, all variables have a standard deviation smaller than their mean. The standard deviation reflects the average deviation of the data from the mean value.

The standard deviation illustrates the extent of variation within the data; if the standard deviation is larger than the mean, the mean value may not accurately represent the entire dataset. Based on this explanation, if the standard deviation is smaller than the mean, the data's performance can be considered good. The hypothesis testing results, as presented in Table 2 below, indicate that the influence of the variables VA, CUL, IFRSA, RL, PS, CC, and RQ on IFRS for SMEs adoption is only 21% (Adj $R^2 = 0.21$). This means that 79% of the variation in IFRS for SMEs adoption is explained by other variables not included in this model.

Table 1: Descriptive statistics

Variable	Mean	Standard deviation	n
ASME	3.1905	0.59061	88
CUL	2.2619	1.40669	88
IFRSA	3.2143	1.16238	88
CC	2.3938	0.91711	88
RQ	2.4623	0.85141	88
PS	2.4535	0.88539	88
RL	2.3868	0.84650	88
VA	2.5198	0.92080	88

Table 2: Model summary[b]

Model	R	Model	Adjusted R square	Durbin-Watson
1	0.322[a]	0.104	0.21	1.712

[a]Predictors: (Constant), VA, CUL, IFRSA, RL, PS, CC, RQ, [b]Dependent Variable: ASME

Table 3 on the following page reinforces the minimal influence of the variables VA, CUL, IFRSA, RL, PS, CC, and RQ on the adoption of IFRS for SMEs. This is evidenced by an F-value of 1.257 and a significance (Sig) value of 0.283 ($\alpha > 5\%$). Based on these results, it can be concluded that the hypothesis proposed in H1 is rejected, as the testing of all variables against the dependent variable does not show a significant effect.

Partially, based on the indicators in Table 4 below, it can be explained that the Culture (CUL) variable does not have a significant impact on the extent of IFRS for SMEs adoption, with a t-value of 0.863 and a significance (Sig) value of 0.391 ($\alpha > 5\%$). Similarly, the Experience in adopting full IFRS (AIFRS) variable also does not affect the extent of IFRS for SMEs adoption, with a t-value of 0.443 and a significance (Sig) value of 0.659 ($\alpha > 5\%$). Therefore, Hypotheses 2 and 3 are rejected or cannot be substantiated.

Based on Table 4, out of the five components of the Governance variable, only the VA variable has an impact on the dependent variable. This is evidenced by a t-value of -2.403 and a significance (Sig) value of 0.019 ($\alpha < 5\%$).

Figure 1: Conceptual framework

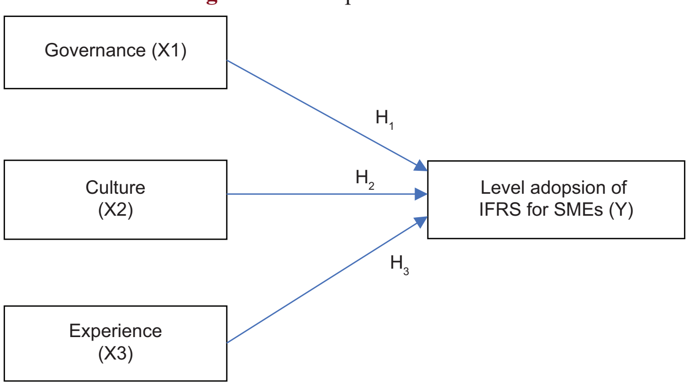

Table 3: ANOVA[a]

Sum of squares	df	Mean square	F	Significant
3.004	7	0.429	1.257	0.283[b]
25.949	76	0.341		
28.952	83			

[a]Predictors: (Constant), VA, CUL, IFRSA, RL, PS, CC, RQ, [b]Dependent Variable: ASME

Table 4: Coefficients[a]

Model	Unstandardized coefficients		Standardized coefficients	t	Significant
	B	Standard error	Beta		
(Constant)	2.916	0.299		9.769	0.000
CUL	0.122	0.141	0.104	0.863	0.391
AIFRS	0.026	0.058	0.050	0.443	0.659
CC	0.148	0.202	0.230	0.731	0.467
RQ	0.273	0.201	0.394	1.360	0.178
PS	0.017	0.117	0.025	0.141	0.888
RL	−0.346	0.280	−0.495	−1.233	0.221
VA	−0.170	0.071	−0.264	−2.402	0.019

[a]Dependent Variable: ASME

4.1. The Influence of Culture on IFRS for SMEs Adoption

Culture is a set of practices that have become part of the collective understanding within a society and are reflected in daily life. Culture can act as either a barrier or a catalyst for societal progress. As discussed in previous chapters, one of the most identifiable aspects of culture is language. When a country attempts to adopt a new system such as IFRS for SMEs, language can be a determining factor in whether the system is accepted or rejected.

In research related to the overall adoption of IFRS, Cardona et al. (2014) utilized Hofstede's Cultural Dimensions to examine the influence of cultural and economic factors on IFRS adoption. They found that certain cultural dimensions and economic factors impact a country's decision to implement IFRS. Tsakumis et al. (2009) also discussed IFRS adoption in relation to cultural differences and translation. They emphasized the importance of considering the potential bias arising from international staff and colleagues in global offices, enabling them to identify the cultural tendencies of their home countries and better understand how values influence interpretation and judgment when applying accounting standards. The authors recommended the importance of education and future professional preparation to address the impact of national culture on the implementation of international standards. Conversely, Clements et al. (2010) explored the relationship between a country's size and cultural diversity with its decision to adopt IFRS. They argued that cultural influence does not appear to be a significant factor in the implementation of international standards.

This study found that language does not influence or hinder a country's adoption of IFRS for SMEs. These findings are consistent with the research by Mhedhbi and Essid (2022) and Zehri and Chouaibi (2013), which demonstrated that national cultural dimensions are not significant in explaining the adoption of IFRS for SMEs by national accounting regulators. Other studies (Zehri and Chouaibi, 2013; Clements et al., 2010), although focused on the context of overall IFRS adoption, remain consistent with the results of this study, showing that cultural variables do not have a significant impact on the decision to adopt IFRS.

However, the findings of this study contradict the results of Masca (2012), who indicated that organizational views on the widespread use of IFRS for SMEs in Europe are influenced by the accounting culture of the geographical region in which they operate. Devi and Samujh (2015), in their research on the suitability of IFRS for SMEs for adoption, particularly by developing countries in ASEAN, found that a single standard for all SMEs with a capital market orientation does not fully accommodate cultural differences.

4.2. The Influence of Experience in Adopting Full IFRS on the Adoption of IFRS for SMEs

A country's readiness to adopt IFRS for SMEs is expected to be more optimal if it has prior experience in adopting full IFRS. However, this study found that the tendency to adopt full IFRS does not have a direct correlation with the tendency to adopt IFRS for SMEs. This finding contradicts the results of a study conducted by Pais and Bonito (2018). In their research, which involved a sample of 84 countries and employed logit regression analysis, they evaluated the influence of institutional factors on a country's decision to adopt IFRS for SMEs, both in developed and developing nations. Their findings indicated that countries lacking a national set of financial accounting standards, which permit or require the use of full IFRS for listed companies, and which have a common law legal system, are more likely to adopt IFRS for SMEs. The rationale behind this may be that adopting IFRS for SMEs can reduce the costs associated with developing their own financial accounting standards. Experience and skills in an IFRS environment can lower transaction costs because the country is better prepared to handle the existing complexities. The findings of this study support the objective of IFRS for SMEs, which is to serve as an alternative framework that can replace full IFRS. IFRS for SMEs is designed separately from full IFRS, and therefore, it can be adopted by any jurisdiction, regardless of whether it has adopted full IFRS or not.

4.3. The Influence of Governance on the Adoption of IFRS for SMEs

There has been no prior research specifically examining the relationship between governance and the level of IFRS for SMEs adoption. The researcher claims that this study is the first in this area. This study found that the governance indicator VA has an impact on the adoption of IFRS for SMEs, while other indicators do not show a significant influence. VA refers to the perception of the extent to which citizens can participate in government. This finding is noteworthy because it suggests that the adoption of IFRS for SMEs does not require complex governance conditions, such as the government's ability to formulate and implement sound policies and regulations, freedom from corruption, governmental effectiveness, political stability, the quality of contract enforcement, property rights, policing, and the judiciary, or the likelihood of crime and violence.

5. CONCLUSION

This study aims to investigate the influence of governance and culture, particularly language, on the level of IFRS for SMEs adoption. The sample used in this study includes 88 countries that have adopted IFRS for SMEs. The research data was obtained from IAS Plus and the World Bank publications as of December 31, 2021. Through simple linear regression analysis, this study found that the level of IFRS adoption is not hindered by the language used by a country. This finding indicates that the translation program implemented by the IFRS Foundation has been effective.

Another significant finding is that the adoption of IFRS for SMEs does not require complex prerequisites for a country. The policy for adopting IFRS for SMEs merely requires the freedom for society, especially the accounting profession, to implement it in their respective countries without waiting for the country to develop the capability to formulate and implement sound policies and regulations, be free from corruption, achieve governmental effectiveness, ensure political stability, or maintain the quality of contract enforcement, property rights, law enforcement, and security. This finding suggests that IFRS for SMEs can be implemented in any country as an alternative to full IFRS.

6. IMPLICATIONS AND LIMITATIONS

This study has several important implications that could impact policy and practice in various countries. First, the finding that the adoption of IFRS for SMEs is not hindered by language barriers or governance complexity suggests that international policies supporting the adoption of these standards can be more aggressively promoted, especially in developing countries. Additionally, the success of the translation program implemented by the IFRS Foundation underscores the importance of expanding such services to other areas of international standards, enabling more countries to access and implement relevant standards. This study also provides guidance for policymakers in countries with developing governance structures to focus on education and raising awareness of IFRS for SMEs among accounting professionals, without the need to wait for major governmental reforms.

However, this study also has several limitations. One limitation concerns the representativeness of the sample. Although this study includes 88 countries, the representativeness of these countries may not fully reflect global conditions, particularly since some countries may have unique governance or cultural circumstances. Moreover, the measurement of governance variables in this study may not fully capture the complexity of government and culture in each country, necessitating careful interpretation of the results. Finally, the generalization of the finding that IFRS for SMEs can be implemented in any country requires further testing, particularly in the context of countries not included in this sample, especially those with highly unstable economic and political situations.

REFFERENCES

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