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# RELEVANCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS TO EMERGING MARKETS: EVIDENCE FROM SAUDI ARABIA

## Key Words

***IFRS; Advantages; Disadvantages; Obstacles; and Saudi Arabia.***

## Abstract

*The primary purpose of this study is to examine the relevance of IFRS in an emerging market (Saudi Arabia) and to explore advantages, disadvantages, and obstacles. Because this study follows an inductive approach, 10 semi-structured interviews were undertaken in order to uncover any relevant issues and, to supplement the findings, a questionnaire survey was distributed among three groups of respondents, namely, accounting academics, financial managers, and external auditors. The findings show that most participants were in favour of the immediate convergence with IFRS, as they would serve the needs of both the accounting profession and users of financial reporting in Saudi Arabia better than the current accounting standards. These findings could be helpful for Saudi regulators in their attempts to develop accounting principles and policies applicable to all Saudi entities in accordance with global standards.*

## Introduction

Differences between national accounting systems may stem from differences in economic regulations (e.g., Tyrrall *et al*., 2007; Nobes, 2004) or from certain characteristics such as cultural or religious differences (Salter and Niswander, 1995; Gray, 1988;) or they may simply have occurred due to the use of statistical clustering techniques (Tyrrall *et al*., 2007; Hope, *et al*., 2006). With the globalization of international financial markets, the implementation of a common language for financial reporting to enhance international com-

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parability has become widespread (Ding e*t al.*, 2005). In this regard, the harmonization of accounting standards is one major intensely-pursued step taken towards the synchronization of financial reporting. International Financial Reporting Standards (IFRS) have been an important approach and were implemented in the European Union and many other countries. More than 120 countries have agreed to require or allow the adoption of IFRS, or have established timelines for their adoption (Ding and Su, 2008).

A large number of researchers (e.g., Tyrrall *et al.*, 2007; Daske *et al.*, 2007; Ball, 2006; Aljifri and Khasharmeh, 2006; Ball *et al.*, 2003) suggest that the use of IFRS will lead to comparable information and enhanced financial-statement disclosure, thus resulting in increased market efficiency. Moreover, using a shared set of standards would make it easier to compare or analyse the financial performance of companies across different countries. However, there is some debate among academics and practitioners concerning the extent to which IFRS can be adopted by these nations, as environments may vary from one country to another (Larson, 1993; Briston, 1990; Hove, 1989). There are also both advantages and disadvantages to the adoption of IFRS and this may affect developed and developing countries differently (Tyrrall *et al.*, 2007). For example, studies such as Laili, (2008), Jeanjean and Stolowy, (2008) and Samuels, (1993) indicate that the adoption of IFRS has not changed all aspects of financial accounting and reporting.

In recent years, the IFRS movement has gained real momentum. For example, the European Union established a new strategy regarding accounting harmonization that crystallized in the requirement of European-listed companies to prepare their consolidated accounts in accordance with IFRS. The mandatory adoption of IFRS in the EU represents one of the largest regulatory experiments ever undertaken (Christensen *et al.*, 2007). It is based on the assumption that accounting harmonization is a necessary requirement for the globalization of capital markets, as it enhances comparability of financial statements. In Latin America, many countries have adopted IFRS in an attempt to introduce accounting harmonization in the region (Hope, *et. al.*, 2006). Moreover, Brazil, Canada China, Japan, and India have all committed to formal timelines for the adoption of IFRS. The US Securities and Exchange Commission have also begun to reconcile GAAP with IFRS in order to increase the quality of financial reporting.

The subject of IFRS is of great value to all users of financial reporting in making decisions. Therefore, the study of the impact of IFRS is anticipated to be very significant to users. It is expected that IFRS convergence would have numerous advantages, disadvantages, and obstacles regarding the Saudi characteristics, namely, those related to economy, the accounting system, religion, and education. The problem for the Saudi government is how to weigh the relative advantages and disadvantages of these different pathways in order to choose the most appropriate one or, in other words, how to assess the relevance of IFRS, paying particular attention to national economic, institutional, and cultural needs. In this regard, this study aims to investigate the potential impact of the convergence with IFRS by exploring advantages, disadvantages, and obstacles. This research is motivated by several considerations. First, as mentioned above, Saudi Arabia attempts to embrace IFRS in order to participate in the benefits it offers, including rating foreign direct investment, reduction of the cost of doing business, and cross border listing. However, there are both advantages and disadvantages to IFRS convergence and these may affect Saudi Arabia as a developing country differently. Second, since the Saudi market is not active in corporate control and suffers from greater information deficits (Hbbash and Alghamdi, 2012), there have been considerable calls for accounting academics and researchers in Saudi universities to conduct more investigations regarding the relevance of IFRS to the Saudi environment which is characterised by different aspects affected by Islam and other factors. Third, there is also need to have an understanding of the impact of IFRS as they are adopted in particular regions as a result of the criticism shown in some developing countries. Thus, the findings are expected to be of great interest to academics involved in guiding and researching progress with international accounting harmonization, and to the Saudi regulatory and supervisory authorities (Saudi Capital Market Authority and Commercial Ministry), since the study will present insight into the results of potential impact related to IFRS convergence. The findings may also be relevant to other Arab countries that share similar characteristics, particularly Gulf countries.

## Brief Background History

With its great oil reserves, it is obvious that Saudi Arabia can play a vital role in the economy of the world. Considerable efforts have been made to use the benefit of oil reserves to develop the country and generate prosperity. At the same time, Saudi Arabia became a member of the World Trade Organization (WTO) after adopting numerous regulations in its legal system in 2005. Moreover, one of the most important elements contributing to the Saudi economy is the annual pilgrimage (Hajj) and (Umrah), which attract approximately four to five million Muslims from all over the world at regular times every year (Hbbash and Alghamdi, 2012). According to the World Bank (2007) statistics, Saudi Arabia is ranked first among Middle Eastern countries and twentieth in the world in producing an environment conducive to investment of this sort. Investors would have no problems in understanding Saudi financial reporting as adopting IFRS would push the nation towards accounting harmonization, a globally-acknowledged concept. For example, Saudi Arabia currently has the soundest environment for Foreign Direct Investment (FDI) of all Middle Eastern Arab countries. Compared to 2003, when FDI was US$14 billion, a steady rise was registered in 2008 when the FDI figures were approximately US$38 billion, as a result of the decision taken by SOCPA in 2002 to use IFRS in Saudi listed companies in the absence of suitable SASs (Alkhtani, 2010).

Post-2006, perceptible reforms have been witnessed in the Saudi business environment with the issuing of more rules and standards to regulate and develop the Saudi Stock Exchange. Convergence with IFRS in Saudi Arabia is motivated by the objective of creating a strong internal capital market and providing more trust of financial reporting. Although current accounting standards, set by Organization for Certified Public Accountants (SOCPA), are similar in many respects to IFRS, there are some major differences. The tendency for Saudi Arabia to adopt IFRS for all listed companies has been accelerating in recent years in order to increase the overall competitiveness of Saudi firms within market and thereby Saudi economy. Currently, all banks and insurance companies listed on the stock market have begun to apply IFRS from 2003 while all other listed companies, as well as unlisted ones, must follow accounting standards generally accepted in Saudi Arabia. The latest report issued by SOCPA contends that there are "ongoing efforts to identify hindrances to the convergence process, as well as in identifying opportunities to further enable the implementation of IFRS" SOCPA, 2010, P:7). However, SOCPA may face some obstacles that constrain the application, although there has been no real statement by SOCPA to identify potential hindrances.

## Literature Review

According to capital market theory and the concept of information efficiency, IFRS will have an impact on market efficiency and certain areas and the fear of IFRS as expressed in the literature is exaggerated (Post *et al.*, 2007; Fama, 1970;). Previous studies related to IFRS adoption highlight its effectiveness on capital markets and investors. In other words, they focus on the advantages and disadvantages of IFRS adoption associated with a country's economy. For example, a study using questionnaires and semi-structured interviews by Tyrrall *et al.* (2007) examined the relevance of IFRS in Kazakhstan. They suggest that international investors would greatly benefit from the adoption of IFRS. Moreover, Koc *et al.* (2008) provide evidence that financial reporting under IFRS would be able to improve the financial position, performance, and cash flows of an entity, which would be useful for users when making economic decisions. Other studies such as Halbouni (2005) and Larson (1993) argue that the adoption of IFRS could generate economic growth and development in developing countries. An investigation by Schleicher *et al.* (2010) confirms that one of the benefits of IFRS adoption is that it would increase investment efficiency in the market.

In contrast, some studies such as Callao *et al.* (2007) find that there is no improvement in the relevance of financial reporting to local stock markets. Jeanjean and Stolowy (2008) highlight that sharing rules such as IFRS are not a sufficient condition to create a common business language. Samuels (1993) also claims that IFRS are not necessary to serve specific economies in developing countries since the situation and the needs differ from country to country.

### The Impact of IFRS on Accounting Systems

Financial reporting is the primary source of accounting information; it plays a significant role in promptly and efficiently communicating financial information to users (Xiong, 2006). The most important advantage of IFRS is that they improve the quality of accounting systems in developing countries (Tyrrall e*t al.*, 2007; Abdelsalam and Fetman, 2003). However, it is important to ask to what extent are IFRS relevant to the accounting needs of a country such as Saudi Arabia with an environment quite dissimilar to that of the countries where IFRS were developed, with few listed companies and a weak equity market.

Previous studies have investigated the advantages of IFRS on accounting systems and found that the adoption of

IFRS had led to the improvement of the quality of financial reporting. For example, Peng and Smithdata (2011), according to Chinese data, find that IFRS appear to offer standards consistent with the previous accounting system. Aljifri and Khasharmeh (2006) provide evidence that, based on perceptions from the United Arab Emirates, adoption of IFRS led to an increase in the quality of financial reporting and more advantages in accounting needs. Daske *et al.* (2007) also argue that IFRS adoption plays a significant role in reducing information asymmetry. Frey and Chandler (2007), making a comparable study between developed and developing countries, show that capital and other sources could be moved more easily across borders by adopting a single accounting system. In addition, the time and expense associated with issuing new standards would be reduced by the harmonization of IFRS in relation to developing countries. Earning management may be reduced when IFRS are applied, Hope (2007) suggests that the adoption of IFRS may reduce the level of earnings management and improve reporting quality.

On the other hand, investigating four East Asian countries, Ball *et al.* (2003) find that adopting IFRS may not increase the quality of financial reporting. Gast*et al.* (2010), who examine IFRS adoption in both UK and Spain, observe a negative impact on financial reporting in UK but a positive impact in Spain. Macõas and Mui(2011) also conclude that European countries still need to use local standards alongside IFRS.

In Saudi Arabia, because of some potential disadvantages, some listed companies on the Saudi stock market do not prefer the increase in disclosure required by IFRS adoption since this increase may affect or decrease the confidence of investors when a company faces financial problems. However, firms are obliged to follow Islamic Finance Standards that demand complete disclosure and ensure the application of effective Islamic accountability even if they bring disadvantages, as the companies are essentially operating in an Islamic country and are hence bound by Islamic law (Gambling and Karim, 1991). For other culturally dominated countries with different histories, an IFRS-type accounting system has been held to be inappropriate. For example, Laili (2008) finds that the adoption of IFRS has no effect on all aspects of financial accounting and reporting in Malaysia.

**The Impact of IFRS on Culture**

Many factors may influence accounting practices and harmonization, one of the most important being culture. Saudi culture derives its principles from Islam and these may not be in conformity with the IFRS on several issues, thus the country may eventually face cultural issues, as *Sharīah* law controls all activities in Saudi Arabia. The accounting requirements posed by some developing countries may not be adequately covered by IFRS, according to Tyrrall *et al.* (2007). This could be the case in Saudi Arabia which uses *Sharīah* as a guide for every aspect of social life. With regard to achieving compatibility with IFRS, this may not always be the case, as consideration has to be given to specific issues. For instance, interest is forbidden in Islam, whereas no relevant provision can be found in IFRS in relation to this (Hussain *et al.*, 2002). Hence, when adopting IFRS, religion is an environmental aspect that should be given due consideration.

Furthermore, Saudi nationals do not pay income tax as oil revenues directly support the national infrastructure, though foreign nationals are not exempted. However, the Islamic *Sharīah* Law has made Zakat mandatory for every Saudi citizen, male or female (AlMogbel, 2003). The Saudi share of profits from enterprises jointly-owned with foreign investors is also liable for Zakat; in addition, the government should be paid the due amount by the companies, and the financial statements should clearly indicate all such payments. On the other hand, other Gulf countries do not have standards dealing with this matter, and Zakat is not compulsory (Hussain *et al.*, 2002).

The adoption of IFRS in Saudi Arabia might contribute to achieving some of the purposes of Zakat. For instance, all things related to Zakat activities would be documented in accordance with fair value because IFRS employ fair value over historical cost, which means that the income of the Department of Zakat and Income Tax could increase with the deployment of fair value and from the *Sharīah* perspective. The use of fair value is preferable owing to its precision, when compared with historical cost (Maali *et al.*, 2006). Before Saudi Arabia begins to use fair value, suitable guidelines should be provided to measure fair value and the information systems should be improved to assist in the provision of reliable information about assets to facilitate taking correct decisions. Otherwise, historical cost should still be applied by making some modifications to IFRS to suit the Saudi environment.

For the purpose of maintaining the cash gained in the future at a non-fluctuating rate, a discounted rate is used to calculate the financial instruments. However, under the laws of Islam, this is not acceptable and it should be recorded without the discounted rate and as a present value. Consequently, according to the Department of Zakat and Income Tax, the documentation of financial leases being accepted under IFRS must also be applicable to Zakat. All establishments working under such contracts will be affected because they will be subject to paying Zakat based on business.

In respect of IFRS language, some studies (e.g. Tyrrall *et al.*, 2007; Asraf and Ghani, 2005; Abedelsalam and Weetman, 2003; McGee *et al.*, 2003) argue that the adoption and implementation of IFRS in developing countries may be hindered by the language of IFRS and the development of accounting education. In other words, the change of language from English into Arabic may be one concern related to culture resulting from the adoption of IFRS in Saudi Arabia. Because of a lack of resources to find a solution to this issue, the investigations have revealed that in Saudi Arabia IFRS would bring more changes to small native firms and local accounting companies (Alkhtani, 2010). Chamisa, (2000) and Hove (1986) argue that the adoption of IFRS could be easy in countries where there is a prevalent Anglo-American culture. Thus, it is expected that as the Arabic language is comparatively less related to the English language than other European languages and the translation into Arabic would prove to be problematic. Another factor is education which is charged with moulding the structure of accounting systems as well as the implementation of accounting standards, which are also a significant factor for the country's development. Therefore, accounting systems are affected by education, which is an important factor for their development (Zeghal and Mhedhbi, 2006). According to Zeghal and Mhedhbi (2006), developing countries that have a high education level tend to adjust more easily to IFRS than those with a low level of education, because the accounting staffs are more experienced and capable, as well as being more well-trained.

In every country, accountancy staff plays a significant role regarding the adoption of IFRS because it is dependent on the level of training each staff member has, which in the long haul affects the implementation standards in developing countries. If the education level of the accountancy staff is insufficient, then it would obviously not be in the interest of the accounting system; thus, professional training is essential (Street, 2002)

Another issue arising from the application of IFRS in the Saudi Arabian environment is also linked to education, viz. the issue of certain IFRS which require a high degree of awareness and understanding. France is an example, where the implementation of IAS 39 was rejected due to its complexity. This implies that Saudi Arabia will inevitably face difficulties. This result is consistent with pervious literature, such as Srijunpetch (2004), Tyrrall *et al*. (2007) and Dunne *et al*. (2008), which finds that these standards can constitute difficulties in some developed and developing countries. Thus, there is concern regarding lack of knowledge and experience required for the IFRS as accounting education, mostly based on the US education programmes and IFRS, is not applied in Saudi universities.

Finally, some previous studies mention that specific costs are necessary in most cases, such as those involved in changes to software systems (Jermakowicz and Tomaszewski, 2006). An enhanced degree of disclosure is required for the IFRS in changes needed in IT systems such as consolidation and financial instruments. For better and detailed disclosure of information, the adoption of IFRS requires the upgrading of software systems as software is not programmed to gather data and record the transactions needed for providing detailed analysis regarding the IFRS (Deloitte, 2005).

## Research Methodology

### Questionnaire Survey

To obtain deeper understanding rather than a generalization and because of the large population, judgment sampling has been used in this study and the questionnaire was distributed among accounting academics, financial managers and external auditors. The main rationale for selecting these groups is twofold: firstly, it is supposed that these groups would have adequate experience and sufficient knowledge concerning IFRS, and secondly, they are deemed as the cornerstone of the accounting standards system and generally have an effect on the issuing of any new regulations by the Saudi government, which always tries to pass on enquiries to experts or specialists before issuing any new regulations.

The questionnaire was given to participants and its objective was explained. Then, the participants were left to complete the questionnaire subject to further control to ensure there were no vague questions. The questionnaire consists of three parts as follows: demographic information (function, experience, and qualification); questions regarding the advantages of convergence with IFRS; and questions regarding the disadvantages and obstacles of convergence with IFRS. It is worth noting that open-ended questions were used in order to compensate for the inability to obtain more information (Neuman, 2000).

Given that the success of any questionnaire survey is entirely related to the initial agreement regarding the meaning of the terms involved (Seale, 1999), the questionnaire was validated by applying a pilot study that was undertaken to provide relevant questions and to enhance specific areas that may not be explicit by obtaining astute feedback. Moreover, the questions used in the questionnaire were translated back-to-back, to overcome any translation issues, into Arabic and then back into English to confirm that all questions carried the same meaning for all respondents. On the basis of the feedback received, several modifications were made to the original questionnaire regarding demographic information and the part related to the disadvantages and obstacles. In total 150 questionnaires were distributed in two batches by email and by hand. Of the 150 distributed questionnaires, only 113 were used in the analysis, with a response rate of 75.3%.

The basic result, shown in Table (1), illustrates that the auditors group represents the highest percentage of questionnaires answered, constituting 42.2% of usable responses, and the academic staff group, in second place, make up approximately 31.8 % of responses. However, the responses of financial managers are unsurprisingly much lower than the other groups constituting only 25.6%.

Unreported findings show that less than a third of the respondents (22%) had more than 15 years work experience in the field, which was the highest percentage for length of working experience. In addition, 19% of the respondents had work experience of between 10 to 15 years. Those with work experience of between 5-10 years made up 35%, while the respondents with working experience of between 1-5 years and less than a year represented the lowest percentage of respondents at 16% and 8%, respectively. Moreover, (36%) of the respondents held a PhD, 42% held a BA, 20% held a Master's degree and

**Table 1**
**Questionnaires distributed, returned, and response rate**

| Groups | Questionnaires distributed | | Questionnaires returned | | esponse rate (%) |
|---|---|---|---|---|---|
| | No | % | No | % | |
| Accounting Academics | 50 | 33.3 | 36 | 33.9 | 31.8 |
| Financial Managers | 50 | 33.3 | 29 | 30.0 | 26.6 |
| External Auditors | 50 | 33.3 | 48 | 35.5 | 42.4 |
| Total | 150 | 100 | 113 | 100 | 75.3 |

2% held other qualifications such as a diploma.

For the purpose of test-retest consistency (reliability), the participants completed the questionnaire twice. The results of reliability using Cornbach's Alpha ranged about 80%, which indicates a high degree of stability of the measure employed in this study. Given that the analysis of normality for all questions using Kolmogorov-Smirnov and Shapiro-Wilk test reveals that P.value was less 5% and the test of homogeneity of variance by using Levene test was also less 5%, a non-parametric test was used in this study to analyse the data. Accordingly, because our data did not meet the conditions required by parametric testing, Kruskal-Wallis testing was employed for data analysis (Balian, 1982).

### Semi-structured Interviews

Our sample was selected in accordance with Glaser and Strauss (1967) who introduced the theoretical sampling approach which gives priority to a theoretical basis for selecting people rather than a statistical one. This approach requires only enough participants for a certain question and then moves on to related problems. I based my criteria for selecting interviewees on three factors. Firstly, interviewees should be drawn from participants questioned in the questionnaire survey. Secondly, they should have adequate experience and wide knowledge in the study topic. Thirdly, they should be interested in being interviewed.

The ten interview questions were also translated back-to-back, to overcome any translation issues, into Arabic and then back into English to confirm that all questions carried the same meaning for all respondents. Accordingly, 10 participants were selected for semi-structured interviews, including four academic staff, three financial managers, and three external auditors. A few minutes was given to introduce the objectives of study and its importance at the beginning of each interview as well as to place the interviewee in a ‘‘question-answering mode’’. The interviewees' responses were recorded in writing and not tape-recorded and the process lasted approximately 30 minutes. Finally, we analysed and coded the data manually without using a statistical program (such as Invivo) since this study consists of only 10 interviews.

## Findings and Analysis

### Advantages of IFRS

This section begins by determining the fundamental questions regarding the advantages of convergence with IFRS. The review of these questions considers the main body of literature on the subject of advantages and disadvantages of the adoption of IFRS.

In this regard, the findings of the questionnaire are analysed to show the potential advantages of IFRS. Preliminary results in Table (2) show that, in general, a number of questions related to advantages of IFRS in Saudi Arabia are conceived as prospective aspects for IFRS convergence by a wide range of respondents. More than three-quarters (80%) of the questionnaire respondents, including all groups, strongly agreed or agreed with six advantages of Saudi Arabia complying with IFRS. These advantages include: "to improve the quality of financial reporting by increasing financial information; to reduce aggressive earnings management; to increase the level of disclosure; to increase the Saudi Market's efficiency; to lead to more foreign capital flow into the country; to increase the confidence of Saudi investors". This was reflected in overall means for each advantage (4.4, 4.3, 4.2, 4.2, 4.2, and 4.1, respectively).

Table (2) also reveals that there are significant differences in perceptions with regard to "increasing the confidence of Saudi investors" and "increasing the confidence of financial reporting to foreign investors". Statistically, there are differences in perceptions between the groups with respect to "increasing the confidence of Saudi investors". As is shown in Table (2), the overall mean of academics was (4.6) and external auditors came in second place (4.4). More than 88% of academics and external auditors saw 'increasing the confidence of Saudi investors' as an advantage of IFRS. In contrast, a low percentage of financial managers viewed 'the increasing the confidence of Saudi investors' as not being an advantage of IFRS. The academics and auditors would be expected to be more optimistic than financial managers who slightly resist any change.

Moreover, the majority (82%) of the accounting academics strongly agreed or agreed that convergence with IFRS would increase the confidence of financial reporting to foreign investors, while the financial managers and external auditors showed a lower level of agreement (60% and 62% respectively). As can be observed from Table (2), Mann-Whitney testing indicates that the academics' response differs from the other groups and this was reflected in the overall mean for each group (4.1, 3.0, and 3.1 respectively). This result can be interpreted as indicative of accounting academics being more aware of this than the other groups due to their wide knowledge of this advantage because of their connection with modern research.

In addition, the semi-structured interviews support the findings of the questionnaire by drawing attention to

**Table 2**
**Perceptions of potential advantages of convergence with IFRS in Saudi Arabia**

| Advantages of IFRS convergence | Level of mean for each group | | | Total Mean score | Rank | Standard Deviation | Sig |
|---|---|---|---|---|---|---|---|
| | Academics Accounting | Financial Managers | External Auditors | | | | |
| 1. Increases the confidence of Saudi investors. | 4.6 | 3.3 | 4.4 | **4.1** | 6 | 1.08 | *** |
| 2. Lead to more foreign capital flow into the country. | 4.5 | 4.1 | 4.3 | **4.2** | 5 | .921 | |
| 3. Increases the Saudi Market's efficiency. | 4.5 | 4.0 | 4.2 | **4.2** | 4 | .619 | |
| 4. Increases the growth of international business. | 3.1 | 3.1 | 3.2 | **3.1** | 9 | .604 | |
| 5. Increase the confidence of financial reporting to foreign investors. | 4.1 | 3.0 | 3.1 | **3.4** | 8 | 1.05 | ** |
| 6. Enhances and develops other regulations. | 2.4 | 3.1 | 3.4 | **2.9** | 11 | 1.03 | |
| 7. Increases the level of disclosure | 4.6 | 3.5 | 4.5 | **4.2** | 3 | .979 | |
| 8.Reduces aggressive earnings management. | 4.6 | 3.8 | 4.4 | **4.3** | 2 | .794 | |
| 9. Improves the quality of financial reporting by increasing financial information. | 4.7 | 4.0 | 4.4 | **4.4** | 1 | 1.02 | |
| 10. Enhances corporate performance | 3.7 | 3.7 | 3.4 | **3.6** | 7 | .655 | |
| 11. Reduce the cost of national accounting standards development. | 2.9 | 2.1 | 2.2 | **2.4** | 12 | .623 | |
| 12. Reduces the cost of preparation of financial reporting. | 4.1 | 2.3 | 2.7 | **3.0** | 10 | 1.08 | |
| 13. Increase the level of commitment of accounting standards | 2.8 | 2.1 | 2.1 | **2.3** | 13 | .809 | |

Notes: Distribution of participants among three groups of participants is significant different at level 0.05 (*p < 0.05 **P < 0.01 *** P < 0.001) using the Kruscal-Wallis test; level of agreement on scale of: 1-strongly disagree, 2-disagree, 3-nutral, 4-agree, 5-strongly agree. The level of mean is shown under the level of mean for each group: academics, financial managers, and external auditors. Moreover, total mean score, standard deviation, and degree of significance are reported.

the above-mentioned advantages as key aspects for convergence with IFRS. During the interviews, an accounting academic suggested that convergence with IFRS would lead to increased levels of disclosure and improved quality of financial reporting in Saudi Arabia. He commented:

*In my opinion, convergence with IFRS has become an important matter; we need to increase the level of disclosure and enhance the quality of financial reporting but I do not think convergence only will lead to more foreign investors.*

Moreover, as can be observed from the external auditor's view below, in contrast with the questionnaire results, who commented:

*From my experience, convergence with IFRS would not necessarily lead to more advantages in the Saudi market; I think that to what extent the companies commit to any accounting standards is important regardless of whether the standards are national or international....*

To deal with these issues, he stated:

*The Saudi Capital Market Authority (CMA) and Ministry of Commerce have an important role to play in updating or enhancing accounting regulations and obliging companies to comply with implementing accounting standards or new regulations.*

Asked about advantages of IFRS, two interviewees (accounting academics) provide interesting statements regarding the adoption of IFRS in finance and insurance in Saudi Arabia. They commented:

*Financial and insurance companies reporting under International Financial Reporting Standards (IFRS) have not faced any problems regarding application, so this experiment should be useful and helpful for new adopters from Saudi companies.*

Three financial managers from different insurance companies believe that the convergence or adoption of IFRS is not a complicated issue that will cause serious problems and recommend that listed companies take up the adoption of IFRS. They commented:

*In the beginning we thought that the adoption of IFRS for Saudi Arabia would mean the adoption of a set of accounting standards unsuited or irrelevant to the nation's needs; however, the result show that there have been no serious issues associated to its application, so why shouldn't other companies adopt IFRS.*

**Disadvantages and Obstacles of IFRS**

In Table (3), participants in the questionnaire survey were given a number of potential disadvantages and obstacles of convergence with IFRS. These disadvantages and obstacles, taking into consideration the Saudi environment, were mainly derived from issues discussed earlier. In addition, a number of participants

**Table 3**
**Perceptions of potential disadvantages and obstacles of convergence with IFRS in Saudi Arabia**

| Advantages and obstacles of IFRS | Level of mean for each group | | | Total Mean score | Rank | Standard Deviation | Sig |
|---|---|---|---|---|---|---|---|
| | Academics Accounting | Financial Managers | External Auditors | | | | |
| 1. The convergence with IFRS may lead to a contradiction of Islamic finance standards such as Zakat, interest, and fair value. | 4.6 | 4.2 | 4.4 | 4.4 | 2 | .777 | |
| 2. The translation of IFRS from English to Arabic may lead to the standards being misunderstood. | 3.7 | 2.4 | 2.7 | **2.9** | 6 | 1.04 | ** |
| **3**. IFRS are the most complicated accounting standards. | 3.2 | 3.5 | 3.4 | **3.3** | 3 | .927 | |
| 4. A lack of adequate knowledge and experience may lead to IFRS being used wrongly. | 3.5 | 3.0 | 3.2 | **3.2** | 4 | .811 | |
| 5. Saudi universities have not paid attention to IFRS in their accounting courses | 4.7 | 4.3 | 4.4 | **4.5** | 1 | 1.05 | |
| 6. The Saudi environment is not ready for convergence with IFRS. | 3.1 | 3.1 | 2.9 | **3.0** | 5 | .976 | |
| 7. IFRS is slightly costly. | 2.1 | 2.6 | 2.4 | **2.3** | 7 | 1.06 | |

Notes: Distribution of participants among three groups of participants is significantly different at level 0.05 (*p < 0.05 **P < 0.01 *** P < 0.001) using the Kruscal-Wallis test; level of agreement on scale of: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree. The level of mean is shown under the level of mean for each group: academics, financial managers, and external auditors. Moreover, total mean score, standard deviation, and degree of significance are reported.

were interviewed individually to obtain a better understanding of the likelihood of specific disadvantages and obstacles in the Saudi Market.

Overall, Table (3) indicates how the three groups expressed their opinions on the level of agreement to each of the ten statements related to these disadvantages and obstacles. It can be seen from Table (3) that the majority (80%) of the three groups of respondents agreed or strongly agreed with two disadvantages and obstacles for convergence with IFRS. These disadvantages and obstacles were reflected in overall mean for each one as follows: 'The convergence with IFRS may lead to a contradiction of Islamic finance standards such as Zakat, interest, and fair value' (4.4); 'Saudi universities have not paid attention to IFRS in their accounting courses' (4.5).

Table (3) also reveals that there are significant differences in perceptions as to 'The translation of IFRS from English to Arabic may lead to misunderstanding of the standards'. Statistically, the overall mean of academics (3.7) was the highest of the groups. More than 70% of academics thought the translation of IFRS from English to Arabic is an obstacle because it may lead to misunderstanding the standards of IFRS. In contrast, a small percentage of financial managers and external auditors viewed that the translation of IFRS from English to Arabic that may lead to misunderstanding the standards is not an obstacle to the adoption of IFRS. It would be expected that the financial managers and external auditors as practitioners would be more aware of this as a result of their function than academics who might believe this to be an issue.

The semi-structured interviews support the findings of the questionnaire by drawing attention to the above-mentioned disadvantages and obstacles as not being a significant issue hindering convergence. In relation to Islamic finance standards, an academic accounting suggests:

> *Islamic finance standards must be considered in accounting regulations; I think there are some issues such as financial leases, interest, and Zakat which can be treated in accordance with Sharia in the shadow of convergence with IFRS.*

In comparison with other groups, 74% of the accounting academics felt the translation of IFRS from English to Arabic could lead to the standards being misunderstood. One statement provided by an external audit confirms that:

> *A large number of regulations have been translated from Arabic to English with no problems in relation to translation, such as corporate governance mechanisms and national accounting standards which are a copy of American standards.*

In relation to education and training, 64% of the respondents view that there is a lack of knowledge and experience of IFRS. This is not surprising since most previous studies (e.g. Ashraf and Ghani, 2005; Solodchenko and Sucher, 2005; Tyrrall *et al.* 2007) point to this issue. One participant in the study (a financial manager) comments:

> *I agree with you that Saudi universities should improve and develop their accounting courses to suit the practices in the accounting profession. On the other hand, there is also a need for IFRS*

*training at all levels, i.e., not only for accounting employees but also for managers.*

Most respondents to the questionnaires and interviews believe that convergence with IFRS will bring more advantages and less disadvantages, and believe that obstacles will not pose a serious problem if the regulator deals with them properly.

## Discussion, Conclusion and Limitations

The subject of potential impact including advantages and disadvantages of convergence with IFRS is limited and predominantly based on studies undertaken in developed countries where IFRS implementation or convergences have been commonplace for some years. The purpose of this paper was to investigate the advantages, disadvantages and obstacles in converging with IFRS in Saudi Arabia. To this end, three groups including accounting academics, financial managers, and external auditors were studied in order to gain their perceptions on this issue. For this purpose, of the 150 distributed questionnaires only 113 were used in the analysis and a total of 10 semi-structured interviews were conducted in order to uncover intricacies and to supplement the findings provided by the questionnaire survey distributed.

The findings indicate that the main advantages of convergence with IFRS in Saudi Arabia would be: to improve the quality of financial reporting by increasing financial information; to reduce aggressive earnings management; to increase the level of disclosure; to increase the Saudi Market's efficiency; to lead to more foreign capital flow into the country; and to increase the confidence of Saudi investors. The results also demonstrate that one disadvantage of the convergence could be a possible contradiction with Islamic finance standards such as Zakat, interest, and fair value. The findings also show that the fact that Saudi universities have not paid attention to IFRS in their accounting courses could be the most important obstacle to the convergence with IFRS in Saudi Arabia. In other words, this obstacle may lead to a lack of knowledge of the practices in the accounting profession when Saudi Arabia decides to converge with IFRS. Finally, the findings indicate that there is a significant difference among three groups regarding the advantages, disadvantages and obstacles of convergence with IFRS in Saudi Arabia. This significant difference was expected since the agreement was found to be much higher in the responses of academics regarding the advantages of IFRS convergence and much lower regarding obstacles compared with other groups. These differences can be attributed to the assumption that academic staffs would normally be more concerned about the importance of IFRS application through their connection with current research.

In general, this study indicates that most participants were in favour of immediate convergence with IFRS, as they will serve the needs of both the accounting profession and users of financial reporting in Saudi Arabia better than current accounting standards. These findings are consistent with previous studies and capital market theory suggesting that IFRS will have an impact on market efficiency and certain areas and that the fear of IFRS as expressed in the literature is exaggerated. In the light of the above results, this paper contributes to the accounting research literature in several areas. First, this paper could be of assistance to regulators in Saudi Arabia as it identifies the potential advantages of IFRS convergence. Second, it highlights the potential obstacles of IFRS convergence that should receive more attention before the implementation of IFRS. Third, research on the impact of IFRS on Saudi Arabia may be of interest to domestic and overseas investors in Saudi firms.

It should be acknowledged that SOCPA as a legislator should consider some modifications to IFRS in order to accommodate the Saudi environment, for example, the standards that conflict with Islamic finance. Saudi universities should also improve and develop their accounting courses to suit the practices in the accounting profession. Beneficial education and training associated with IFRS should be undertaken for both accountants and internal auditors in Saudi listed companies in order to increase their knowledge and professional skills.

Since no similar study has been conducted, the findings are expected to be of great interest to academics involved in guiding and researching progress with international accounting harmonization, and to the Saudi regulatory and supervisory authorities (Saudi Capital Market Authority, SOCPA), as the study presents insight into the results of the potential impact of IFRS convergence. The findings may also be relevant to other Arabic countries with similar characteristics, particularly Gulf countries. This paper also provides perceptions on IFRS full adoption especially for countries that have dual accounting standards, i.e. for conventional and Islamic entities. Future research could investigate the perceptions of other users on financial reporting in Saudi Arabia by employing a different methodology such as case study in order to examine the allegation of capital market theory regarding the impact of IFRS after the real convergence.

Like other studies involving interviews and questionnaires, this study is subject to several limitations. Firstly, the results should be interpreted with caution given the limitation of the employed judgment sampling strategy. Second, questionnaires could be deceptive in some cases as respondents might not wish to reveal their incompetence in providing beneficial information which may lead them to provide "perfect" answers. Finally, some interviewees in developing countries do not like to have their opinions tape-recorded or they are worried if notes are taken during the interview, as it seems like an interrogation to them; that is why this research included only a small number of interviews.

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