International Financial Reporting Standards for small and medium-sized entities: A new institutional sociology perspective

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Abstract

Purpose

This paper extends the literature by examining the need for International Financial Reporting Standards for Sri Lankan Small and Medium Entities (SMEs) and investigating the institutional pressures that drove the adoption of *IFRS for SMEs* in a developing country, Sri Lanka.

Design/methodology/approach

The theoretical framework adopted in this study draws on insights from New Institutional Sociology theory. An interview-based qualitative research was conducted with accountants and owners of SMEs, representatives from government agencies and the accounting standards setting authority of Sri Lanka.

Findings

The emphasis on the need for international accounting standards for SMEs due to international structures and activities is not a priority for Sri Lankan SMEs. Sri Lankan SME owners do not receive requests to provide internationally comparable financial statements from their trade partners and international activities such as foreign exports, borrowings and ownerships are irrelevant business activities for them. Hence, findings reveal that the decision to adopt *IFRS for SMEs* was in response to institutional pressures rather than alleged benefits of internationally comparable financial information. It appears from the results that the influence of local users' needs and the government interference on the development of accounting standards does not exist in Sri Lanka.

Research limitations/implications

The research is limited to a single country. The data were collected from SMEs in Sri Lanka, as intended by the research boundary. The study has implications for policy makers, and standard setters charged with developing and implementing an appropriate financial reporting framework for SMEs.

Originality/value

The extant literature on IFRS for SMEs is sparse and mostly conducted through questionnaire surveys with single user group of SME financial information.

Keywords: IFRS for SMEs, Financial reporting, Developing countries, Institutional theory, SMEs

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1. Introduction

The International Accounting Standard Board (IASB) developed International Financial Reporting Standards for Small and Medium Entities (*IFRS for SMEs*) in 2009. In its basis for conclusions on the *IFRS for SMEs*, the IASB argues that the need for global SME financial reporting standards arises out of the international structures and activities of SMEs and their financial statement users (International Accounting Standards Board, 2009, p. 16). The IASB asserts that SMEs deal with financial institutions, suppliers, customers, credit rating agencies, venture capital firms and investors outside their home countries (International Accounting Standards Board, 2009, p. 16). Therefore, entities that undertake international activities may find the compliance with internationally accepted standards advantageous in making their financial statements more reliable internationally (Guerreiro, Rodrigues, & Craig, 2008; Murphy, 1999). However, it is claimed that SMEs do not engage in international activities to the extent envisaged by the IASB (Aboagye-Otchere & Agbeibor, 2012; Eierle & Haller, 2009). While developed countries such as Australia and New Zealand have not adopted the international financial reporting standards for their SMEs (Chand et al., 2015), many developing countries such as Sri Lanka have embraced this accounting standard (Bohušová & Blašková, 2012; Quagli & Paoloni, 2012). However, IASB gave less consideration to SMEs in developing countries in the discussions leading to the formulation of the standard (Bohušová & Blašková, 2012; Singh & Newberry, 2009).

It was argued that developing countries had to proceed with *IFRS* upon pressures from external forces (Al-Omari, 2010; Irvine, 2008; Mir & Rahaman, 2005). Similarly, Chua and Taylor (2008, p. 463) argue that "diffusion of IFRS is more about political and social dimensions of globalisation than it is about the alleged economic benefits of convergence in international accounting standards". Players in world capital markets such as the World Bank represent a major global institutional force pushing countries to adopt *IFRS* or develop national standards based on *IFRS*, and even in some cases making the adoption of *IFRS* a requirement of their loans (Irvine, 2008; Mir & Rahaman, 2005). It could therefore, be argued that the decision to adopt *IFRS for SMEs* cannot be explored appropriately without an understanding of the institutional forces that provide the context for such a decision.

The objectives of this paper are therefore to analyse the need for international accounting standards for SMEs and to investigate the institutional forces that drove the decision to adopt the accounting standards *IFRS for SMEs* by Sri Lankan SMEs. Accordingly, this paper focuses on the following two questions: (1) Do Sri Lankan SMEs need international accounting standards? (2) What institutional pressures drove the decision to adopt *IFRS for SMEs*?

Sri Lanka is a developing country and its national institutional orientation is different from developed countries. Sri Lanka was a British colony and the prevailing legal and accounting systems were largely influenced by the British systems (De Zoysa & Rudkin, 2010). Sri Lanka became a free market economy in 1977 and became attractive to both Western donors and large multinational companies. The twenty five year civil war also impacted the political, social and economic environment (Athukorala & Jayasuriya, 2013), meaning post-war Sri Lanka had to depend on foreign aid to rebuild its economy. In per capita terms, Sri Lanka became the world's leading aid recipient (Arunatilake, Jayasuriya, & Kelegama, 2001).

This paper makes following contributions. First, the paper contributes to understanding the decision to adopt *IFRS for SMEs* both at country and SME level - an extension of prior research that generally concentrates on the *IFRS* adoption decision at either country or firm level. Samaha and Khlif (2016) identify a gap in empirical research regarding IFRS adoption decision making at both country and firm level in developing countries. Therefore, in order to acquire a holistic understanding of the IFRS adoption, both country and firm level decision making should be analysed. The challenge for emerging economies such as that of the Sri Lanka's SME's s whether the reality of IFRS implementation can match the image of IFRS adoption. Following its adoption of IFRS, Sri Lanka SME's, like other emerging economies will face difficulties in implementing those reporting standards, and ensuring that the image of legitimacy gained by adopting IFRS is matched by the variety of IFRS implementation. Sri Lanka faces particular challenges relating to their culture and regulatory systems as they implement IFRS at individual SME level, since international standards have not been developed with the needs, culture and regulatory infrastructure of Sri Lanka in mind. The institutional concept of decoupling or loose coupling suggests that in such situations, actual organisational behaviour could be significantly different from the image portrayed by the adoption of institutionally legitimising practices. Second, prior research focused on the full *IFRS* adoption by large and/or listed companies. SMEs' decision to adopt the accounting standard *IFRS for SMEs* has not been explored using New Institutional Sociology (NIS) theory.

This paper therefore, fills a gap in the literature by examining the adoption of the *IFRS for SMEs* and extends the applicability of NIS theory. Third, findings of the paper are informative to other developing countries in determining the need for a global accounting standard for SMEs. Further, this paper provides empirical evidence that informs the debate regarding the relevance of international financial reporting standards for SMEs. Fourth, the adoption of the *IFRS by SMEs* has not been adequately explored in the context of developing countries. Finally, the findings about the need for internationally comparable financial information for SMEs, provide useful insights to the IASB and other standard setters when reviewing IFRS *for SMEs*.

The remainder of the paper is organised as follows. The next section provides contextual understanding of the financial reporting environment in Sri Lanka. Second, the prior research on the need for international accounting standards for SMEs is provided. Thereafter, theoretical underpinning of the paper is discussed. Section 5 details the research design and data collection of the study. The findings are then presented. The paper finishes with a discussion and conclusion.

2. Financial reporting environment in Sri Lanka

Evidence of financial reporting practices in ancient Sri Lanka can be found in Buddhist monasteries, which were required to keep accounting records (Liyanarachchi, 2009). Subsequently, financial reporting practices were largely influenced by the British. More recently, the financial reporting practices were directly subject to international influences such as those of the World Bank. Following the World Bank's recommendations, Sri Lanka adopted into their financial reporting system the IFRS issued by the IASB (World Bank, 2004). Accordingly, Sri Lanka Accounting Standards are based on the IFRS formulated by the IASB (Institute of Chartered Accountants of Sri Lanka, 2014). Entities having public accountability are required to comply with Sri Lanka Accounting Standards (SLFRSs), an equivalent of the IFRS. All Specified Business Enterprises are required to use full SLFRSs even if their securities do not trade in a public market.

The Sri Lanka Accounting Standards for Small and Medium-Sized Entities (IFRS for SMEs), an equivalent of the IFRS for SMEs was introduced effective from 1 January 2012 (Institute of Chartered Accountants of Sri Lanka, 2012) without modifications. The rational provided by the president of the CASL was the *IFRS for SMEs* would allow banks and other financial institutions to better access a company's performance and risk, as well as improve confidence in company records and reduce barriers to accessing finance (Institute of Chartered Accountants of Sri Lanka, 2014). Further, local SMEs would be able to establish a comparable set of financial statements with SMEs globally.

However, the adoption of *IFRS for SMEs* is unlikely to result in increasing transparency and accountability due to the underdeveloped legal and institutional framework in Sri Lanka. The broad aim of comparable financial statements may be undermined if weak enforcement and corruption leads to different compliance levels across companies (Poudel, Hellmann, & Perera, 2014). Recruitment of skilled personnel could also be problematic and very expensive for SMEs as there is a shortage of qualified accountants (Yapa, Jalathge, & Siriwardhane, 2017). Lack of widespread technical expertise may have implications on the effective implementation of international accounting standards. This raises questions about whether accounting standards developed with significant influence from advanced industrialised countries, are suitable for developing countries if they are not modified to reflect local conditions (Poudel et al., 2014).

3. Need for International Accounting standards for SMEs

Entities with international operations, require access to financing from banks and other international financial institutions, or have foreign partners or export activities have incentives to adopt international financial reporting standards (Atik, 2010; Dumontier & Raffournier, 1998; Hodgdon, Tondkar, Adhikari & Harless, 2009).

However, SMEs do not engage in international activities to the extent envisaged by the IASB (Aboagye-Otchere & Agbeibor, 2012; Eierle & Haller, 2009). In their analyse of the international orientation of German SMEs, Eierle and Haller (2009) found that German SMEs have considerable cross-border activities, particularly exports and imports. Larger SMEs conduct more cross-border activities than smaller SMEs. Despite the importance of exports and imports German SMEs do not see any need to provide internationally comparable financial accounting data (Eierle & Haller, 2009). Therefore, Eierle and Haller (2009) suggest that German SMEs do not consider foreign suppliers and customers as major users of their financial statements.

The Conseil National de la Comptabilité (2008) survey of French companies found international activities related primarily to imports and exports. These however, did not necessarily result in a need for international SME accounting standards as customers and vendors are not primary users of the financial statements. Aboagye-Otchere and Agbeibor (2012) assess the suitability of the accounting standard *IFRS for SMEs* in Ghana. They conclude that SMEs in Ghana have limited international structures and activities and so do not need internationally comparable financial reporting information.

The literature on the need for international accounting standards for SMEs is informed by a small number of studies. Although some literature on the need of the international financial reporting standards for SMEs exists (Aboagye-Otchere & Agbeibor, 2012; Conseil National de la Comptabilité, 2008; Eierle & Haller, 2009), they are few, context specific, and provide mixed evidence. The Conseil National de la Comptabilité (2008) study was based on the Exposure Draft while previous studies elicit the views of SME owners using questionnaire surveys and thus comprehensive understanding is missing. Some studies were undertaken more than ten years ago, so their findings were dated. Notably, there is a lack of literature on the subject in developing and Asian countries context. These deficiencies in the literature provide a rationale for this paper.

4. New Institutional Sociology theory

New Institutional Sociology (NIS) theory focuses on the social environment as an essential constituent in establishing the social structures of an institution (DiMaggio & Powell, 1983; DiMaggio & Powell, 1991; Heidhues & Patel, 2012). The use of NIS to guide accounting research is well established (Burns & Scapens, 2000; Burns & Vaivio, 2001; Carpenter & Feroz, 2001; De Villiers & Alexander, 2014; De Villiers, Low, & Samkin, 2014; Lawrence, Sharma, & Nandan, 2009; Modell, 2009; Scapens, 2006; Sharma, Lawrence, & Lowe, 2014). NIS has been used to identify and explain the sources of isomorphic pressures on the adoption of accounting systems such as *IFRS* (see, for example, Al-Omari, 2010; Albu, Albu, Bunea, Calu, & Girbina, 2011; Hassan, Rankin, & Lu, 2014; Heidhues & Patel, 2012; Irvine, 2008; Mir & Rahaman, 2005; Tan, Chatterjee, Wise, & Hossain, 2016). Coercive isomorphism results from formal and informal pressures and by cultural expectations exerted on organisations (Carruthers, 1995; DiMaggio & Powell, 1983). These pressures are exerted through the need for resources, regulations, executive regulations and laws (Modell, 2009; Oliver, 1991; Scapens, 2006). Institutions such as the World Bank and the IMF can pressure a country or an organisation to comply with international standards (Boolaky & Soobaroyen, 2017; Sharma & Lawrence, 2009). The rationale underlying this institutional coercion is primarily financial dependence of the influenced organisation (Lawrence et al., 2009; Mir & Rahaman, 2005; Sharma, Lawrence, & Lowe, 2010; Sharma et al., 2014; Tsamenyi, Cullen, & González, 2006). Coercive isomorphism also arises when organisations change their institutional practices in response to pressure from stakeholders upon whom the organisation is dependent (Deegan & Samkin, 2013).

Mimetic isomorphism takes place when: organisational technologies are poorly understood; goals are ambiguous; or the environment generates symbolic uncertainty (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). To comply organisations model themselves on industry leaders perceived to be most successful (DiMaggio & Powell, 1983). In this respect, large multinational companies benchmark against their peers and smaller companies benchmark against industry leaders (De Villiers & Alexander, 2014). A country's commitment to adopt certain practices is also influenced by foreign commercial partners (Boolaky & Soobaroyen, 2017). Developing countries are more likely to mimic their trade partners or countries within their geographical region (Al-Omari, 2010; Irvine, 2008). It is reasonable to believe that SMEs tend to copy, or mimic, the accounting practices of other successful organisations in the same industry.

Normative isomorphism arises from group norms (DiMaggio & Powell, 1983). These often form part of an educational or professional training process and are taught and reinforced by universities and professional associations (Abernethy & Chua, 1996; DiMaggio & Powell, 1983; Tuttle & Dillard, 2007). Members of professional bodies are motivated to fulfil their obligation in order to maintain their professional status or are employed to champion new institutional norms (Barbu & Baker, 2010; Carpenter & Feroz, 2001; Mezias & Scarselletta, 1994; Touron, 2005; Sharma & Lawrence, 2005; Sharma et al., 2014). The degree of professionalisation in accounting practices is also influenced by audit firms either as independent consultants assisting in the *IFRS* adoption process or as the organisation's auditor required to provide audit opinion on the financial statements (Jones & Higgins, 2006; Chua & Taylor, 2008). The Big Four accounting firms play an important role in the globalization of accounting and represent the normative pressure (Albu et al., 2011).

While prior studies have discussed *IFRS* adoption using institutional theory at country and firm level; no study uses both country and firm level data. Dillard et al. (2004) suggest individual organisations and organisational fields exist in an economic and political context, and that this context provides the foundation for institutional practice (Dillard et al., 2004). According to this view, actors in the institutionalisation process exercise influence at different levels, with "governmental officials, regulators and legislators" as the "primary agents at the economic and political level", industry leaders, unions and consultants exercising influence at the organisational field level, and workers and managers exercising influence at the organisational level (Dillard et al., 2004, p. 513). The result is "continual dynamic change" through multiple levels, from political and economic settings, through organisational fields to individual organisations (Dillard et al., 2004, p. 512). In the same vein, Irvine (2008) suggests that in an increasingly globalised world, powerful institutional forces operate at an international level on individual national states, which then become a field for the transmission and adoption of acceptable institutional practices.

Hence, the adoption decision taken at the country level does not necessarily transmit to the firm level (Aboagye-Otchere & Agbeibor, 2012). The adoption and implementation of international accounting standards such as the *IFRS for SMEs* depends to some extent on individual firms and their institutional environment (Aboagye-Otchere & Agbeibor, 2012). Prior research using NIS theory focuses on the full *IFRS* adoption by large and/or listed companies (see, Al-Omari, 2010; Albu, Albu, Bunea, Calu, & Girbina, 2011; Hassan, Rankin, & Lu, 2014; Heidhues & Patel, 2012; Irvine, 2008; Mir & Rahaman, 2005; Tan, Chatterjee, Wise, & Hossain, 2016). SMEs' decision to adopt the accounting standard *IFRS for SMEs* has not been explored using NIS theory. A key difference between listed companies and SMEs is that the primary users of SME financial information are the owner-managers, tax authorities, and banks (Collis & Jarvis, 2000). Consequently, the type of the accounting standards used to prepare financial statements are less important to SMEs that use private communication routes to respond to the information needs of key users, such as banks (Chen, Hope, Li, & Wang, 2011).

5. Research design and data collection

This research adopted an interpretive approach to investigate the need for international accounting standards for Sri Lankan SMEs and institutional forces that drive the adoption of *IFRS for SMEs* by Sri Lankan SMEs. Qualitative research techniques are most appropriate for studies where the purpose is to comprehend "how" and "why" real-life practices and organisations occur (Patton, 2002). Consequently, data collection process involved interviewing a total of 33 participants, who were divided into four categories namely SME owners, accountants, representatives from standard setting authority and government institutions. Table 1 indicates the number of interviews undertaken with each group and Tables 2 and 3 sets out the profiles of respondents. As reported by Patton (2002, p. 244 – emphasis added), in qualitative research, there are no set rules for determining the appropriate size of the sample or subsample. Instead, selecting or determining the research sample relies on what you want to know, the purpose of the inquiry, and what will be useful to achieve the research objectives (Makhaiel & Sherer, 2018). In light of Patton's (2002) suggestion, the researchers continued carrying out interviews with each group until the point at which no new useful information was emerging. Therefore, participants were selected using a purposive (criterion-based) sampling technique to enhance the research validity, whereby respondents were chosen based on certain criteria including preparers and users of SME financial information, accounting standard setting authority in Sri Lanka, participants' knowledge and experience; roles and professional positions; attitudes, beliefs and perceptions (Makhaiel & Sherer, 2018) and ability to shed light on phenomenon under study. Snowball sampling technique was also used as interviewees often referred to people who have important insights about the area of investigation. Snowball sampling has been used to gain access to participants in several studies of SMEs (see, for example, Davidson, Fielden, & Omar, 2010; File & Prince, 1998; Halabi & Carroll, 2015; Holgersson, 2013; Samujh, 2011). Heterogeneity was built into the design to compensate for the non-probability nature of the sample (File & Prince, 1998) by selecting SME owners from business entities with different characteristics as shown in Table 3.

Table 1: Number of interviews with each group

Group	**Subtotal**
Owner-managers	23
Accountants	6
Standard setter	2
Government institutions	2
Total	33

Table 2: Profile of interviewees

Interviewee group	**Interviewee**	**Gender**	**Position**	**Experience**
	01	Male	Director, Development Finance	18 years

Representatives from government institutions	02	Male	Additional Secretary	15 years
Representatives from the standard setting authority	01	Male	Head of Technical Division	8 years
	02	Female	Manager, Technical Division	5 years
SME accountants	01	Male	Chief Accountant	7 years
	02	Female	Senior Accountant	6 years
	03	Male	Accountant	8 years
	04	Female	Accountant	5 years
	05	Male	Senior Accountant	23 years
	06	Male	Financial Accountant	11 years

Table 3: Profile of owner managers

Owner manager	**Gender**	**Number of years in the business**	**Number of employees**	**Type of business**	**Form of business**
1	Male	13 years	28	Manufacturing	Private limited
2	Male	27 years	22	Manufacturing	Partnership
3	Male	7 years	15	Service	Sole proprietor
4	Male	8 years	22	Service	Private limited
5	Male	11 years	7	Manufacturing	Private limited
6	Female	27 years	35	Manufacturing	Private limited
7	Male	14 years	97	Manufacturing	Private limited
8	Male	30 years	14	Trading	Sole proprietorship
9	Male	23 years	42	Manufacturing	Private limited
10	Male	23 years	20	Service	Private limited
11	Male	20 years	16	Manufacturing	Private limited
12	Male	12 years	10	Manufacturing	Private limited
13	Male	22 years	45	Manufacturing	Private limited
14	Male	25 years	95	Service	Private limited
15	Male	23 years	31	Manufacturing	Private limited

16	Male	28 years	12	Manufacturing	Private limited
17	Male	38 years	98	Service	Private limited
18	Male	3 years	95	Service	Private limited
19	Male	21 years	52	Manufacturing	Private limited
20	Female	24 years	98	Service	Private limited
21	Male	26 years	94	Service	Private limited
22	Male	15 years	95	Manufacturing	Private limited
23	Male	10 years	55	Service	Private limited

An interview guide was developed based on the research objectives. The initial interview questions were modified to the context of the study (Collis & Jarvis, 2000; Conseil National de la Comptabilité, 2008; Dang-Duc et al., 2008; Eierle & Haller, 2009; Ploybut, 2012). Separate interview questions were generated for owners, government institutions and the standard setter (Appendix A, B and C). The interview instrument was constructed in English and then translated into Sinhala, the native language of the respondents' as most of the SME owner-managers are not fluent in English. After translation, the drafts of interview instruments, in both Sinhala and English, were discussed with academics from the financial and accounting disciplines (especially academics with an interest in financial reporting by SMEs), to determine the face validity of the instrument. Pre-testing was carried out with an owner-manager and an accountant in Sri Lanka who were preparers and users of SME financial information. In Sri Lanka, there is no universal definition for SMEs. Various government agencies and other organisations use different criteria to identify SMEs on the basis of their assistance programmes. For the data collection purpose of this paper, SMEs were defined as firms with 5-99 employees. This determination is consistent with the definition given by the World Bank's enterprise survey for Sri Lanka (World Bank, 2016).

Interview appointments were arranged by telephone and through e-mails. All interview sessions were conducted face-to-face in the respondents' offices. Interviews with owner-managers, SME accountants, standard setters, and government departments were conducted either in Sinhala or English. They varied in length between 30 to 50 minutes. To facilitate analysis, notes were made during the interview and the whole discussion was tape recorded. Ethical considerations granted for the study were complied with. The NVivo software facilitated the process of organising, re-arranging and managing the considerable amount of qualitative data. The research adopted thematic analysis (Boyatzis, 1998; Braun & Clarke,

2006) for analysing interview data. Analysis of the data revealed five emerging themes linked to the research questions. The main themes emerged in the interviews were as follows: usefulness of international accounting standards for SMEs; relevance of international activities such as foreign exports, imports, borrowings and ownership; process of adoption of *IFRS for SMEs*; and pressures on adoption. Appendix D shows the five themes identified from the interview process in detail. These themes are described in the sections below.

6. Findings

This section presents and discusses the results from the thematic analysis of qualitative data pertaining to the research objectives of the paper. The need for international comparable accounting information is examined and the institutional forces that drive the adoption of *IFRS for SMEs* by Sri Lankan SMEs is explored.

6.1 Usefulness of international accounting standards for Sri Lankan SMEs

Owner-managers and accountants were asked to express their overall perception of the usefulness of international accounting standards for SMEs. International accounting standards are not well perceived by the most of owner-managers and accountants. They were uncertain about the usefulness of such accounting standards and were negative on the role of international accounting standards for SMEs. One accountant stated that they followed accounting standards only for compliance purposes:

> We need these international accounting standards only for compliance purposes. Other than that, I cannot see any use of this. Actually, I don't know … like may be after two to three years, you can really see the outcome. Since it was recently introduced, I cannot give an opinion (Accountant 02).

Complexity and limited usefulness of the statutory financial statements for making business decisions were major reasons for their negative perceptions on the international accounting standards. They believed that accounting standards are impractical and do not add any value to their business:

> An entrepreneur has no value for these international accounting standard things. Farmers back in the day did not rely on modern ways of forecasting weather. Instead, they look at the behaviours of birds and animals to predict the weather. See it is something that comes from within. You need to be very practical to get ahead in business. These accounting standards are good for the second-generation business people… the ones who have inherited the business from their parents… the ones who have no practical feel of what

> they are doing. If you inherently have the business feel within you, there is no need for such accounting standards. People who rely on such documents lose sight of reality. A business should be like a river not a drain.…. These international accountings standards are like drains. The business person should have their business close to their heart… people who rely on this accounting side they just sit in front of the computer trying to understand numbers and their business suffers as a result (Owner-manager 13).

Owner-managers and accountants also believe financial statements should satisfy the needs of those who use these reports. It appears international accounting standards have limited use for taxation and management purposes. Owner-managers do not perceive any use for accounting standards in preparing accounts for users of SME financial information:

> I can’t see why there should be international accounting standards. It is the Inland Revenue or some authority who wants to review your financial reports, then it has to be in that readable form so that they could understand the financials of the entity. That’s what it should be. For management purposes, I do not think we need these accounting standards (Owner-manager 21).

These findings are largely consistent with Paseková et al. (2010) in that owner-manager suggest an absence of users who make decisions based on the financial information prepared in compliance with international accounting standards. However, SME accountants who are members of Institute of Chartered Accountants of Sri Lanka (CASL) commented positively on accounting standards and had adopted the *IFRS for SMEs* for their financial reporting. One accountant commented:

> Adoption of international accounting standards for financial reporting is good because we have financial discipline. It is important that these accounting standards are maintained as it works as a guide on how to do the financial reporting. Accordingly, we have adopted this accounting standard for our financial reporting (Accountant 03).

SME accountant believes accounting standards give uniformity and discipline to financial information. He holds the opinion that adopting international accounting standards would be beneficial if an entity might need to move to the next level of operations. It appears SMEs who have accountants who are members of CASL, are likely to adopt *IFRS for SMEs*. This confirms the presence of normative isomorphism (Barbu & Baker, 2010; Carpenter & Feroz, 2001; Mezias & Scarselletta, 1994; Touron, 2005; Sharma et al., 2014).

6.2 Relevance of international activities such as foreign exports, imports, borrowings and ownership to Sri Lankan SMEs

Consistent with the previous research conducted in developed countries by Eierle and Haller (2009) and the Conseil National de la Comptabilité (2008) most of owner-managers and accountants do not perceive any benefit from internationally comparable accounting information. Many owner-managers and accountants consider that most SME transactions are within domestic markets and that international activities, such as foreign exports, ownership, and borrowings, were not relevant to most of them. They perceive the reporting requirements of the *IFRS for SMEs* to be an additional burden. Lack of resources, capabilities, and assistance or incentives from the government are considered as barriers to engage in international activities. All these reasons have been identified by other researchers as barriers for engaging in international activities by SMEs (see, Burpitt & Rondinelli, 2000; Coviello & McAuley, 1999; Shaw & Darroch, 2004; Ward, 1993). Owner-managers described lack of government support as follows:

> I do not see that these people (government) are taking any proper solid decisions to support SME businesses to upgrade to the international level (Owner-manager 11).
>
> I do not think there is a need to provide these types of accounting information because it does not provide us any benefit. We like to do exports but we have no link for that. I have tried to send my tyres to Gambia but there is no support for this. Government should introduce assistance programs to SME sector. I think if we are doing a foreign business, we might need these international accounting standards. Otherwise useless (Owner-manager 17).

It appeared that the struggle for survival means that international activities are of minor importance. One owner manager shares his struggles:

> With all these business stresses, I got diabetes. I have glaucoma in one eye and I lost my vision. I continue this business just to make some money. After the business started to decline, I felt there was no use to invest anymore. Therefore, my plan now is to finish paying the loan. I have no intention to expand my business internationally (Owner-manager 16).

Owner-managers and accountants reveal few SMEs engage in foreign exports. However, SMEs engaging in exporting and importing goods and/or services do not receive any requests from their foreign customers or suppliers to provide accounting information prepared in compliance with international accounting standards.

Instead of requesting SME financial information, foreign suppliers/customers check the SMEs web sites, industry information, ISO certifications and bank guarantees. However, information required by these buyers/suppliers varies according to the foreign markets they deal with:

> It depends on the foreign market that you cater to. I am sure if you are catering to US, Germany, UK and European countries, it (international accounting standards) would support you but mine is just to China. Chinese people do need a health certificate; they do not request our financial information (Owner-manager 11).

> The buyers from Japan usually need to see our industry before they can trust us to do business. They do not go by the financial statements we prepare (Owner-manager 15).

Atik (2010) claims entities which have foreign partners or export activities are more likely to adopt international financial reporting standards, but an accountant with a foreign owner in his business reports that he does not experience a demand for financial reporting in compliance with international reporting standards;

> We have a foreign ownership. One of our owners is from Japan. He is not interested of international accounting standards. I think they do not follow IFRS for SMEs (Accountant 02).

In contrast to the IASB's perception, Sri Lankan SMEs do not see a need to provide internationally comparable accounting information. This finding is consistent with the previous studies conducted by Eierle and Haller (2009), the Conseil National de la Comptabilité (2008), and Aboagye-Otchere and Agbeibor (2012). It is noted that international activities are of little relevant to Sri Lankan SMEs. Business matters and the survival of the business are prime concerns of Sri Lankan owner-managers and their internationalisation is limited as they are constrained by limited resources and lack of government assistance.

6.3 User involvement in the adoption process of *IFRS for SMEs* in Sri Lanka

Respondents discussed the adoption process of *IFRS for SMEs*. It appeared from the discussion with the representatives of the standard setter in Sri Lanka that they did not receive an adequate number of comments about the accounting standard during the review process of the *IFRS for SMEs.* They did not reveal the number of comments received or the source of those comments. The exposure draft of the standard was posted on the standard setter's web site to solicit the views from interested parties before adopting *IFRS for SMEs*. The standard setter representative explains the adoption process:

> Once we have a particular accounting standard, there would be an exposure draft. Similarly, we sent exposure draft of *IFRS for SMEs* to all the interested parties from the universities to industries, and to the members. It was made available in the web site as well. We generally organise a round table discussion. However, comments received for the *IFRS for SMEs* were

> comparatively low. I think our people are not proactive enough to comment on a particular accounting standard. That is our culture. Once the accounting standard is readily available and finalised, they want to know how to get ready for it, that is the mentality. We have to change that definitely. Actually, it is basically based on the comments we have received from our members, Chambers and other entities. Once we issue the accounting standard, we do training. Participation in these training programmes is good (Standard Setter-representative 01).

There seems to have been no comments from the government institutions that are involved in setting policies for the SME sector. It appears that the standard setter did not encourage 'other interested parties' such as government institutions to participate in this process. Instead, they relied heavily on comments given by their members and members of the accounting standard committee. It could be said that approval or support for the *IFRS for SMEs* was not invited and comments not particularly welcomed:

> We have the authority to set accounting standards in Sri Lanka. The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 has given the permission to do so. There is no need to take the approval from the Ministry of Finance or anybody. Because it is a one-time approval, they have given from the Act. The Ministry of Finance is not involved in this process. Actually, we have delegated this task to the Accounting Standards Committee. It has the capacity (experience and calibre) to do that. The composition of the committee is very good (Standard Setter - representative 01).

> They (standard setter) did not consult us before adopting this accounting standard (*IFRS for SMEs*). However, we are engaged in the implementation part. I mean, we facilitate the implementation of this standard (Government institution 01).

It appears from the above quote that users' views on the *IFRS for SMEs* were not represented during the review process. This finding raises an important question relating to the decision usefulness of accounting information prepared in compliance with *IFRS for SMEs* due to inadequate user involvement in the accounting standard setting process (Durocher et al., 2007; Harding & McKinnon, 1997). As a result, standards may be unworkable in application, overly costly, or even inconsistent with basic concepts (Tandy & Wilburn, 1992).

6.4 Institutional pressures to adopt IFRS for SMEs in Sri Lanka

The standard setter conducted various seminars and awareness programmes on the accounting standard *IFRS for SMEs* for owner-managers and accountants of SMEs, and small and mid-tier audit firms who carryout audits of SMEs. The standard setter of Sri Lanka received a grant of

US$500,000 from the World Bank to improve the awareness and skills in *IFRS for SMEs* among SME accountants and to strengthen the skills and competencies of small and mid-tier audit firms (Sunday Observer, 2012). A representative from standard setter explains:

> We got a grant from the World Bank. It covered four parts: quality assurance; capacity building of SMEs and small and mid-tier audit firms; the third one is to increase adoption of the IFRS; and the fourth was on public sector accounting standards. Under the capacity building for SMEs and small and mid-tier audit firms, we developed a separate project manual and we conducted seminars and workshops to SMEs on how to apply *IFRS for SMEs* and to small and mid-tier audit firms on how to apply auditing standards for SMEs (Standard Setter- representative 02).

Also, the standard setter received funds from the, German Development Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH) to achieve inclusive development of the SME sector (Institute of Chartered Accountants of Sri Lanka, 2017). The GIZ project with the standard setter focuses on conducting regional seminars on *IFRS for SMEs* as well as training programmes on basic accounting and bookkeeping for SMEs (Institute of Chartered Accountants of Sri Lanka, 2017). Throughout the project, a help desk was also established to support SMEs and small and mid-tier audit firms while technical materials, guidance notes, application guidance and practice notes on *IFRS for SMEs* were also published for the benefit of SMEs and small and mid-tier audit firms. One respondent from the standard setter described the institutional support received from international donor agencies:

> We recently entered into an agreement with GIZ, a donor agency for SMEs. GIZ wanted to build the capacity and to provide assistance for SMEs. With their support, we have initiated so many projects recently. The first one is on making the awareness of the *IFRS for SMEs*. So we had seven regional seminars on *IFRS for SMEs.* Asian Development Bank funded seminars and workshops conducted to teachers and SMEs. With the support of ADB, we conducted regional seminars on the SME standards and we trained 300+ SMPs on how to use the audit manual (Standard Setter - representative 02).

It appears that the standard setter also receives technical assistance from the IASB when implementing the accounting standard *IFRS for SMEs*:

> If we have a query, we will certainly write to the IASB seeking assistance. Then they (IASB) are giving advice on how to apply these particularly standards in the accounting context, and what is the accounting treatment. I think support from them is also quite enough (Standard Setter - representative 01).

> We get technical assistance from the IASB. Actually, one board member of the IASB and the chairman of SME implementation group came here and they did a training session on how to apply the SME standard. We are getting their updates and technical resources that are available in their websites. We are keeping in touch with them and we write to them when we have a clarification. One of our senior members is in the implementation group of the *IFRS for SMEs* (Standard Setter - representative 02).

The IASB and the standard setter in Sri Lanka play an active role to promote the adoption of the *IFRS for SMEs* and provide training and seminars to CASL members. In addition, these institutions also educate CASL members by providing interpretations and guidance on the standard.

Some of the owner-managers and accountants had been made aware by their external accountants about *IFRS for SMEs*. It appears that the decision to adopt *IFRS for SMEs* was taken not by them but by their external accounting firms:

> Yes, I know that there is a new accounting standard for SMEs. My accounting firm X (name of a small and mid –tier audit firm in Sri Lanka) informed me about this. I think we need to follow that standard, as it is a legal requirement. Therefore, I asked my accounting firm to prepare my financial reports as per these rules and submit to the relevant authorities on my behalf (Owner-manager 17).

> One of the chartered accountancy firms in Sri Lanka prepares our audited financial statements. They mentioned about this requirement. I'm not interested of knowing all these. They (name of a small and mid-tier audit firm in SL) are experts in the field and they know what to do. They prepare my accounts and advise me accordingly (Owner-manager 19).

> When it (*IFRS for SMEs*) was introduced, we were informed by our audit firm. We had a chat and learnt that we were going to adopt this accounting standard. We always seek advice from them (Accountant 02).

Consistent with previous research (see, Albu et al., 2011; Jones & Higgins, 2006; Joshi & Ramadhan, 2002), it appears from above quotes that external audit firms exert normative pressure on Sri Lankan SMEs to adopt *IFRS for SMEs*. However, what is different from prior research is that instead of Big-Four audit firms, small and mid-tier audit firms in Sri Lanka encourage the adoption of IFRS for SMEs in Sri Lanka. The reason for this finding is that small and mid-tier audit firms provide accounting and auditing services to Sri Lankan SMEs.

7. Discussion

This paper examines the need for international financial reporting standards for Sri Lankan Small and Medium Entities (SMEs) and investigates institutional pressures that drove the adoption of IFRS for SMEs in Sri Lanka. We provide insight into the institutional pressures that influence Sri Lanka to adopt IFRS for SMEs. Institutional pressures, such as coercive, normative, and mimetic pressures, have been seen to influence the adoption of *IFRS* in other countries. The adoption of the *IFRS for SMEs* in Sri Lanka is examined at both country and firm level to see how and if these pressures are evident.

Coercive pressures

Accounting systems of Sri Lanka were greatly influenced by the British. However, subsequent development in the accounting system were directly subject to internatonal influences such as the World Bank and the International Monetary Fund (IMF). Sri Lanka joined the World Bank in 1950, and since then the World Bank's assistance is aimed at helping Sri Lanka reach its development goals and provides financing and technical help (World Bank, 2005). The World Bank's current portfolio in Sri Lanka consists of 18 projects with a total net commitment value of USD2.1 billion (World Bank, 2017).

In return for their financial assistance, the World Bank and the IMF insisted on compliance with certain financial reporting practices. For example, the IMF announced that the second review of the loan disbursement reached a staff-level agreement with Sri Lankan authorities subject to submission of a new Inland Revenue Act to the Parliament by June 2017 (World Bank, 2017). However, the most direct influence to adopt the International Financial Reporting Standards (*IFRS*) came from the World Bank. The World Bank directly coerced changes by forcing the standard setter in Sri Lanka to adopt the *IFRS* as promulgated by the IASB. The World Bank pressured the Institute of Chartered Accountants of Sri Lanka (CASL) to adopt the *IFRS* through the "*Review of accounting and auditing frameworks in Sri Lanka*" (World Bank, 2004, p. 14).

Interview results reveal that the standard setters received a grant from the World Bank to implement some of the key recommendations of their review and to facilitate the adoption process of *IFRS for SMEs* in Sri Lanka. This observation is consistent with Irvine (2008) and Mir and Rahaman (2005) who claim that the decision to adopt *IFRS* would not be driven by the needs of local organisations and the suitability of *IFRS* for local companies, but would rather be imposed on them by international organisations such as the Asian Development Bank, IMF and the World Bank (Irvine, 2008; Mir & Rahaman, 2005; Sharma & Lawrence, 2009).

Besides the World Bank, the standard setter also received pressure from the IASB to adopt *IFRS for SMEs*. Interview findings reveal that the standard setters received technical assistance from the International Accounting Standards Board (IASB) for *IFRS for SMEs*. One board member of the IASB and the chairman of the SME implementation group conducted workshops and training sessions on *IFRS for SMEs* to preparers and auditors of SME financial statements in Sri Lanka. Developing countries, such as Sri Lanka have been experiencing pressure from the World Bank, may be reluctant to resist the efforts of the IASB to promote *IFRS for SMEs*. The IASB's project on *IFRS for SMEs* has been criticised for lack of input from developing countries in the discussions leading to the formulation of the standard (Bohušová & Blašková, 2012; Singh & Newberry, 2009). Therefore, it is reasonable to believe that the IASB excluded consideration of the position of SMEs in most developing economies. Thus, the process used to persuade countries to adopt the *IFRS* issued by the IASB is argued as being more about political and social dimensions of globalisation than it is about the alleged economic benefits of *IFRS* convergence (Chua & Taylor, 2008; Rodrigues & Craig, 2007).

The above explanation is consistent with the institutional account of coercive isomorphic pressure (DiMaggio & Powell, 1983; DiMaggio & Powell, 1991). DiMaggio & Powell (1983) argue that isomorphic pressures can occur in a coercive manner and could emerge from formal and informal pressures exerted on organisations by powerful players upon which weak organisations are dependent. There is evidence to suggest that international organisations have used foreign aid and loans as a coercive mechanism to push for accounting harmonisation in less developed countries (Irvine, 2008; Joshi & Ramadhan, 2002; Mir & Rahaman, 2005; Sharma et al., 2014). Sri Lanka was dependent on international donor agencies such as World Bank for financial assistance. Therefore it becomes apparent that Sri Lanka's decision to adopt *IFRs for SMEs* was primarily due to coercive pressure stemming from resource dependence (DiMaggio & Powell, 1983; Lawrence et al., 2009; Mir & Rahaman, 2005; Oliver, 1991; Sharma et al., 2010, 2014; Tsamenyi et al., 2006). The World Bank became a source of coercive pressure for the adoption of *IFRS for SMEs* in Sri Lanka, as has been the experience in other countries; for example in Jordan (Al-Omari, 2010), in United Arab Emirates (Irvine, 2008) and in Bangladesh (Mir & Rahaman, 2005). It is also apparent that the standard setter was under pressure from the IASB to accept *IFRS for SMEs.* Barbu and Baker (2010) and Irvine (2008) claim that the IASB pressurises countries around the world to adopt the *IFRS*.

Following the pressures from the World Bank and the IASB, CASL was the next influential player who exerted coercive pressure on SMEs to adopt *IFRS for SMEs*. In its capacity as the country's sole authority in promulgating accounting and auditing standards, the CASL made a decision to converge fully with on accounting standards and all pronouncements issued by the IASB. Accordingly, CASL decided to adopt *IFRS for SMEs* as "Sri Lanka Accounting Standards for Small and Medium Entities" (*IFRS for SMEs*) without any modification. This reinforces the theory that coercive pressures are exerted through rules and regulations set up by regulatory agencies, such as accounting and audit standard-setting institutions (Boolaky & Soobaroyen, 2017).

The standard setting process is not transparent and seems to be dominated by the partners and members of the Big Four audit firms in Sri Lanka. This could be because CASL is predominantly represented by the partners and managers of Big Four audit firms in Sri Lanka and they utilise their authority in the council to make decisions on accounting standards (Yapa et al., 2017). The interview findings disclose that the standard setter did not encourage nor consulted government institutions that are directly involved in setting policies to the SME sector, to participate in this process. There appears to have been little consultation with various interested parties before adopting the *IFRS for SMEs* in Sri Lanka. Intended user groups of *IFRS for SMEs* did not take part in the review process of the accounting standard. Evidence indicates that government intervention into accounting standard setting in Sri Lanka is low.

Normative pressures

Small and mid-tier audit firms who provide accounting and auditing services to SME clients also appear as influential players on SME decision to adopt *IFRS for SMEs*. This result is consistent with the findings from Jones and Higgins (2006) that show external auditors are rated as the most important party to be involved in the *IFRS* implementation process. Professional accountants played a significant role in the implementation of market-oriented public sector practices in Fiji (Sharma & Lawrence, 2005), and were instrumental in the adoption of international accounting standards in Bangladesh (Mir & Rahaman, 2005). There is consensus in the literature that the Big Four accounting firms play an important role in the globalisation of accounting and represent the normative pressures within the accounting society

(Al-Omari, 2010; Irvine, 2008). However, small and mid-tier audit firms prepare and audit most SMEs' financial statements in Sri Lanka (Yapa et al., 2017). The findings from the interviews indicate that small and mid-tier audit firms influenced and advised SMEs to adopt *IFRS for SMEs* for their financial reporting. This is because auditors work closely, as advisors, with the SME accountants when preparing SME financial statements in compliance with *IFRS for SMEs*. When the audit firms make a recommendation to adopt international financial reporting standards, SMEs see it as something to comply with to be able to survive. For these reasons, it could be argued that small and mid-tier audit firms exert normative institutional pressure on Sri Lankan SMEs to adopt *IFRS for SMEs***.**

This finding is consistent with research by Joshi and Ramadhan (2002), Albu et al. (2011), and Chua and Taylor (2008) who argue that the external auditor is the most dominant party involved in the *IFRS* adoption process. DiMaggio and Powell (1983) identify professionals as key sources of normative isomorphic pressures. This pressures arises from fulfilling professional expectations or adopting practices that matches with group norms (DiMaggio & Powell, 1991). Normative isomorphism occurs when the norms of society and professional bodies influence the practices of organisations (Scapens, 2006). In Sri Lanka, the professional bodies influence the practices of SMEs through the actions of the auditors.

It was interesting to note that firms which were owned and managed by members of CASL and had members of CASL in the position of accountant adopted *IFRS for SMEs* for their financial reporting. This is because owners could exert both coercive and normative pressure to adopt *IFRS for SMEs*. On one hand, owners act as powerful stakeholders upon whom the organisation is dependent (Deegan & Samkin, 2013) and on the other hand, fulfil their obligation through professional membership (Carpenter & Feroz, 2001; Touron, 2005). Their opinions, and resultant actions, may be influenced by their desire to maintain professional membership of a recognised accounting body (Carpenter & Feroz, 2001; Touron, 2005). It is claimed that professional institutions have influences to disseminate norms, influence the field and otherwise direct other members (Tuttle & Dillard, 2007).

Mimetic pressures

Mimetic institutional pressures refer to the copying and duplicating of successful organisational behaviour by other organisations (DiMaggio & Powell, 1983). Prior research (see, for example, Hassan et al., 2014; Irvine, 2008) presents evidence that mimetic isomorphism, as a result of emulating other countries, predicts *IFRS* adoption. Prior research (Hassan et al., 2014; Irvine, 2008) also notes relationships with the country's trading partners had on *IFRS* adoption. However, findings of this paper is contrary to Hassan et al., (2014) and Irvine (2008) and does not support the mimetic institutional pressures both in the Sri Lankan and the SME contexts. Since Sri Lanka is one of the first countries to decide the adoption of *IFRS for SMEs*, there are no reasonable evidence to support a proposition that the adoption decision is influenced by other developing countries in the region.

Need for International Accounting standards for Sri Lankan SMEs

The IASB's arguments about the need for the IFRS for SMEs, and the standard itself have been the subject of considerable debate (Aboagye-Otchere & Agbeibor, 2012; Chand et al., 2015; Eierle & Haller, 2009; Singh & Newberry, 2009). Unique characteristics, different conditions and different transactions encountered by different countries are not conducive to a global set of accounting standards for the SME sector.

In contrast to the IASB's view, most respondents to interviews do not support the need for internationally comparable accounting information for Sri Lankan SMEs. The finding of this study is consistent with the research conducted by Eierle and Haller (2009), the Conseil National de la Comptabilité (2008), and Aboagye-Otchere and Agbeibor (2012). The negative perception of owner-managers and accountants towards internationally comparable financial information may be because the majority of Sri Lankan SMEs are purely domestically based and financed locally. The literature supports the contention that there is no benefit for entities that operate locally to follow IFRS for SMEs (Chand et al., 2015). Entities that try to obtain financing from international banks and other international financial institutions find it beneficial to comply with international reporting standards (Dumontier & Raffournier, 1998). The most relevant international activity for Sri Lankan SMEs was foreign imports as indicated by most owner-managers interviewed. Despite the various support services and development programmes provided by government departments, limited capacity, limited resources, and lack of government support and incentives were referred to as barriers for expanding SME business operations globally. Consistent with Samujh (2011), SME owner-managers indicate that their primary concern is the survival of the business rather than the growth of the business. Apart from foreign imports and exports, other foreign activities such as foreign ownership and borrowings are not relevant for Sri Lankan SMEs. Despite the export and import activities of SMEs, owner-managers do not see any need to provide internationally comparable financial accounting data. This is because foreign suppliers and customers do not request the information as envisaged by the IASB. Rather, they obtain information through their local agents, and company web sites and ask for bank guarantees. Therefore, the emphasis on international accounting standards due to international structures and activities is not a priority for them, because only a small percentage of SMEs have a global focus.

8. Conclusion

The decision to adopt *IFRS for SMEs* in Sri Lanka was not driven by the needs of SMEs and their users of financial information, but was rather imposed on them by organisations such as the World Bank, IASB and the CASL. Findings from interviews reveal that international activities are of minor importance for Sri Lankan SMEs. Despite the relevance of exports and imports to SMEs, they do not receive any requests from their trade partners to provide internationally comparable accounting information. The probable reason for this finding is that nine countries (USA, Germany, Italy, Belgium, Netherland, France, India, China, and Japan) of the top 12 trading countries of Sri Lanka did not adopt the *IFRS for SMEs*. From the empirical results it is indicated that the *IFRS for SMEs* is not deemed to be relevant to small and medium-sized SMEs in Sri Lanka as most of them domestically based and financed locally. The challenge for emerging economies such as that of the Sri Lanka's SMEs is whether the reality of IFRS implementation can match the image of IFRS adoption. Following its adoption of IFRS, Sri Lanka SMEs like other emerging economies will face difficulties in implementing those reporting standards, and ensuring that the image of legitimacy gained by adopting IFRS is matched by the reality of IFRS implementation. Sri Lanka faces particular challenges relating to their culture and regulatory systems as they implement IFRS at individual SME level, since international standards have not been developed with the needs, culture and regulatory infrastructure of Sri Lanka in mind. The institutional concept of decoupling or loose coupling suggests that in such situations, actual organisational behavior could be significantly different from the image portrayed by the adoption of institutionally legitimising practices. The desirability of international financial reporting standards for SMEs therefore, still remains uncertain and standard need to be revised to match with local needs if this is to be maintained as a financial reporting standard for Sri Lankan SMEs.

In summary, the coercive pressures are the strongest factor that drove the adoption of *IFRS for SMEs* both at country and individual firm levels. Specifically, coercive pressures from the World Bank and the IASB on Sri Lanka and coercive pressures from the CASL on individual

SMEs are apparent from the findings of this paper. Coercive institutional pressures are the most obvious, since in an institutionalised environment there is an "elaboration of rules and requirements" including "pressures for conformity to public expectations and demands" (Oliver, 1991, p. 101). Normative pressures seemed to occur at the individual organisational levels from small and mid-tier audit firms in Sri Lanka. No mimetic influences were identified at both country and SME levels. While the political, cultural, economic, and social situation in Sri Lanka may not be identical to that in other nations, much of the experience in Sri Lanka is anticipated to be useful to other developing countries in the region. It appears from the results that the influence of local users' needs and the government interference on the development of accounting standards does not exist in Sri Lanka. Government intervention in the accounting standards setting process is low in Sri Lanka. For example, two government organisations in Sri Lanka that directly involve in formulating policies to SME sector do not actively participate and are not consulted in the process. Results indicate adoption and implementation of the *IFRs for SMEs* are dominated by international organisations and CASL. Government should participate in the standard setting process to protect users' interests and prevent domination by organisations that are external to the country and may have allegiances with non-Sri Lankan interests. Findings further affirm that countries seeking financial assistance from international donor institutions are also likely to be affected by pressures from these institutions to improve their accounting regimes.

This paper makes several contributions both to knowledge, and to practitioners. First, the adoption of the *IFRS by SMEs* has not been adequately explored in the context of developing countries. Therefore, findings of the paper make a contribution to the existing literature by providing an empirical study from a developing country, Sri Lanka. Additionally, the findings about the need of internationally comparable financial information for SMEs provide useful insights to the IASB and other standard setters for planning a review of the *IFRS for SMEs.*

The paper contributes to the literature by adopting institutional theory to interpret the empirical findings and to understand *IFRS for SMEs* adoption by Sri Lankan SMEs. The paper also contributes to understanding the decision to adopt *IFRS for SMEs* both at country and SME level - an extension of prior research that generally concentrates on the *IFRS* adoption decision at either country or firm level (see Aboagye-Otchere & Agbeibor, 2012; Chand et al., 2015). Prior research focused on the full *IFRS* adoption by large and/or listed companies. SMEs' decision to adopt the accounting standard *IFRS for SMEs* has not been explored using New

Institutional Sociology theory. This paper fills a gap by examining the adoption of the *IFRS for SMEs* (not the full *IFRS)* using NIS theory.

The results presented in this paper have several implications for the IASB and countries that are currently undertaking convergence projects throughout the world. The findings provide useful insights to the IASB for planning the next review of *IFRS for SMEs*. Since the IASB did not pay sufficient attention to SMEs in developing countries, findings of the paper could assist them in determining the need for a global accounting standard for these entities. Findings on types of SMEs that would benefit from an international financial reporting standards could offer fruitful insights for both local and international standard setters in deciding the most appropriate financial reporting frameworks for the SME sector. The results suggest that the IFRS for SMEs is not relevant to SMEs in Sri Lanka and should be replaced by a locally developed standard.

The outcomes of this research are subject to limitations. The research is limited to a single country. The data were collected from SMEs in Sri Lanka, as intended by the research boundary. However, different jurisdictions have different institutional settings, different accounting regimes, and may define SMEs according to different criteria, so that generalisation of the results to other jurisdictions may have limited application and relevance. However, inter-country comparisons are enhanced through such 'one country' boundaries during research. This study provides a reasonable basis for future research. Future studies could undertake studies in other developing countries to gain comparative insights regarding the relevance and impact of the *IFRS for SMEs*.

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Appendix A: Interview guide – owners and accountants of SMEs

I. General information	Could you tell me about your business?
II. Preparation of financial statements	Which types of financial statements do you prepare? How does your entity keep records of business transactions? Who normally prepares your entity's financial information? Do you use the services of external professional accountants?
IV. International Accounting standards for SMEs and IFRS for SMEs	What is your view on the role of international accounting standards for SMEs? Does your entity have any foreign activity? Does your entity need to provide internationally comparable accounting information? How did you come to know about the accounting standard IFRS for SMEs? How would you describe your own knowledge about IFRS for SMEs?

Appendix B: Interview guide – Government institutions

I. General information	Could you please describe your main job functions? What is the role of your institution towards providing services to SMEs?
III. Accounting standards for SMEs	What is your view on the role of international accounting standards for SMEs? What is the involvement of your organisation in setting accounting standards for SMEs? Did the standard setter consult/obtain comments from your organisation in adopting international reporting standards for SMEs? Do you consider that the adoption of the accounting standard IFRS for SMEs by SMEs will assist you to obtain additional relevant information for making decisions on SMEs? Did you see any improvement of financial reporting by SMEs after the adoption of the accounting standard IFRS for SMEs?

Appendix C: Interview guide – Standard setter

I. General information	Could you please describe your main job functions?
III. Accounting standards for SMEs	What is your view on the role of international accounting standards for SMEs? Did the institution receive any assistance from multinational lending agencies and donors (such as the World Bank, ADB, IMF) for the adoption of SLFRS for SMEs? Did the institution receive any assistance from the International Accounting Standards Board (IASB) for the adoption of SLFRS for SMEs? Did the institution obtain comments from SMEs and their users of financial statements in adopting IFRS for SMEs? What are the implications of SLFRS for SMEs on your institution? E.g. training etc. Do you consider that the adoption of the accounting standard SLFRS for SMEs will provide additional relevant information to users for making decisions on SMEs?

Appendix D: Themes, categories and sub-categories identified from the qualitative data analysis

Research question - Do Sri Lankan SMEs need international accounting standards?		
Themes	**Categories**	**Sub-categories/concept**
Perception on the usefulness of international accounting standards for SMEs	Positive, neutral and negative	Only for the compliance purpose Add no value to the business Limited use in taxation and management purposes Provide financial discipline
Relevance of international activities such as foreign exports, imports, borrowings and ownership	Not relevant versus relevant	Business operations limited to domestic markets Focus on survival than the internationalisation of the business Barriers for internationalisation such as limited resources, lack of government supports and incentives No request from foreign suppliers, customers and owners for financial information Check through other sources such as web sites, industry information, local agents, ISO certifications, and bank guarantees
Research question - What institutional pressures drove the decision to adopt IFRS for SMEs?		
Themes	**Categories**	**Sub-categories/concept**
Process of adoption of IFRS for SMEs	User involvement	Low government involvement Comment letters from other users
Institutional pressures on adoption of IFRS for SMEs	Coercive	The World bank pressure The IASB's involvement CASL engagements and activities
	Normative	Audit firms provide consultancies, and recommendations for adoption SME accountants and owners' decision and recommendations for adoption Owner managers were not aware about the IFRS for SMEs Owner managers were made aware by their external accountants