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Human Aspect of Financial Reporting Standards: A Review of Constraints in Implementing IFRS and Human Resource-Based Solutions

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Abstract: ***Purpose**: This study aims to review the constraints in the way of complete absorption of International Financial Reporting System with the scope of human resource management related aspects. It also summarises the role of HRM in successful implementation of IFRS across various countries and industries. **Design/ Methodology**: This study analyses the role of people factor/human resource towards the successful adoption of IFRS for an organization. For this purpose the study is reviews 35 pre - published papers/ journals/ articles and summarises their key findings. **Findings**: The study finds that people factor is critically important for any organization to successfully implement IFRS conventions.*

Keywords: IFRS, challenges in IFRS implementation, HRM role in IFRS implementation

1. Summary

The adoption and implementation of International Financial Reporting Standards (IFRS) represent a significant shift in financial reporting practices worldwide. While much attention has been focused on the technical aspects of IFRS, less is known about the role of people in the successful implementation of these standards. This review paper aims to explore the human dimension of IFRS implementation, focusing on the roles, attitudes, and behaviours of individuals involved in the process. Drawing on a review of existing literature and case studies, this paper examines the challenges faced by organizations and individuals in transitioning to IFRS, including issues related to training, education, and change management. Additionally, this paper explores the impact of cultural, organizational, and individual factors on the implementation of IFRS. By highlighting the importance of people in the successful adoption of IFRS, this review paper seeks to provide valuable insights for organizations and policymakers seeking to improve the effectiveness of IFRS implementation efforts.

2. Introduction

Accounting and record keeping has remained a usual important part of all business functions all around the world since the business management realized formal existence. The incubation and growth of IFRS is regarded as a global financial reporting innovation, especially in the expanding phases of globalization. However, the mere development of IFRS standards wasn't enough for the congruence of accounting and reporting practices across the world. The implementation of IFRS standards and the IASB's valuation - centric conceptual framework are considered to be the globalization of accounting practices in the era of diminished national boundaries, at least in business concern (Ball, 2016). However, the adoption of these standards has witnessed a lot of challenges, locally as well as globally. In 2005 the European union declared a mandate for adoption of IFRS for all listed companies of the country. In line with this, Barth et al. (2008) have claimed that a mandatory IFRS implementation derives certain for sure advantages to countries including lesser earnings management, loss recognition within preventive time limit, and increased value relevance of accounting etc. There are wide range of benefits quoted by various studies highlighting the value being added by implementation of IFRS over the domestic accounting standards such as improved quality, comparability, and credibility (Phan, Joshi, & Mascitelli, 2018). However, studies have also found that there exists no such value added to the quality of accounting practices by making IFRS adoption mandatory (Liu and Sun, 2013).

This concludes that there are certain disparities in the way of compliance of IFRS for one country to another. While Albu, Albu and Alexander (2014) divide this gap between developed and underdeveloped countries, there are many other challenges which need to be addressed before the whole world could shift to unanimous accounting standards given as IFRS.

In the words of Phan, "IFRS adoption is deeply transformative for people, institutions and processes, reflecting the true nature of the change. " (Phan, Joshi, & Mascitelli, 2018). Among the three factors highlighted here, it is the people who make institutions and run the processes. Henceforth, the impact of adoption to IFRS is deeply related to people transformation.

This paper is theoretical review of previous studies to outline the people aspect of IFRS implementation. We have studies about 50 papers on related literature to understand the pattern of IFRS implementation around the world in different phases. The paper then tries to identify the people related challenges/ barriers to successful IFRS implementation across the world. Lastly, the paper attempts to suggestions as illustrated by the countries which have successfully transformed to IFRS for their accounting and reporting.

3. Overview of IFRS implementation around the world

The early 2000s only have marked the consideration of need and acceptance of IFRS all around the world by wisdom holders in the relevant domain. As per the literature considered by this study, the implementation of IFRS over the years can be understood under the following points:

Development of IFRS: The IFRS were developed by the International Accounting Standards Board (IASB) to address the need of a common global language for financial reporting to firms all around the world. The IASB issued the first IFRS in 2003, replacing the International Accounting Standards (IAS).

European union mandate: Europe transformed to IFRS quite significantly when the EU made it a mandate for EU - listed companies in 2005 to switch over their consolidated financial statements. Only after two years of this, the mandate was extended to include the financial statements of all EU companies in 2007. (Barth et al.2008)

Adoption in the United States: The United States Securities and Exchange Commission (SEC) began made all foreign companies listed on U. S. stock exchanges to deploy IFRS in 2007. Although, the mandate for IFRS reporting for domestic companies has not yet been released by SEC. (Becker, et. al.2023).

Adoption in Other Countries: Many other countries around the world have adopted IFRS or converged their national accounting standards with IFRS. Some countries have adopted IFRS for all companies, while others have adopted it only for certain types of companies or industries. (Song, 2022).

El - Helaly & M., Ntim, (2020) have established that adoption of IFRS is also related with level of corruption in countries where they concluded that if level of corruption is high the country is less likely to adopt IFRS.

Convergence Projects: With the dynamism of international business environment, the IASB and national standard - setters have been putting valuable efforts towards convergence on time - to - time basis, such as the Financial Accounting Standards Board (FASB) in the United States worked towards alignment of IFRS with local accounting standards. These projects have led to the development of new standards, such as the revenue recognition standard (IFRS 15) and the leasing standard (IFRS 16).

Milestones in IFRS implementation

The origin and convergence towards International Financial Reporting Standards (IFRS) has been a significant event, marked by several key milestones. Here are some of the major milestones in the implementation of IFRS:

Establishment of the International Accounting Standards Board (IASB): With the objective of development and promotion of high - quality, global accounting standards, the IASB was set up in the year 2001. It is the body responsible for issuing and improving the Standards.

The EU mandate: in the year 2005 the European union marked a remarkable mandate to make IFRS necessary to be adopted by all listed companies. This helped in popularizing IFRS and breaking most of the barriers related to its adoption. (Márquez - Ramos, 2011)

Convergence with U. S. GAAP: The IASB and the US Financial Accounting Standards Board (FASB) have been working on convergence projects to align IFRS with U. S. Generally Accepted Accounting Principles. Although a complete convergence has not yet been achieved, the prime areas such as revenue recognition and leasing have been converged.

Global Adoption: Along with the consideration by major economies of the world, many other countries have also converged their national accounting standards with IFRS. For certain countries IFRS convergence happened for all companies, while others have adopted it only for certain types of companies or industries. Say, in Australia and Russia IFRS are implemented for all domestic public companies whereas Egypt has not adopted IFRS Accounting Standards instead, maintained that the Egyptian Accounting Standards (EAS) stand similar to IFRS. (www.ifrs. org)

IFRS for SMEs: In 2009, the IASB issued the IFRS accounting standards customized for Small and Medium - sized Entities known as IFRS for SMEs. Basically, it has released, a simplified version (by measures of simplified language and omission of non - relevant standards and a mandate of fewer disclosures) of full IFRS to better match the suitability for smaller companies that do not have public accountability. (www.ifrs. org)

Improvements and Amendments: The IASB regularly reviews and updates IFRS to ensure they remain relevant and reflect changes in the global business environment. This includes issuing new standards, such as IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers), as well as amendments to existing standards.
Enhanced Disclosure Initiative: The IASB has undertaken initiatives to improve the clarity and effectiveness of financial statement disclosures, including issuing guidance on materiality and developing principles for better communication in financial reporting.

Digital Reporting: The IASB has explored the use of technology, such as XBRL (eXtensible Business Reporting Language), to enhance the usability and accessibility of financial information reported under IFRS. These milestones highlight the ongoing evolution and global acceptance of IFRS as the preferred accounting norms for financial reporting in an increasingly interconnected and complex business environment.

People related challenges in IFRS implementation

Among the several barriers to full fledged adoption of IFRS around the world, there exists a wide range of people related challenges. Some countries have faced difficulties in adopting and enforcing IFRS due to differences in legal and regulatory frameworks, cultural differences, and capacity constraints. There have also been concerns about the complexity of some

IFRS standards and the costs associated with their implementation.

Implementing International Financial Reporting Standards (IFRS) can pose several challenges, especially in the people - related aspects of the process. Some common challenges include:

- Training and Education: Implementing IFRS often requires a significant amount of training and education for accounting professionals, finance teams, and other stakeholders. This includes understanding the principles and requirements of IFRS, as well as how to apply them in practice. (Pawsey, et al., 2023), (Trimble, 2024). Zakari, M. (2014) have studies Libyan countries to face issue of lack of education in illustrative context here.
- Change Management: Transitioning to IFRS can be a major change for an organization, requiring changes to processes, systems, and mindsets. HR professionals play a key role in managing this change, including addressing resistance to change and ensuring that employees are well taken forwards to adapt to the new standards. (Phan, Joshi, & Mascitelli, 2018).
- Recruitment and Retention: Implementing IFRS may require hiring or retaining employees with specialized knowledge and skills in IFRS. This can be challenging, especially in competitive job markets where such talent may be scarce.
- Workload and Stress: The transition to IFRS can place additional workload and stress on employees, especially in finance and accounting roles. HR professionals need to be mindful of employee well - being and provide support as needed. (Pawsey, et al., 2023).
- Communication and Collaboration: IFRS Implementation often requires close collaboration between finance, accounting, and other departments. HR professionals can help facilitate communication and collaboration across departments to ensure a smooth transition. For countries where official language is not English, the optimum translation of IFRS standards is also required so that its feasible for adoption by the organizations of those counties (Phan, Joshi, & Mascitelli, 2018).
- Compliance and Enforcement: Ensuring compliance with IFRS mandates and enforcing adherence to the new standards can be challenging. HR professionals may need to work closely with legal and compliance teams to develop and implement policies and procedures to ensure compliance. (Joshi, Bremser, & Al - Ajmi, 2008). Inusah & Dwommor (2017) have explored Ghana facing lack of institutional support in the similar context.
- Challenge of willingness of people: As people are agents of change management, their reluctance to adopt to a more inclusive system of financial reporting becomes a key challenge towards worldwide. This is basically related to the perceived advantage and disadvantage of IFRS implementation in a organization. (Hoang & Nguyen, 2021).
- Cultural and Organizational Challenges: International business environment makes it obvious to work with countries and organizations having different cultural believes, customs and ways of working that can impact the implementation of IFRS. For instance, Trimble, (2024), quoted about countries where Sharia Law is being followed, refrain from IFRS adoption as their believe is against charging interest on debt. HR professionals can help bridge these cultural gaps and facilitate a smooth transition to the new standards. (Pawsey, et al., 2023).
- Knowledge Management: Implementing IFRS requires maintaining up - to - date knowledge of the standards and any changes or updates. Maintaining a database through HR professionals can help a develop knowledge management system to address the need of access to useful information for all employees withing the organization. (Heidhues & Patel, 2008)

Beside these points Phan has outlined about the need for change in perception of people about the shift towards the international standards (Phan, Joshi, & Mascitelli, 2018). Also, due to the fact that IFRS standards are not completely in static state, their evolving nature makes a few conventions subject to change in future. (Fox et al., 2013). Overall, people - related challenges in IFRS implementation require HR professionals to be proactive, strategic, and supportive in managing the transition to the new standards. This includes providing training and education, managing change, supporting employee well - being, facilitating communication and collaboration, ensuring compliance, and managing knowledge effectively.

Human Resource (people) as critical success factor towards successful adoption of IFRS for an organization

As concluded by several studies, People being the dynamic factor of production, are the carriers of any organizational change. Learning and relearning are cognitive aspects which people peruse at work. People can be educated, influenced positively and motivated towards adoption of IFRS and comply with its norms (Rodrigues and Craig, 2016). Fontes et al. (2016) have also asserted about educating the people being a critical success factor towards developing a favourable system for IFRS adoption. Study by Wodaje & Rahmeto (2019) supports the facts that people are the finest resource towards managing resistance and developing acceptance. It is also believed in the same study that People can be trained and groomed with a positive perception towards IFRS adoption. People being able to manage the constraints, can set up basis for a legal or constitutional motivation towards IFRS implementation in various countries.

As cited by Márquez - Ramos (2011) adoption of IFRS has a direct positive impact on international trade, people heading international federations can make a significant role towards motivation and perception setting towards the worldwide adoption of IFRS. Legitimacy of concepts to be given regards especially by developing countries (Phan, Joshi, & Mascitelli, 2018). In case people find challenges very difficult to overcome while IFRS is being implemented, people can develop useful insights for organizations and policymakers seeking to improve the effectiveness of IFRS implementation efforts.

4. Findings and Suggestions

As people are vital factor for IFRS implementation and ongoing success, there are certain HRM (people centric) concepts suggested to be implemented towards successful implementation of IFRS

1) Lewins theory of change management towards implementation of IFRS around the world

Backed by Burnes's (2004) studies towards change management, change management has got to play a critical role towards the adoption of International Financial Reporting Standards (IFRS) around the world. Particularly, due to the complexity and scope of implementing new accounting standards across different jurisdictions. Several change management theories can be relevant in this context, depending on the specific circumstances of the adoption process. As per the studies conducted by Levasseur (2001). One of the most suitable theories for the adoption of IFRS globally could be Lewin's Change Management Model.

Lewin's model consists of three stages: unfreezing, changing, and refreezing. Since most studies have emphasised on educating people being a critical factor for successful adoption of IFRS and the nature of the change being of cognitive nature, Lewin's theory based following steps can be best suitable to follow in this regard:

Unfreezing: This stage involves preparing the organization for change by creating awareness about the need for IFRS adoption. This could include educating stakeholders about the benefits of IFRS, addressing concerns and resistance, and building a sense of urgency for the change.

Changing: In this stage, the actual adoption and implementation of IFRS take place. This involves training employees, updating systems and processes, and ensuring that the organization is ready to comply with the new standards. Communication and transparency are crucial during this stage to ensure a smooth transition.

Refreezing: Once IFRS adoption is in place, the focus shifts to reinforcing the change and integrating it into the organizational culture. This may involve monitoring and evaluating the implementation, providing ongoing support and training, and making adjustments as necessary to ensure compliance and effectiveness.

Lewin's model emphasizes the importance of communication, participation, and gradual change, which are key elements in successfully adopting IFRS globally. However, other change management theories, such as Kotter's 8 - Step Change Model or the ADKAR model, could also be applicable depending on the specific context and challenges faced in the adoption of IFRS.

2) Return on investment approach towards IFRS adoption

As well elaborated by several researches, IFRS implementation is a huge cost for an organization (İbrahim, 2021, Trimble, 2024). Under the concern the return on investment (ROI) approach towards adopting International Financial Reporting Standards (IFRS) for companies can provide valuable insights into the financial impact of such a transition. Here are some key research findings:

Improved Comparability and Transparency: Studies have shown that adopting IFRS can lead to improved comparability and transparency of financial statements, which can positively impact investor confidence and reduce the cost of capital (Barth et al., 2008).

Costs and Benefits: Research indicates that the costs of adopting IFRS can vary significantly depending on the size and complexity of the organization. However, the benefits, such as access to international capital markets and improved financial reporting quality, generally outweigh the costs (Van Tendeloo & Vanstraelen, 2005).

Market Reaction: Studies have found mixed market reactions to the adoption of IFRS. While some studies suggest a positive market reaction, indicating that investors perceive the adoption of IFRS positively, others suggest no significant market reaction (Daske et al., 2008).

Impact on Earnings Quality: Research has shown that the adoption of IFRS can improve earnings quality by reducing earnings management practices and increasing the relevance and reliability of financial information (Hope et al., 2013).

Cross - border Comparability: One of the key benefits of IFRS adoption is improved cross - border comparability of financial statements, which can enhance market efficiency and facilitate international investment (Barth et al., 2012).

Legal Environment: The legal environment in which a company operates can also influence the ROI of IFRS adoption. Companies in countries with strong legal enforcement mechanisms may benefit more from adopting IFRS compared to companies in countries with weaker legal environments (Ball et al., 2003).

Industry Differences: Research suggests that the ROI of IFRS adoption can vary across industries. For example, companies in industries with high levels of intangible assets may benefit more from adopting IFRS due to the fair value measurement requirements (Barth et al., 2015).

These insights highlight the complex nature of assessing the ROI of IFRS adoption, as it involves various factors such as the company's size, industry, legal environment, and market perceptions. However, overall, the research suggests that the benefits of adopting IFRS often outweigh the costs, particularly in terms of improved comparability, transparency, and access to international capital markets.

It is important to note here that Ahmed, et. al. (2013) have quoted about income factor to be noticed on a higher side or stagnant income trend post mandatory IFRS implementation in certain countries. Under the mandatory adoption of IFRS conditions in European Union, as concluded by Li, (2009), the cost of equity capital significantly declined (by 47 basis points) at the same time with increased disclosure and information comparability reported as key drivers towards adoption of IFRS. Mihai, Ionascu, M., & Ionascu, (2012) have also concluded the decline in the average cost of equity capital for Romanian listed companies, providing an economic benefit.

5. Conclusion

Overall, the implementation of IFRS has been a significant development in the field of international accounting standards, with many countries around the world adopting or converging their national standards with IFRS to improve the transparency and comparability of financial reporting.

The human resource at any organization of the world have got to play a significant role in the successful implementation of International Financial Reporting Standards (IFRS) within an organization. The abilities and virtues vested in people such as, understanding, adaptability, and commitment are critical for navigating the well discussed challenges towards IFRS adoption. The motivation and leadership qualities of people at top positions and decision - making role in organization can help in ensuring due compliance with the IFRS. Already it has been explored and cited by researches that the IFRS adoption has led to greater transparency, deduced capital costs, better cross - border investments (George & Shivakumar, 2016). . Overall, governance related concerns can be well helped with better financial reporting, although the benefits stand to be different for different companies and different countries. Considering people as the factor of varying results of IFRS implementation we can look forwards towards change management approach given by Lewin and the ROI model to lead a successful and sustainable shift towards IFRS around the world.

According to the study by Márquez - Ramos, L. (2011), IFRS adoption in Europe has paid back in the form of increased foreign trade in goods and improved foreign direct investment to the countries. Also the cost benefit marked a lower information costs among EU countries. Not just for developed economies IFRS adoption has been cited for increased financial growth in terms of FDI increase. As explored by Lungu, C., Caraiani, C., & Dascalu, C. (2017) IFRS has been a profitable investment for non - European emerging countries. As per the research by Kaya, & Koch (2015), the countries with low quality no standard financial reporting standards find IFRS adoption beneficial as they don't have to invest in developing their own high quality standards in this regard, particularly for small and medium enterprises. Besides these, knowledge and practice of working with IFRS also improves the global employability of the youth, as explored by Dong, et. al. (2019) by studying 402 Chinese ACCA students.

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