The Responses of Malaysian Public Listed Companies to the IFRS Convergence

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ABSTRACT

As the Financial Reporting Foundation (FRF) and Malaysian Accounting Standard Board (MASB) announced their plan to bring Malaysia to full International Financial Reporting Standards (IFRS) convergence by 1 January 2012, it is envisaged that Malaysian public listed companies will be prepared for the IFRS convergence. Our study was carried out during the peak of the convergence preparation in Malaysia. We aim to identify external drivers that influence the preparedness of companies for IFRS convergence by applying institutional theory perspectives as well as examine internal barriers that may impede the implementation of IFRS through the lens of a resource-based view. Of 859 questionnaires sent out, a total of the 150 responses were used in the data analysis of this study contributing a usable response rate of 17.46%. The general results show that respondents are prepared for the IFRS convergence. Our findings specifically reveal that the majority of respondents agree that coercive forces from stakeholders, especially regulatory forces influence their preparedness to implement IFRS. Additionally, this study points to the important roles of national accounting regulators and external auditors in influencing the degree of preparedness for IFRS convergence. The findings further demonstrate that it is not an easy task to implement IFRS and hence proper preparatory actions taken by companies are necessary in the convergence process. Overall, this study contributes to the research study's gap of limited exploration study on the IFRS adoption at organisation field from institutional theory perspectives, as previous institutional research focused on isomorphism influence on the IFRS adoption at the national level perspectives. Further, this study uses

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a resource-based view to explore the responses of companies for full convergence with IFRS. Hence, this study contributes to literature on IFRS adoption by offering insights into the internal barriers faced by companies in the IFRS convergence process. From a practical standpoint, this study provides several implications for accounting regulators, standard setters, external auditors and Malaysian public listed companies.

Keywords: IFRS/IAS, IFRS Convergence, Accounting Harmonisation, New Institutional Theory
JEL Classification: M41

1. Introduction

The initiative by many jurisdictions to converge with IFRS has gained steady support in the world. Today, International Financial Reporting Standards is used by more than a hundred countries around the world. Since 2005, all member states of the European Union (EU) and Australia have adopted IFRS. In 2011, Korea, India and Canada have also moved into IFRS convergence (Deloitte Touche Tohmatsu, 2011). Significantly, the United States too has endorsed the convergence setting to be in 2014 as its agenda to move from US Generally Accepted Accounting Principles (GAAP) to IFRS and intends to complete a few major convergence projects on certain standards.

In the Malaysian context of accounting standards development, they have been issued based on International Accounting Standards (IAS) from 1978 up to 1997. Those issuances were made by the Malaysian Association of Certified Public Accountant (MACPA) together with the Malaysian Institute of Accountants (MIA), and were not enforceable on companies. Following the enactment of the Financial Reporting Act 1997, the mandate to issue accounting standards has been given to MASB and the standards issued by MASB became enforceable by virtue of Companies Act 1965 as well as other relevant acts for specialised industries like insurance. All accounting standards issued by MASB had the prefix 'MASB'. Subsequently in 2005, concurrent with global standard setting development, the MASB renamed all issued standards as Financial Reporting Standards (FRS) that was meant to be in line with standards issued by IASB except for some minor modifications. Since 2006, Malaysian FRS standards (known as FRS framework) have been identical to the respective IFRS and IAS. The difference lies in the standards that Malaysia has not adopted. The FRS framework is made mandatory for non private entities while the private entities can continue using the old MASB standards known as PERS (private entity reporting standards) framework. Further, a new numbering system to its FRS and the interpretations was introduced by the MASB in 2007.

On 1 August 2008, the FRF and MASB announced their plan to move to full IFRS convergence by 1 January 2012. To facilitate a phased changeover to IFRS convergence, Malaysia has adopted FRS 139 Financial Instruments: Recognition and Measurement with the effective date of 1 January 2010. By 2012, all approved accounting standards applicable to entities other than private entities will converge fully with all IFRS issued by the International Accounting Standard Board (IASB). In November 2011, the MASB issued a new MASB approved accounting framework, namely the Malaysian Financial Reporting Standards (MFRS Framework). As defined by MASB, the companies that are required to apply MFRS framework are "Entities Other Than Private Entities shall apply the MFRS framework for annual periods beginning on or after 1 January 2012, with the exception of entities (known as transitioning entities) which are given options to continue with the old FRS framework that has not adopted IAS 41 Agriculture and/or IC Interpretation 15 Agreements for the Construction of Real Estate."[1] Subsequently, MASB plans that the full adoption of the MFRS Framework will be mandatory to all companies for annual periods beginning on or after 1 January 2013. In this regard, approximately one thousand Malaysian public listed companies will be affected by the IFRS convergence in 2012 and the companies or the group of companies that are involved with agriculture and real estate industry will have to decide whether to choose the option given to transitioning entities.

In addition, the International Accounting Standard Boards (IASB) future work plans on some other core standards will also affect Malaysian entities significantly after 2012. There are a few IASB exposure drafts and discussion papers that are now going through due process and soon to be adopted including leases, revenue recognition, financial instruments, fair value measurement, insurance contracts and consolidated financial statements. As a consequence of this convergence,

[1] These mean that all public listed companies, financial institutions, insurance, unit trusts; or its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or any entities as prescribed as such by the Securities Commission, Bank Negara Malaysia or the Registrar of Companies.

when IASB issues a new or amended IFRS, Malaysia will adopt those standards in their entirety.

Realising the challenges and the possible impact of this convergence, we propose in our study to investigate the responses of Malaysian public listed companies on IFRS convergence by looking specifically at the key antecedents of IFRS adoption and internal barriers faced by companies. We argue that this study is both timely and significant as companies are in the midst of preparing the first IFRS compliant financial statements soon to be completed towards the end of 2012. In addition, it explores convergence readiness issues in the Malaysian context, where International Standards have long been the benchmark in the standards-setting process. Previous study in this context is limited. For example, Tan et al. (2006) conducted a survey to study the impacts of FRS adoption in Malaysia and this survey covered the benefits and challenges to adopt FRS. Since most of the past research on IFRS adoption focused on advanced capital markets such as US, Europe and Australia, this study extends the literatures on IFRS adoption with survey information focusing on the economic landscape of a developing country.

We hope that our findings will assist the accounting regulators such as the Securities Commission (SC), accounting regulatory and professional bodies like the MIA, standards-setters like the MASB and other stakeholders such as accountants and auditors, to understand the key drivers that affect or influence the diffusion of IFRS. As such, policy makers and accounting professional bodies can assess and even seek to influence the key drivers and internal barriers that may enhance or impede the adoption of IFRS. Next, we will briefly introduce the financial reporting regulation and development in Malaysia that have major influence in the IFRS convergence process.

1.1 Financial Reporting Regulations in Malaysia

Historically, the first documented financial reporting regulations were those of the Companies Ordinances (and amendments) of 1940, 1946 and 1956, before Malaysia achieved her independence in 1957. Subsequently, the establishment of the Malaysian Companies Act in 1965 repealed them. The Act governs the reporting requirements, rules and regulations on accounting.

Apart from the Act's requirements, development of accounting and reporting were contributed significantly from local accounting professions. The Malaysian Institute of Certified Public Accountants

(MICPA) was established in 1958 as a private sector accountancy body that regulates the practices of its members. MICPA began adopting International Accounting Standards (IASs) in 1978. The Malaysian Institute of Accountants (MIA) was established in 1967. After its establishment, it remained inactive and concentrated mainly on the registration of accountants in Malaysia. However, in 1987, the operations of the MIA were activated to be that of a regulator of the accountancy profession and it began issuing accounting standards in 1987 (Susela, 1999).

Regulatory authorities began to play a more significant role in the setting of financial reporting. Bank and financial institutions were the first to move to full disclosure practices as required by the Central Bank of Malaysia's guidelines, BNM/GP8. With the establishment of the Securities Commission (SC) in 1993, public companies were required to comply with full disclosure-based reporting system as provided by the SC' guidelines. Additionally, Companies Commission of Malaysia (CCM) requires all companies (which include public listed and private limited companies) incorporated under the Companies Act 1965 to submit its accounts duly audited before they are presented at the annual general meeting. Moreover, Bursa Malaysia has the power to regulate companies listed on its Exchange. All the listed companies are required to comply with the Bursa Malaysia Listing Requirements that contain some provisions relating to financial accounting and reporting.

Financial reporting regime in Malaysia entered a new era when the Malaysian Government approved the Financial Reporting Act 1997. With this new Act, two independent bodies were established: The Financial Reporting Foundation (FRF) and the Malaysian Accounting Standards Board (MASB). The FRF, as a trustee body, has responsibility for the oversight of the MASB's performance, financial and funding arrangements, and as an initial source of views for the MASB on proposed standards and pronouncements. On the other hand, MASB acts as a standards- setting body and is responsible to implement "due process" for the development of standards (Susela, 1999).

The roles of accounting regulators cannot be ignored in the convergence process. A well established regulation system and effective enforcement mechanism are important forces to push companies to be well prepared for IFRS convergence. In Malaysia, regulators have taken concerted effort to ensure a smooth transition to full convergence. The MASB has established a Convergence Task Force (CTF) represented from the SC, CCM, Bursa Malaysia, Inland Revenue Board, MIA, MICPA, Chartered Tax Institute of Malaysia and Institute of Internal Auditors. Generally, CTF's main function is to coordinate the convergence efforts carried out by the various key players in the financial reporting value chain (MASB, 2010). The next section will introduce institutional theory that was adopted in this study on IFRS convergence.

1.2 Institutional Theory Perspectives on IFRS Convergence

Institutional theory has been applied widely in different disciplines that include accounting standards harmonisation and IFRS adoption (Judge et al, 2010; Barbu and Baker, 2010; Al-Omari, 2010; Irvine, 2008; Hassan, 2008; Mir and Rahaman, 2005; Touran, 2005; Yapa et al., 2012). The wide range of research using the institutional theory perspectives across different disciplines may support its integrity and usefulness in exploring the IFRS convergence in the Malaysian context.

In respect of IFRS convergence in Malaysia, the legitimacy of IFRS is crucial because legitimacy justifies and explains an institution's structure and existence in the process of implementing IFRS. Furthermore, legitimacy of IFRS convergence requires the fit between an institution and its environment. With regards to the legitimacy of IFRS, Irvine (2008) indicates that IFRS is a powerful legitimacy force that gives adopting nations the ability to compete in global capital markets. It means that nations and organisations intend to adopt IFRS in view of the legitimising power of IFRS to expand capital markets and business globally. This is also supported by the views from Mir and Rahaman (2005) and De Lange and Howieson (2006).In addition, Judge et al. (2010) acknowledges that countries are willing to adopt IFRS for two reasons. First, under-developed countries with perceived "low quality" accounting standards have recently adopted IFRS in order to be at par with more developed countries such as UK and Australia. Secondly, countries even with perceived higher quality domestic accounting standards such as Australia and Canada also adopted IFRS or altered their domestic standards in order to be able to compete in global environment. Overall, institutionalisation arises as there is a social process through which nations and organisations accept international accounting standards in the interests of international accounting harmonisation (Rodrigues and Craig, 2007).

In this study, neo-institutional theory developed by DiMaggio and Powell (1983) is adopted to understand the key drivers that influence the preparedness of companies to the IFRS convergence.

According to DiMaggio and Powell (1983), organisations must conform to institutional isomorphism if they intend to gain legitimacy within an organisational field. The term institutional isomorphism refers to the situation where organisations within an environment become more homogeneous due to political, legitimacy or social purposes. In other words, there is a tendency of the nations across the globe to adopt IFRS and organisations may conform to this tendency to adopt IFRS if they intend to secure legitimacy within an organisational field. There are three types of institutional isomorphism identified namely coercive, mimetic and normative isomorphism. The next sections will demonstrate the influences of the three elements of legitimacy namely coercive, mimetic and normative isomorphism that are exerted on the IFRS convergence in the Malaysian context.

2. Literature Review

2.1 The Preparedness of Companies for IFRS Convergence

In Malaysia, the move towards IFRS convergence is one of the major plans that respond to the Capital Market Masterplan Two (CMP2) which was launched by Securities Commission in 2011. The aim is to expand the potential value of capital markets over the next ten (10) years (MASB, 2011). It is expected that the move towards IFRS convergence will enhance capital market performance and spur global business expansion in Malaysia. In view of this development on IFRS convergence, it is crucial that companies are well prepared for IFRS convergence effective in year 2012 by assessing their existing financial reporting process, information systems, human capital and financial resources (MIA, 2008). Considering the impacts of IFRS convergence, we feel it is timely to study the responses of Malaysian public listed companies towards full convergence.

From our review of extant literature, we noted that although there has been widespread adoption of IFRS by countries throughout the world, the level of preparedness to adopt IFRS has varied widely between countries and companies. In a survey conducted by Guerreioro *et al*. (2008) on IFRS adoption in Portugal, the level of preparedness of companies is measured based on the mode of assessment and process of conversion. The mode of assessment covers the evaluation of the accounting policy changes, system changes, scope of training, cost changes and reactions of stakeholders. Meanwhile, the mode of the conversion process covers preparation for financial reporting systems, provision of training courses, and collection of additional accounting information and implementation of other procedures. Additionally, Yapa et al. (2012) conducted a qualitative study comprising one-to-one interviews in the three ASEAN countries of Singapore, Malaysia and Indonesia on social economic impacts of IFRS convergence. The findings reveal that there is concern in both Malaysia and Indonesia about IFRS being introduced by authorities without considering cultural, religious and societal variations around the globe. Moreover, a number of surveys were conducted to investigate the stage of preparedness of companies to adopt IFRS in developed countries such as EU and Canada (PwC, 2004 and CFERF, 2010). These surveys find that adequate resource and training, financial reporting systems changes, impact awareness, communication to external stakeholders and involvement of external consultants are the significant factors that companies should consider in the process of IFRS implementation.

We posit that in order to be ready for the IFRS transition process, companies may need to emphasise increasing the awareness of IFRS, assessing the company's current capabilities and resources as well as planning for the implementations' approach and training needs. To study the preparedness of companies for IFRS convergence, we aim to investigate the antecedent factors namely coercive forces from stakeholders, imitation tendencies and roles of professional accounting bodies that influence the adoption of IFRS from institutional theory perspectives. Apart from these factors, we also embarked on investigating the influence of internal barriers that impede the implementation of IFRS from the lens of resource-based view.

2.2 Coercive Forces from Stakeholders

According to DiMaggio and Powell (1983), coercive isomorphism arises from the imposition of standard operating procedures and legitimated rules through government mandate as well as conformation to the social expectations of the society. Thus, it is conjectured that both formal and informal pressures are exerted on organisations by various stakeholders such as political and legislative bodies, shareholders, lending institutions and public.

In the move towards IFRS convergence, various efforts are taken to review existing regulatory structures and legislation to enable greater compliance with IFRS (Chan *et al.*, 2010). Chua and Taylor (2008) argue that the Government or regulator actions encourage widespread diffusion of IFRS apart from economic rationales. Further, Brown and Tarca (2005) also recognise the primary roles of regulatory oversight bodies and enforcement mechanisms in promoting the adoption and compliance of IFRS in the EU member countries. This view is supported by research conducted by Jermakowicz and Gornick-Tomaszewski (2006) that shows the majority of EU-listed companies would not adopt IFRS if not required by EU Regulation.

In Malaysia, MASB together with FRF is entrusted to develop the framework for financial reporting. However, the enforcement of approved accounting standards is seen to reside with the SC, Bank Negara Malaysia and the Companies Commission of Malaysia. When MASB achieves its IFRS convergence target on 1 January 2012, companies are required to follow MFRS framework. Given the multiple institutional forces that regulate the IFRS convergence, listed companies are mandatorily required to adopt the MFRS framework issued by MASB and subsequent standards to be issued by IASB. As such, companies are coerced into preparing themselves for IFRS convergence as they develop a fear of it and try to avoid sanctions and punishment from regulatory bodies (Scott, 2008).

Apart from the regulation forces, coercive pressures can arise from resource-dominant actors such as powerful suppliers, customers, investors and other major stakeholders. Chalmers and Godfrey (2004) indicate that coercive isomorphism can arise from various stakeholders or financial reporting interest groups who demand financial information from the company. In other words, changes can be imposed by various powerful external sources or constituents toward some forms of practices or structures (Tuttle and Dillard, 2007). Thus, a company could be coerced to adopt IFRS in order to satisfy the expectations and demands of its powerful stakeholders.

2.3 Imitation Tendencies in Organisation Field

According to DiMaggio and Powell (1983), companies seek to model themselves on the practices of similar organisations in the same field especially in the situations of uncertainty over goals, technologies and means-end relationships. Arguably, organisations want to be seen as socially acceptable in their field. As more organisations behave in certain ways and manners, the more pressures are exerted on other organisations to imitate these behaviors and follow the same practices.

Haunschild and Miner (1997) distinguish three modes of inter-organisational imitation: frequency imitation (follow common practices), trait imitation (follow practices of other organisations with certain features) and outcome imitation (imitation based on a practice's apparent impact on others). Possibly, the adoption of IFRS by companies can also be influenced by these three inter-organisational imitations. For frequency based imitation, companies may follow practices from the majority of companies in the move towards IFRS convergence. It should also be noted that most of the nations follow the global trend to adopt IFRS as more than a hundred nations have already adopted IFRS. In terms of trait-based imitation, it can be argued that organisations tend to follow new policies and procedures related to IFRS adopted by other leading organisations in their respective sector. Meanwhile for outcome-based imitations, organisations may be more prepared to adopt IFRS on the grounds that IFRS adoption may give benefits to organisations such as facilitates cross border investment and brings capital inflows to nation (Hope et al., 2006).

In the globalised economy, successful multinational corporations continually expand their business internationally. They have a tendency to follow or imitate multinational organisational behaviors to achieve the desirability of the global harmonisation of financial reporting (Irvine, 2008). Consistently, as Malaysia's economy is increasing its reliance on international trade, they face pressures to adopt IFRS. Similar pressure applies to multinational corporations and local corporations which have expanded overseas, particularly those of its "influential trading partner(s)" from the developed countries. Furthermore, the Malaysian government has focused on the internationalisation of its capital market in response to the Capital Market Masterplan Two (CMP2) strategy (MASB, 2011). In order to compete for capital with companies in the global capital market, multinational corporations may be more likely to adopt IFRS to provide useful information to capital market participants that usually rely on accounting information for investment decision making.

2.4 Participation in Professional Bodies

The growth and elaboration of professional networks that span organisations will allow for new models to diffuse rapidly (DiMaggio and Powell, 1983). Professional institutions have influences to disseminate norms, influence the field, and otherwise direct other members (Tuttle and Dillard, 2007). Professional and trade association represent clear instances of such groups. In Malaysia, professional accounting bodies such as the MIA and MICPA that govern the local professional membership admission play an active role in promoting the IFRS adoption and provide training courses and seminars to its members. These accounting bodies encourage their members to provide input or feedback to the MASB in the standard setting process and IFRS convergence discussion forums. In addition, the professional accounting bodies also educate its members by providing interpretations and guidance on the standards issued by MASB. Moreover, several overseas professional accounting bodies such as ICAEW, CPAA and ACCA which have a large membership particularly in industry and professional practice in Malaysia have also strongly influenced the IFRS convergence in Malaysia. These professional bodies have shared their experiences on IFRS convergence from their respective countries that have adopted IFRS earlier than Malaysia.

Previous research found that members of professional bodies are motivated to fulfill their professional obligations as required by professional bodies in order to maintain their professional status conferred through professional membership (Carpenter and Feroz, 2001; Touron, 2005).) For example, professional accounting associations exert pressures on US state governments' decision to switch from cash basic to accounting method based on GAAP (Carpenter and Feroz, 2001). Parboteeah et al. (2002) find that the influence of accounting professional bodies has a greater impact on accounting practices than the national cultures of Japan and United States. Thus, it is expected that finance and accounting staff in companies such as finance controllers, finance managers and accountants who are members of professional accounting bodies and participate actively in professional accounting bodies' activities such as attending training courses and seminars will be motivated and well prepared for IFRS convergence in 2012.

The degree of professional advancement in the accounting practices is also influenced by external auditors. Although external auditors do not impose preferred practices on clients, they may provide their opinions or suggestions on financial reporting practices. In addition, external auditors need to maintain their reputation and perceived quality of their works. Jones and Higgins (2006) indicate that the external auditor is the most dominant party involved in the IFRS implementation process in Australia either as independent consultants assisting in the IFRS adoption process, or as the firm's auditor required to provide audit opinion on the financial statements.

2.5 *Internal Barriers on IFRS Implementation*

The previous sections discussed the external key drivers that influence the IFRS convergence based on institutional theory while this section looks at the internal barriers that may impede the implementation of IFRS from the resource-based view.

Resource-based view has been widely adopted in the strategic management research. The resource-based view basically originates from Penrose (1959) seminal work that describes the firm as a bundle of resources. Penrose (1959) emphasises that the growth of the firm is both facilitated and restricted by management's ability to look for the best utilisation of available resources (as cited in Bloch and Finch, 2010). This view is also articulated by Barney (1991) that indicates a firm's specific resources and capabilities are the key factors of its competitive advantage and performance (Barney, 1991). Thus, resources and capabilities are significant criteria for companies to move toward achieving certain goals and gain competitive advantages. From the resourced-based view, lack of resources and capability can be barriers for companies' preparedness to move towards IFRS convergence.

In the process of IFRS convergence, countries and companies face challenges that are indicated by many empirical studies done especially in EU countries. A survey done by Larson and Street (2004) on IFRS convergence in seventeen (17) European countries identify that the most significant impediments to convergence are the complicated nature of particular IFRSs especially on financial instruments, tax-orientation of national accounting systems, underdeveloped capital markets and lack of guidance. Further, Navarro-Garcia and Bastida (2010) provide empirical insights on Spanish publicly traded firms' perceptions of IFRS and find that the adoption of IFRS is troublesome and failed to meet a cost-benefit trade-off in some cases. All these challenges may affect companies' preparedness for IFRS convergence in Malaysia.

The challenges to implement IFRS are supported by Jermakowicz and Gornick-Tomaszewski's (2006) exploratory study done on one hundred and twelve (112) EU publicly traded companies. The study finds that the IFRS implementation process in EU is costly, complex and burdensome. Furthermore, the respondents of the survey listed various obstacles and challenges that include the complex nature of IFRS, lack of guidelines and interpretations, running of parallel accounting systems, preparation of comparative financial information for past years, lack of IFRS knowledge among staff, training of staff and changes of information system structures.

In Malaysia, Tan et al. (2006) conducted a survey on the impact of FRS adoption in Malaysia in 2006 and indicated that the move towards implementation of FRS is challenging for organisations. The findings of the survey revealed some major drawbacks or challenges in the implementation process such as lack of communication to stakeholders, not participating actively in consultancy processes for standards-setting, lack of staff competencies, training requirements, inadequate time to understand new standards and low dissemination of knowledge. Similarly, Yapa et al. (2012) point out the practitioners, professional bodies and academicians concern about adequacy of IFRS training programme and the shortage of accountants in Malaysia.

To summarise, internal barriers such as lack of resources and capabilities may be obstacles for effective IFRS convergence. Thus, it is one of the objectives in this study to investigate the internal barriers that may impede companies' preparedness to IFRS convergence apart from the influences of key external environment factors.

3. Research Methodology

In order to get the general response pattern, we use survey questionnaires to collect the data. The Items for key drivers from coercive forces from stakeholders, imitation tendencies in organisation field and participation in professional bodies were designed for response using a five-point Likert-type scale, that was, '1'= Strongly Disagree to '5'= Strongly Agree. Meanwhile, internal barriers were measured by five-point scale from '1'= Not at all to '5'= Greater Extent.

Generally, full convergence with IFRS will have considerable impact on the publicly accountable entity in Malaysia. Hence, companies listed on the Bursa Malaysia that meet the definition of 'publicly accountable entity' are selected as the unit of analysis in this study. The list of all the companies listed on the Main Market of Bursa Malaysia was obtained from the Bursa Malaysia website on 1 July 2011 (Bursa Malaysia, 2011). As a result, a total of eight hundred and fifty nine (859) Malaysian public listed companies were selected as sample size for this study. The questionnaires were delivered to the Financial Controllers, Chief Accountants or Head of Finance/Accounts Department as they are presumed to be directly involved with the adoption process of IFRS in their respective companies and have better understanding and wide knowledge on IFRS. All these selected companies come from various sectors, such as services, manufacturing, financial institutions and agriculture and they are located all over West and East Malaysia. Of eight hundred and fifty nine (859) questionnaires sent out, a total of the

One Hundred and Fifty (150) responses were used in the data analysis of this study contributing a usable response rate of 17.46 Per cent. As part of our strategy to maximise results, we sent 2 reminders to companies who did not respond to our survey. Even though the response rate seem low, it is much higher compared to other similar research survey studies conducted in Malaysia (For example Tan et al., 2006, reported a response rate of 10.3 per cent while Jusoh, 2008 reported a response rate of 12.3 percent)

4. Results and Discussion

4.1 Characteristics of Responding Firms

To obtain descriptive statistics for general background information of the firms, test of frequencies is used. This test shows the results of the demographic profile of responding firms. Table 1 summarises the profiles of the responding firms that constitute a broad spectrum of business activities.

Out of one hundred and fifty (150) responding firms, the majority of them are from manufacturing (41); followed by construction and real estate (33); Others (25); Services (17); agriculture (14); IT / Communication (9); Banking / Finance (7); and oil and gas (4). These firms are mainly from the private sector (117) and the others firms are in the sector of multinational (31) and government agency (2). It is not a surprise to find that the majority of the responding firms were from the manufacturing industries which is the main industry in Malaysian economy. Interestingly, there is a large sample from the construction and real estate sector as well. One possible explanation for this may be due to the reason that construction and real estate industry are substantially affected by the requirements of IC 15 due to IFRS convergence.

The responding firms with annual revenue greater than RM one hundred (100) million were 66 percent. Majority of firms have annual revenue of RM one hundred (100) million to RM four hundred and ninety nine (499) million (42 percent). In terms of the number of employees, majority of the responding firms have a total number of employees of five hundred (500) or less (53.3 percent). In addition to that, it is shown that majority of the responding firms were audited by big four auditors that constitutes 67.3Per cent. Such higher percentage is normal considering that big four audit firms have large audit market share for the Malaysian public listed companies. Moreover, a total of thirty one (31) responding firms are multinational corporations which expanded overseas.

Table 1: Profiles of the Responding Firms

Variables	Frequency (n= 150)	Valid Percent (Per cent)
Industry:		
Agriculture	14	9.3
Banking / Finance	7	4.7
Real estate / construction	33	22.0
IT / Communication	9	6.0
Services	17	11.3
Oil and Gas	4	2.7
Manufacturing	41	27.3
Others	25	16.7
Sector:		
Multinational Organisation	31	20.7
Private Organisation	117	78.0
Government / Government Agency	2	1.3
Number of employees:		
Less than 500 employees	80	53.3
500 - 1,499 employees	35	23.3
1,500 - 2,499 employees	19	12.7
2,500 - 4,999 employees	4	2.7
5,000 - 7,499 employees	6	4.0
10,000 – 15,000 employees	2	1.3
More than 15,000 employees	4	2.7
Annual Revenue:		
Less than RM25 million	14	9.3
RM25 million - RM99 million	37	24.7
RM100 million - RM499 million	63	42.0
RM 500 million - RM999 million	14	9.3
RM1,000 million - RM4,999 million	12	8.0
More than RM5,000 million	10	6.7
Auditor Type:		
Big 4 audit firm	101	67.3
Non Big 4 audit firm	49	32.7

4.2 The Preparedness for IFRS Convergence

The overall mean scores of preparedness for IFRS convergence is 3.45 in a five-point Likert type scale (As shown in Table 4). The score indicates that responding firms are neither agreeing nor disagreeing that they are taking action plans for IFRS convergence. Further analysis of the means values of each items of action plans taken (As shown in Table 2) reveals that respondents attached the highest level of agreement score of 3.70 on the awareness of company staffs on the potential implications of IFRS convergence. This is followed by the evaluation of the accounting policies changes and consequences change to the financial statements that score 3.67. However, the lowest level of agreement score of 2.71 was achieved for a limited budget allocation on IFRS convergence.

The moderate mean score implies that the preparedness of companies for IFRS convergence may be impeded by some extents of internal barriers that indicate by mean score close to 3.0 that show some extent of internal barriers exist. This result is consistent with extant studies which indicate that many countries have faced challenges in the transition of IFRS implementation. For example, survey on adoption of IFRS from sixty (60) corporations drawn from among Australia's top two hundred (200) corporations indicated that many respondents were not well prepared for the transition of IFRS adoption (Jones and Higgins, 2006).

Table 2: The Preparedness for IFRS Convergence

Survey items	Mean Responses *	Std Deviation
1. Staffs are aware of the potential impacts	3.70	0.988
2. Evaluated accounting policy changes and consequences changes	3.67	0.932
3. Internal financial reporting system changes	3.61	1.073
4. Made preliminary assessment	3.59	1.018
5. Has continuous IFRS training plan	3.57	1.032
6. Has a development plan	3.54	0.994
7. Communicated to shareholders	3.17	1.132
8. Budget allocated	2.71	1.266

Note: * Mean values vary from 1 (Strongly Disagree) to 5 (Strongly Agree).

As shown in Table 3, it can be clearly seen that the highest mean value of the preparedness for IFRS convergence is oil and gas industry which is close to 3.88. This is followed by services industry that has a mean value of 3.71. This result may imply that these companies are usually considerably larger organisations and possibly multinationals with more resources to implement IFRS. On the other hand, manufacturing and other industries score a slightly lower mean value that is close to 3.40. Whilst, the low means may raise concern, we posit that these industries may not face many issues with new or revised standards that are adopted during the convergence process.

Table 3: The Preparedness for IFRS Convergence According to Types of Industries

Types of Industries	Mean*	Std. Deviation
Oil and Gas	3.88	0.586
Services	3.71	0.715
Banking / Finance	3.68	0.809
IT / Communication	3.67	0.755
Agriculture	3.41	0.924
Real estate / construction	3.38	0.919
Manufacturing	3.35	0.766
Others	3.32	0.842

Note: * Mean values vary from 1 (Strongly Disagree) to 5 (Strongly Agree).

Table 4 shows some descriptive analysis for the research variables used in this study. The table provides the summary of descriptive statistics such as minimum, maximum, mean and standard deviation for each variable. Further analysis and discussions are provided in the next following sections.

4.3 Coercive Forces from Stakeholders

The mean score achieved for coercive forces from stakeholders are 3.91 (As shown in Table 4). This score is close to 4 which mean respondents agree that coercive forces from stakeholders influence their preparedness to implement IFRS. Based on the mean response in Table 5, most of the responding firms are preparing for IFRS convergence in order to comply with reporting requirements and prevent sanctions from regulatory bodies. The mean responses of coercive forces from other external stakeholders such as international investors, overseas business operations and overseas subsidiaries are relatively low. Hence, the coercive influence from regulators plays a crucial role in the implementation of IFRS by companies.

Table 4: Summary of Descriptive Statistics of Research Variables

Variables	Mean	Std. Deviation	Minimum	Maximum
Preparedness for IFRS convergence	3.44	0.820	1.25	5.00
Coercive forces from stakeholders	3.91	0.761	1.71	5.00
Imitation tendencies in organisation field	3.57	0.782	1.80	5.00
Participation in professional bodies	3.47	0.702	1.50	5.00
Internal barriers	2.84	0.902	1.00	4.86

This result is similar to the survey done by Jermakowicz and Gornick-Tomaszewski (2006) that show evidence that the majority of EU-listed companies adopt IFRS because it is required by EU Regulation due to the forces of regulatory sanctions. The result of this study is not a surprise considering the regulations and requirements imposed by the SC, Bursa Malaysia and Bank Negara Malaysia that govern the financial reporting of public listed companies in Malaysia. Failure to comply with such regulations and requirements may cause heavy penalties and bad reputation to the companies. From the result, it is evident that the local scenario is similar to that of the EU where the coercion impact has influence the preparation of public listed companies in Malaysia for IFRS convergence as they try to avoid sanctions and punishment from regulatory bodies. As such, this study reveals that stakeholders who play the big role in supporting IFRS convergence in Malaysia are the regulators especially SC, Bursa Malaysia and Bank Negara Malaysia. These regulatory bodies are also part of the IFRS convergence task force that oversees the convergence process.

Table 5: Coercive Forces from Stakeholders

Survey items	Mean Responses *	Std Deviation
1. Comply with reporting requirements	4.45	0.747
2. Prevents sanctions from regulatory bodies	4.13	0.960
3. Prevent qualified audit opinion	4.12	1.049
4. Prevent restatement of financial statements	4.06	1.018
5. Fulfill the needs of international investors	3.81	1.103
6. Fulfill the needs of overseas business operations	3.49	1.236
7. Enable overseas subsidiaries adopt single set of standard	3.35	1.301

Note: * Mean values vary from 1 (Strongly Disagree) to 5 (Strongly Agree).

4.4 Imitation Tendencies in Organisation Field

As for imitation tendencies to adopt IFRS, the mean score of 3.57 imply that responding firms are neither agreeing nor disagreeing that the influences of imitation tendencies in organisation field are key drivers to implement IFRS (As shown in Table 4). The result from Table 6 reveals that companies tend to follow practices and policies from industry peers in the IFRS convergence process. Generally, the overall moderate mean value achieved could be due to the difficulty to imitate the financial reporting practices of other organisations as the process of the preparation of financial statements is normally depend on the business environment and types of transactions of companies. Moreover, multinational corporations in Malaysia may not have much initiative to imitate the financial reporting practices from other multinational corporations in the world due to the mandatory compliance with FRS as required by the Financial Reporting Act 1997 in Malaysia. Presently, there are only a handful of multinational corporations in Malaysia that are early adopters of the IFRS even though a single set of financial statements is prepared based on the IFRS is crucial to multinational corporations.

Table 6: Imitation Tendencies in Organisation Field

Survey items		Mean Responses *	Std Deviation
1	Follow practices and policies of industry peers	3.83	0.961
2	Refer to practices and policies of leading organisation	3.69	1.056
3	Follow practices of multinational corporations	3.43	1.026
4	Enable overseas subsidiaries adopt single set of standard	3.35	1.301
5	Adopting IFRS give benefits to company	3.30	1.028

Note: * Mean values vary from 1 (Strongly Disagree) to 5 (Strongly Agree).

4.5 Participation in Accounting Professional Bodies

The influences of professional bodies show a mean score of 3.47 (As shown in Table 4). Based on the survey result (As shown in Table 7), the roles of external auditor achieves the highest mean score of 3.85 that is slightly close to 4.0. This shows that most of the respondents acknowledge that external auditors provide helpful assistance and advice in the adoption of IFRS. 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 IFRS convergence process. Further, the result also points out the lowest mean response of 2.54 achieved for participation in the MASB consultation process. Hence, the MASB should extend the existing practice of close work relation with professional bodies and encourage them to participate actively in providing feedback and comments to the MASB as more standards are currently going through due process that requires feedback and inputs from stakeholders especially from the developing countries.

4.6 Internal Barriers on the IFRS Implementation

The mean score related to internal barriers shows 2.84, that is close to 3.0, which indicates that internal barriers impede the preparedness of companies to implement IFRS (As shown in Table 4). From the mean value analysis in Table 8, there are some extents of inadequate knowledge of staffs that achieves the highest mean response of 3.08 then followed by inadequate time to understand new standards that scores a mean response of 3.03. Thus, it is necessary for companies to implement proper action plans to tackle the impediments. Therefore, the persons ultimately responsible for financial statements preparation (the top management) need to spearhead the initiative to overcome their internal barriers that can affect the implementation of IFRS. In addition, we also noted in section 4.3 that coercive forces can assist to enforce the convergence implementation process. Hence, the accounting regulators, standards- setters and professional bodies should pay attention to this problem and provide support to the companies in resolving the internal barriers.

Table 7: Participation in Accounting Professional Bodies

	Survey items	Mean Responses *	Std Deviation
1	The roles of external auditors	3.85	0.918
2	Staffs are member of professional bodies	3.77	0.999
3	Professional accounting bodies provide training courses	3.59	0.943
4	Technical updates and pronouncements issued	3.56	0.871
5	IFRS implementation guideline issued by MASB	3.51	0.910
6	Actively participate in the MASB consultation process	2.54	1.103

Note: * Mean values vary from 1 (Strongly Disagree) to 5 (Strongly Agree).

Table 8: Internal barriers on IFRS implementation

	Survey items	Mean Responses *	Std Deviation
1	Inadequate knowledge and skills of staffs	3.08	1.078
2	Inadequate time to understand new standard	3.03	1.176
3	Lack of training courses	2.91	1.080
4	Lack of internal technological resources	2.91	1.131
5.	High costs involved	2.84	1.106
6.	Lack of communication to management and staffs	2.69	1.074
7.	Lack of support from top management	2.39	1.187

Note: * Mean values vary from 1 (Not at all) to 5 (Greater extent).

5. Conclusion

In summary, we have presented an empirical investigation to study the responses of Malaysian public listed companies to the IFRS convergence. In particular, we attempt to identify external drivers that influence the preparedness of companies for IFRS convergence as well as examine internal barriers that may impede the implementation of IFRS. Our results indicate that overall, responding companies are adequately prepared for the IFRS convergence. We also found that coercive forces from stakeholders' especially regulatory forces have the highest influence on the respondents' preparedness to implement IFRS. Further, the findings demonstrate that it is not an easy task to implement IFRS and hence proper preparatory actions taken by companies are necessary in the convergence process. The results of this study highlight some of the pertinent issues that influence the preparedness of companies for IFRS convergence and provide timely feedbacks to the accounting regulators, professional bodies, standard setters and the other stakeholders in Malaysia.

From theoretical implication perspectives, the findings of this study may be of interest to institutional theorists and accounting researchers. Previous institutional research focused on the influences of institutional isomorphism on the IFRS adoption at the national level perspectives (Judge et al, 2010; Irvine, 2008; Hassan, 2008; Touran, 2005; Yapa et al., 2012). This study attempts to explore the extent to which Malaysian organisations respond to the institutional pressures in the implementation of IFRS. Apart from that, the results partially support that the IFRS adoption process in organisations is driven by social legitimisation pressures as evidenced by three forms of isomorphism pressures predictive of the preparedness for IFRS convergence in Malaysia. These findings show that social legitimacy influences (namely coercive, mimetic and normative isomorphism) are particularly important factors in the adoption of IFRS besides economic consequences. Additionally, this study combines the institutional theory and resource-based view to explore the responses of companies for full convergence with IFRS. Hence, this study contributes to literature on IFRS adoption by offering insights into the internal barriers faced by organisations in the IFRS convergence process.

From a practical standpoint, this study provides several implications for accounting regulators, standards- setters, external auditors, educators as well as the Malaysian public listed companies.

This study points to the important roles of national accounting regulators in influencing the degree of preparedness for IFRS convergence. The result shows that a well-established regulatory system and effective enforcement mechanism are important forces to push companies to be well prepared for IFRS convergence. Furthermore, most of the respondents acknowledge that professional bodies, standards- setters and external auditors provide helpful assistance and advice in the adoption of IFRS. In addition, the result also point out that internal barriers impede the process of IFRS convergence. Therefore, all the parties involves should work together in a well planned ecosystem to offer more assistance and support to companies that can help overcome their internal barriers in the adoption of IFRS. Each party in the ecosystem has a role to play; for instance regulators and professional bodies to offer more expert advice and training, educators to adapt their syllabus to latest changes and finally, top management of companies to provide adequate funding for training and enhancing IFRS knowledge of the staff.

Finally, we noted that future research can focus on a more comprehensive perspective that includes the political, culture and economic perspectives of the nation as well as the behavioral perspective of organisations to adopt new practices. Besides that, future studies can be conducted to explore the participation of companies in MASB consultation process in view that many IASB exposure drafts and discussion papers are now going through due process and are soon to be adopted in Malaysia. In addition, the mixed method approach of survey, interviews and case study would help to enhance the findings. The future plan of our study is to perform an archival analysis on the IFRS compliant annual reports issued by entities in Malaysia and to conduct interviews with survey respondents.

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