Voluntary application of IFRS:
A study of factors and explanations on the Swedish unregulated capital markets

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Abstract

The past two decades have resulted in an increase in international trade, capital flows and cross-border economic integrations. These phenomena have increased the demand for harmonized international accounting standards aimed at creating an efficient resource allocation, worldwide. The adoption of International Financial Reporting Standards (IFRS) is the result of a process towards a greater accounting harmonization. In Sweden, there are four categories of firms that apply IFRS; three are regulated by law, while the fourth are voluntary applying IFRS. The aim of this study is to find out which factors explain why firms voluntarily apply IFRS. By doing one quantitative and one qualitative study of the firms listed on the Swedish unregulated capital markets, we have found that there are 84 firms that voluntarily apply IFRS,that is 35 percent. The significant factors explaining the voluntarily application of IFRS are the use of an audit firm within the big four (PricewaterhouseCoopers, KPMG, Ernst & Young and Deloitte) and the number of firms within the same industry that voluntarily applies IFRS. Their voluntary application of IFRS has been explained to primarily depend on the advantages increased internal control, a more extensive and detailed annual report and more investors. In addition, the use of IFRS indicates quality and the firm will be seen as a good corporate citizen.

Keywords: IFRS, Voluntary application, Factors, Explanations, Swedish unregulated capital markets

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1 Introduction

Over the past two decades, international trade and capital flows have increased and cross-border economic integrations have become more frequent. The fact that different countries have different accounting standards has become a problem for efficient resource allocation, worldwide (Doupnik and Taylor, 1985). It has also created a demand for harmonized accounting standards between countries (Renders and Gaeremynck, 2007).

Harmonized accounting standards lead to a common accounting language which makes it easier for investors to understand firms' annual reports which are used in investment decisions (Ali, 2005; Ball, 2006; Chang, Most and Brain, 1983). The adoption of IFRS is the result of a process towards greater harmonization (Renders and Gaeremynck, 2007).

Many countries around the world have decided that listed firms should apply IFRS. This regulation is seen as one of the major changes in the accounting history (Daske, Hail, Leuz and Verdi, 2008). It is important to identify the factors to why countries have made this decision to understand the benefits and costs with an introduction of IFRS (Renders and Gaeremynck, 2007). There is an ongoing discussion between countries about the advantages and disadvantages of applying IFRS and it has been shown that it is easier to quantify the costs to introduce IFRS than the benefits. This is due to that the costs are direct costs while the benefits consist of increased comparability between the countries' financial reports and an assurance that the reports are of high quality (Daske, 2006). The implementation of IFRS in listed firms has been costly, complex and difficult and if they had not been regulated to apply IFRS, they would not have done it (Jermakowicz and Gornik-Tomaszewski, 2006). The view, that the advantages are harder to see than the disadvantages, creates firms with less motivation to act in a certain way. Seeing the advantages leads to that a firm, not regulated to apply IFRS, instead of being negative voluntary want to act in a certain way. Acting on a voluntary basis leads to better performance in terms of that the annual report will be more understandable for the firms' shareholders (Jin, 1993).

The EU (European Union) has chosen to regulate all their 27 member countries' listed firms to apply IFRS (Eu: s webbportal, 2011). Sweden is a member of the EU and, therefore, all the 265 Swedish listed firms are obliged to apply IFRS (NASDAQ OMX Group, 2011). Bäckström (2009) explains that there, in Sweden, is a comprehensive application of IFRS and that there are four categories of firms that apply IFRS: all listed firms, most firms that are under the supervision by the Swedish Financial Supervisory Authority[1] and all state-owned

[1] Finansinspektionen whose mission is to monitor companies on the financial markets.

firms which are regulated to apply IFRS. Then there are those firms that voluntarily apply IFRS. Promoters of regulation claim the need for accounting regulation because of market failures and the recent well-known scandals demonstrate the increased need for reliable accounting information that can be understood at the international level (Flower, 1999). This means that if a firm applies accounting rules it contributes to build trust with stakeholders, which means capacity of attracting capital. The regulation of all listed firms within the EU to apply IFRS has, however, been questioned and the critics say that harmonization of regulation does not necessarily lead to harmonization of accounting practice (Finansinspektionen 2011a; Henry, Lin and Ya-wen, 2009; Jones and Finley, 2011; Rahman and Perera, 2002). Instead of focusing on having the same rules, focus should be on the development of management incentives and domestic institutional factors to create a single accounting language. This will lead to that firms want to present their annual report in a similar way to other firms (Jeanjean and Stolowy, 2008).

Based on the above, an assumption has been done that a combination of regulation and voluntary application of IFRS will be the optimal and that firms that voluntarily apply IFRS see more advantages than disadvantages. As Renders and Gaeremynck (2007) mention it is important to create an understanding for these advantages and disadvantages so that countries can create an inspiring business environment where more firms, on a voluntary basis, apply IFRS. Using IFRS on a voluntary basis can lead to that the annual report will be more understandable in accordance to Jin (1993). The objective of this study is, therefore, to identify the factors for the firms that voluntarily apply IFRS and to find out the explanations to why these firms are voluntarily applying IFRS. This knowledge enables other firms, which do not apply IFRS today, to understand the possibilities with a voluntary application and maybe inspire them to begin apply IFRS. This has led to the following two research questions:

(1) Which are the factors for the firms that voluntarily apply IFRS?
(2) How do firms explain their voluntary application of IFRS?

The rest of this paper is structured as follows. Part 2 describes the theoretical framework and formulated hypotheses while part 3 describes the data collection and methodology that are used. Part 4 presents interesting empirical evidence and analysis and at last, part 5 provides the conclusions.

2 Theory review

In this study an eclectic approach was used (e.g. Collin, Tagesson, Andersson, Cato and Hansson, 2009; Neu and Simons, 1996) that is, used a multi-theoretical framework (Cormier, Magnan and Van Velthoven, 2005), including the Agency theory, the Legitimacy theory, the Institutional theory and the Signaling theory.

The Agency theory can explain managements' choice to voluntary disclose information (Jensen and Meckling, 1976) while the Legitimacy theory explains the extent and content in firms' financial reporting. The Institutional theory, in turn, declares corporate behavior and disclosure practice (Gray, Kouhy and Lavers, 1995; Milne, 2002; O´Dwyer, 2003; Oliver, 1991) and the Signaling theory explains how a firm, by acting in a specific way, can create a specific reputation (Spence, 1973).

To see theories as complementary rather than contradictive can be useful (Gray et al., 1995; Ljungdahl, 1999); especially when explaining disclosures, it is almost impossible to use only one theory because it is a too complex topic (Adrem, 1999; Cormier et al., 2005). Each theory has its own entry mode and is using different explanatory factors that can explain different behaviors. By integrating different theories, a better explanation can be achieved (Malhotra, Ulgado and Agarwal, 2003; Popper, 1972).

2.1 Agency theory

Agency theory is defined as an agreement between two or more parties where one part can be seen as the investors and the other as the firm. The firm is working on behalf of the investors (Ross, 1973). The two parties want to maximize their self-interest but often they do not have the same interests (Jensen and Meckling, 1976). The theory can explain how annual reports can be used as a mechanism to solve the information asymmetry that exists between the firm and its investors (Deegan and Unerman, 2006; Falkman, 2001). By designing the annual report in a way that is commonly used the investors will be more secure to engage in a relationship with the firm because the risk of surprises will be reduced. The fact that the firm has more information than its investors creates a major uncertainty for the investors (Fama and Jensen, 1983; Hope, 2003; Kren and Tyson, 2009; Lang and Lundholm, 1996; Milgrom, 1981; Prencipe, 2004). An implementation of a mechanism entails not only benefits but also costs. The costs include expenses for organizing and monitoring the firms which will reduce the firms' flexibility (Fama and Jensen, 1983).

IFRS has been developed to create a harmonized accounting system whose objective is to reduce the differences in firms' annual reports (Ali, 2005; Whittington, 2005). If the ownership is dispersed the firms are more likely to design their annual report in a way that most of their readers will understand (Jeanjean, Lesage and Stolowy, 2010; Prencipe, 2004). We can from this assume that in this case the firms are more likely to apply IFRS on a voluntary basis. Ali (2005) and Whittington (2005) say that a better understanding of the annual report will lead to that more investors dare invest in the firm which in accordance with Verrecchia (1983) will lead to increased liquidity and lower costs of capital within the firm. Thus, if firms voluntarily apply IFRS, they will attract more investors which lead to more equity which, in turn, reduces the need of liabilities. That is, indebtedness, will decrease if more equity is attracted. From the above stated we have formulated the following hypotheses:

> **Hypothesis 1**. There is a relationship between ownership dispersion and voluntary application of IFRS, that is firms with bigger ownership dispersion are more likely to voluntarily apply IFRS.

> **Hypothesis 2.** There is a relationship between indebtedness and voluntary application of IFRS, that is firms with less indebtedness are more likely to voluntarily apply IFRS.

2.2 Legitimacy theory

The Legitimacy theory is based on the idea that there is a social contract between the firm and the society. By meeting this contract, the firm will be considered to be seen as legitimate. The contract is met when the firm presents its annual report in a certain way (Shocker and Sethi, 1974). Another way for a firm to be seen as legitimate is to act in accordance with the informal and formal pressure, the expectations from society or the industry's practice. The firms' way to behave must also be accepted by the society. These different pressures can be difficult for a firm to fulfill which create legitimacy problems for them. Some of the pressures may also be a result of government missions which the firm are often forced to follow (DiMaggio and Powell, 1983; Dowling and Pfeffer, 1975). A firm that is seen as legitimate has better chances to survive (Meyer and Rowan, 1977).

Firms should act in accordance with the social contract which can be seen as they should act in the way that is consistent with the investors' expectations (Philippe, 2008). If the investors expect firms to voluntarily apply IFRS, firms may feel forced to do so to continue being seen as legitimate. The firms will voluntarily apply IFRS if it will gain them in terms of legitimacy (Lightstone and Driscoll, 2008). Legitimacy is an element that firms compete with

(DiMaggio and Powell, 1983). A profession is defined as an occupation that has specific power, prestige and knowledge to impact its surrounding (Larson, 1977). In accordance to Anderson, Maletta and Wright (1998) auditors are seen as professionals. Within each of the big four audit firms, there are specific groups who are working with IFRS-questions. Each of these groups have appointed an IFRS Contact Partner who is responsible for ensuring that new interpretations and applications of IFRS reach their clients. The audit firms are a part of those who create the investors' expectations (Bäckström, 2009; Svanström, 2008).

On its own, this theory cannot explain the impact that the professionals have on the firms' voluntary application of IFRS; therefore, a complementary perspective from the Institutional theory is needed, before a hypothesis can be formulated.

2.3 Institutional theory

The Institutional theory provides a complementary perspective to the Legitimacy theory (Dillard, Rigsby and Goodman, 2004). Different pressures lead to that firms act in a similar way, that will make firms become more alike (Washington and Patterson, 2011). Of course, all firms are not reacting in the same way when they are subject to pressure but several different types of pressure would at least make firms more similar than different (Ashkanasy, Wilderom and Peterson, 2011). This theory is divided in two parts: isomorphism and decoupling (Dillard et al., 2004).

The first part, isomorphism, can be divided into three different pressures: coercive, mimetic and normative pressures (Kanter, 1972). The first, coercive pressure raises the fact that firms face both a formal pressure, such as rules, and an informal pressure from other firms to do as they do (March and Olsen, 1976). Firms will only change their institutional practices if the pressure comes from someone they are dependent on. That is, a firm is informally coerced to use an accounting practice that is in line with the expectations and demands from its investors. The second pressure is the mimetic pressure that arises when a firm is uncertain of how to act and look at other firms in the same industry and then try to emulate or improve their way to act to become more competitive in terms of legitimacy (DiMaggio and Powell, 1983; March and Olsen, 1976). The third and last pressure is the normative pressure that is based on professionalization (Larson, 1977). The pressure comes from group norms that effect firms to act in a specific way. Within voluntary accounting practices there are specific accounting standards that accountants are expected to comply with (DiMaggio and Powell, 1983; Perrow, 1974).

The second part, decoupling, implies that there is a gap between formal and informal structures or practices (Meyer and Rowan, 1977). A firm's manager maybe perceive a need for the firm to adopt a particular accounting standard, and even implement formal processes that the firms' employees should follow. However, the formal processes can be different from the processes that are used in practice (Dillard et al., 2004). This part of the Institutional theory is outside this study's research area and, therefore, it is not further investigated.

The voluntary application of IFRS can be seen as a result of different kinds of pressure (Bäckström, 2009; DiMaggio and Powell, 1983; Freeman, 1982; Larson, 1977; March and Olsen, 1976). One part that creates pressure is the audit firms (mentioned in the above section about the Legitimacy theory) who, by being a professional, have a strong impact on firms' choice of accounting system. When the audit firms recommend a specific behavior, firms will see it as something to comply with to be able to survive and to continue being seen as legitimate (Bäckström, 2009; Washington and Patterson, 2011). Firms in the same industry are also in general willing to act like each other and if some firms apply IFRS, other firms will begin apply IFRS to become a part of the group (DiMaggio and Powell, 1983; March and Olsen, 1976; Moon, 2008). Large and well established firms have more power to affect other firms to use the same accounting system as they do (Freeman, 1982). A large firm can be seen as a firm with a high number of employees, total assets and net profit (Adams, Hill and Roberts, 1998; Cormier et al., 2005; Zarzeski, 1996). If less established firms act in accordance with the large firms, they will obtain bigger legitimacy. Firms that are foreign listed and, therefore, dependent of their foreign investors, will be more likely to voluntarily apply IFRS so that these investors' information needs will be met (DiMaggio and Powell, 1983; Dowling and Pfeffer, 1975). A relationship such as this can be explained by 'international market pressures' (Adrem, 1999). From the above stated we have formulated the following hypotheses:

Hypothesis 3. There is a relationship between the use of an audit firm within the big four and voluntary application of IFRS, that is firms with an audit firm within the big four are more likely to voluntarily apply IFRS.

Hypothesis 4. There is a relationship between the number of firms within the same industry applying IFRS and voluntary application of IFRS, that is firms within an industry with a higher degree of voluntary application of IFRS will be more likely to voluntarily apply IFRS.

Hypothesis 5. There is a relationship between the firms' size and voluntary application of IFRS, that is bigger firms are more likely to voluntarily apply IFRS.

Hypothesis 6. There is a relationship between foreign listing and voluntary application of IFRS, that is firms who are also foreign listed are more likely to voluntarily apply IFRS.

2.4 Signaling theory

The Signaling theory describes, in essence, that job seekers cannot do much about the observable and invariant attributes, like education, but the signals are changeable which the job seekers can take advantage of and manipulate. There is an information asymmetry between the employer and the job seeker because the employer does not know what the job seeker will bring and, therefore, the job seeker who has an information advantage, can exploit this advantage and signal that he is better than he really is. To reduce this information asymmetry, the employer will demand information about the potential employee. This information will not be available for the employer before he has employed the job seeker and has seen him work. In the same way firms can use signals to reduce the information asymmetry between the firms and their investors. These signals are sent out in order to provide the investors with more information (Spence, 1973).

Firms can benefit from the attention the signal that their voluntary application is giving them. Firms that voluntarily apply IFRS create a certain reputation and image which, in turn, signal their ambitions which can be used as advertising to become more competitive (Campbell, Shrives and Bohmbach-Saager, 2001). Firms that choose to not voluntarily apply IFRS also send out a signal about their ambitions (Campbell et al., 2001; Dumontier and Raffournier, 1998; Moon, 2008). Skinner (1994) says that even if there are costs with disclosing information, as required by IFRS, firms will gain, in the long run, because the firms' reputation will improve and the firm will become more competitive and profitable. By signaling the application of IFRS, firms will also attract more foreign investors because they will be able to understand the annual report in a better way than if it was prepared in accordance with the national accounting standards (Campbell et al., 2001). From the above stated we have formulated the following hypotheses:

Hypothesis 7. There is a relationship between profitability and voluntary application of IFRS, that is firms with higher profitability are more likely to voluntarily apply IFRS.

Hypothesis 8. There is a relationship between foreign investors and voluntary application of IFRS, that is firms with more foreign investors are more likely to voluntarily apply IFRS.

After examining the relevant theories and formulating the research hypotheses that substantiate this study, the next part will present the methodology applied for testing all the hypotheses.

3 Methodology

To achieve the objective of this study, two empirical studies have been carried out; one quantitative and one qualitative. The quantitative study has created a description of the factors of the firms that voluntarily apply IFRS and it has made it possible to test the hypotheses formulated in the previous part. The qualitative study, in turn, has given more depth and an explanation of why the firms founded in the quantitative study are voluntarily applying IFRS. This is crucial to make more firms see the advantages of a voluntary application of IFRS.

3.1 The methodology of the quantitative study

In Table 1, a description of the target population and its losses is presented. The initial target population was all firms whose shares are listed on the Swedish unregulated capital markets, listed by the date of 2011-05-08, that is, 260 firms. The markets that were used are Aktietorget, NASDAQ OMX Stockholm – First North, Nordic Growth Market NGM and Burgundy. Within these capital markets, we have looked at the Swedish market. The regulation for these firms is not as complex as for firms listed on regulated capital markets, which means that they are not required to apply IFRS (Bäckström, 2009; Finansinspektionen, 2011b). There have been some losses from the initial target population, because of non-available annual reports and because some firms are under the supervision by the Swedish Financial Supervisory Authority or its counterparts abroad. The final target population was, therefore, 237 firms.

Table 1 Description of the target population and its losses

Target population	**N**
Aktietorget	124
NASDAQ OMX Stockholm – First North	79
Nordic Growth Market NGM	35
Burgundy	22
Initial target population	**260**
Losses	
Non-available annual reports	13
Supervision by the Swedish Financial Supervisory Authority or its counterparts abroad	10
Total losses	**23**
Final target population	**237**

The empirical data were collected, during April and May 2011, from the firms' annual reports with the fiscal year ended in 2009, the firms' websites, through the credit bureau Creditsafe and through the database Affärsdata. The year of 2009 was chosen because it is the latest year, at the time of data collection, for which it was possible to find and collect annual reports published by the firms studied.

3.1.1 The dependent variable

The dependent variable was *voluntary application of IFRS*. The variable was measured by looking in the firms' annual reports to find out if they say that they are applying IFRS or not by the latest from 2009. It was outside the framework of this study to investigate to which degree the firms apply IFRS. A dummy variable was used, where 1 indicates that the firms state that they voluntarily apply IFRS and 0 indicates that they do not.

3.1.2 The independent variables

After the classification of the firms into 1 and 0, these two groups were studied separately to discern firm specific factors for voluntary application of IFRS. The factors studied were *ownership dispersion, indebtedness, audit firm, industry, size, foreign listing, profitability and foreign investors*. The way each of the factors was indentified is explained below:

- *Ownership dispersion* was divided into ownership concentration and minority interests. These two factors were obtained by looking at the table of the ten biggest shareholders of each firm. The factor, ownership concentration, was obtained by separately considering the shareholders that have the highest percentage of capital and votes (e.g. Maury and Pajuste, 2002). The factor, minority interests was, in turn, obtained by summarizing the percentage, capital and votes, of those shareholders that own less than two percent of the firms' total share capital (e.g. Prencipe, 2004). This factor enables us to test *hypothesis 1*.

- *Indebtedness* is a variable that indicates to which extent a firm is dependent on liabilities as financing (e.g. Brealey, Marcus and Myers, 2007) and it was calculated by dividing total liabilities with total equity (e.g. Adrem, 1999). This factor enables us to test *hypothesis 2*.
- *Audit firm* was obtained by looking at who was the signing auditor in the firms' annual reports. A dummy variable was used where 1 indicated that the audit firm was within the big four and 0 that it was not. If there were several signing auditors, the one with the biggest amount of remuneration was selected. This factor enables us to test *hypothesis 3*.
- *Industry* was categorized in accordance with Aktietorget and NASDAQ OMX Stockholm – First North that use the same categorization list, see Table 2. The firms on the Nordic Growth Market NGM and Burgundy do not have their own categorization list and, therefore, they are categorized in accordance with Aktietorget's and NASDAQ OMX Stockholm – First North's list. It was not possible to categorize some firms into this list and, therefore, they were placed as others. After this, an investigation was done to see how many of the firms within each industry that voluntarily apply IFRS. By taking the number of firms that voluntarily apply IFRS divided by the total number of firms within the industry a percentage of the application of IFRS within each industry was defined. This factor enables us to test *hypothesis 4*.

Table 2 Categorization list for the industries (Aktietorget, 2011; NASDAQ OMX Group, 2011)

Industry		
➢ Energy	➢ Everyday commodity	➢ Telecom
➢ Material	➢ Health care	➢ Power supply
➢ Industrial	➢ Financial	➢ Other industries
➢ Durable goods	➢ IT	

- *Size* was obtained by using the number of employees, total assets and net profit (e.g. Adams, Hill and Roberts, 1998; Cormier et al., 2005; Zarzeski, 1996). This factor enables us to test *hypothesis 5*.

- *Foreign listing* was obtained by looking in the firm's annual report to find out if they were also foreign listed. A dummy variable was used where 1 indicated that the firm is also foreign listed and 0 that it was not (e.g. Adrem, 1999). This factor enables us to test *hypothesis 6.*
- *Profitability* was calculated as return on total assets and return on total equity. Return on total assets was obtained by dividing profit after financial items + financial costs by total assets. Return on total equity was, in turn, obtained by dividing profit after financial items + financial costs by total equity. This factor enables us to test *hypothesis 7.*
- *Foreign investors* were obtained, by looking if the firms disclose their proportion of foreign investors. If this was not done, the question was sent, by e-mail, to the firms. These findings were called presented amount and are presented in both capital and votes. If after this, there still were any doubts we looked at the firms' shareholders who own more than two percent of the firms' total share capital, thus, not the firms' minority interests (e.g. Prencipe, 2004). These shareholders were then analyzed more deeply in order to find out if they lived in Sweden or abroad. Shareholders, that are firms, were categorized by the location of the headquarters. Individuals with a common Swedish name, were assumed to be Swedish resident and in the opposite case, an assumption was made that they were foreign resident. These findings were called counted amount and are presented in both capital and votes. If it was still not possible to determine the place of domicile, the variable of the firm was classified as absent. Finally, the foreign investors' share of capital and votes were summarized separately. This factor enables us to test *hypothesis 8.*

When all the firms' factors were obtained, descriptive statistics for the variables were developed for both the firms that voluntarily apply IFRS and the firms that do not. After this a bivariate analysis was prepared. As a start to the bivariate analysis, an assumption has been made that the data are normally distributed because the sample is large (Blom, Enger, Englund, Grandell and Holst, 2005). This description and analysis have created an understanding to the factors held by both firms that voluntarily apply IFRS and those who do not.

3.2 The methodology of the qualitative study

Interviews were used in order to find the explanations to why some firms voluntarily apply IFRS. Respondents were found by a systematic sample where the firms were sorted by industry. A probability sample within each industry was then done, starting in the largest industry, in terms of most firms included. One by one the firms within the largest industry were phoned and then the firms within the second largest industry and so on until two respondents, that wanted to participate in a telephone interview, were found. The respondent of each firm was responsible for the firm's accounting and both of them are kept anonymous in this study. The respondent from firm 1 was working as a CFO (Chief Financial Officer) and has a bachelor in business administration and has been working with accounting for 20 years. The respondent from firm 2 was working as a CFO and has a master in business administration and has been working with accounting for 20 years.

The telephone interviews were semi structured. Thus, a range of questions were designed out of the selected theories and formulated hypotheses. The respondents were free to answer the questions openly which led to that new insights arose. The questions are found in Appendix 1.

After examining the methodology applied for testing the hypotheses, the next part will present the empirical evidence and analysis.

4 Empirical evidence and analysis

This part is divided into descriptive statistics and a bivariate analysis. The descriptive statistics focus on the independent variables, which were divided into quantitative independent variables (*ownership dispersion, indebtedness, industry, size, profitability* and *foreign investors*) and qualitative independent variables (*audit firm* and *foreign listing*). The bivariate analysis, in turn, describes if and to which extent the independent variables are significant. In the analysis, the interview findings from the qualitative study are also going to be considered.

4.1 Descriptive statistics

In Table 3, a description of the dependent variable *voluntary application of IFRS* is presented. As can be seen, there are 237 firms in the target population and among these there are 84 firms, which is 35.44 percent, that voluntarily apply IFRS and 153 firms, which is

64.56 percent, that do not voluntarily apply IFRS. To find out which the 84 firms are that voluntarily apply IFRS, see Appendix 2.

Table 3 Frequency table for the dependent variable

	N	Percent
Apply IFRS voluntarily	84	35.44
Do not apply IFRS voluntarily	153	64.56
Total	**237**	**100.00**

In the forthcoming presentation, the descriptive statistics for the independent quantitative variables of the firms that voluntarily apply IFRS and the firms that do not will be presented. These statistics can be seen in Table 4 where the variables have also been connected to the hypotheses. In Table 5, in turn, the descriptive statistics for the independent qualitative variables of the firms that voluntarily apply IFRS and the firms that do not will be presented. Also here a connection between the variables and the hypotheses are made.

Table 4 Descriptive statistics for the quantitative independent variables

		Voluntary application of IFRS					No voluntary application of IFRS				
	Independent variables	**N**	**Mean**	**Std. Deviation**	**Min**	**Max**	**N**	**Mean**	**Std. Deviation**	**Min**	**Max**
H1	***Ownership dispersion***[a]										
	➢ Ownership concentration (capital)	71	27.33	21.40	3.30	100.00	105	29.42	22.16	5.02	100.00
	➢ Ownership concentration (votes)	71	30.02	20.86	5.86	100.00	105	30.48	23.15	2.69	100.00
	➢ Minority interests (capital)	69	38.82	19.03	0.00	84.01	99	39.62	21.59	0.00	93.94
	➢ Minority interests (votes)	69	36.19	19.12	0.00	84.01	99	38.43	21.98	0.00	93.94
H2	***Indebtedness***[a]	84	128.09	344.18	-180.20	2 338.85	152	107.13	429.16	-1 386.97	4 497.42
H4	***Industry***[a]	84	38.54	12.19	21.88	75.00	153	33.74	9.03	25.00	78.13
H5	***Size***										
	➢ Employees[b]	81	28.26	78.17	0.00	451.00	145	20.84	69.32	0.00	657.00
	➢ Total assets[c]	84	169.37	1 222.95	0.00	11 021 165.00	147	13.69	165.35	1.00	2 004 836.00
	➢ Net profit[c]	84	147.57	1 301.68	0.00	11 928 728.00	147	196.23	2.04	0.00	24 764.00
H7	***Profitability***[a]										
	➢ Return on total assets	84	-0.29	111.97	-7.80	104.40	151	-0.33	89.35	-8.37	108.00
	➢ Return on total equity	83	-0.23	131.44	-6.41	6.25	151	-0.34	150.21	-8.69	8.12
H8	***Foreign investors***[a]										
	➢ Presented amount (capital)	6	41.88	42.80	3.20	100.00	15	9.54	15.98	0.00	42.10
	➢ Presented amount (votes)	6	39.27	44.42	2.70	100.00	14	10.15	16.19	0.00	41.00
	➢ Counted amount (capital)	60	10.58	16.09	0.00	72.80	80	6.77	14.50	0.00	80.14
	➢ Counted amount (votes)	60	10.78	16.52	0.00	79.20	80	7.12	15.32	0.00	80.14

[a)] Percentage [b)] Number [c)] SEKm

By comparing the means in Table 4, it can be deduced that firms that voluntarily apply IFRS have less ownership dispersion, regardless if looking at ownership concentration (capital and votes) or minority interests (capital and votes), than firms that do not voluntarily apply IFRS. Worth noticing is that the differences in ownership dispersion between the firms that voluntarily apply IFRS and the firms that do not are small. Firms that voluntarily apply IFRS are more dependent on liabilities as a way of financing and they have a higher mean for the variable industry, which indicates that in their surrounding there are more firms that voluntarily apply IFRS, than in the surrounding of firms that do not. For further insight to which degree each of the industries is voluntary applying IFRS, see Appendix 3. Firms that voluntarily apply IFRS, to a higher extent, have more employees and total assets than firms that do not voluntarily apply IFRS. The latest have less net profit. Within these three size variables, it is total assets that differs the most. This can be explained by that indebtedness is higher for firms that voluntarily apply IFRS. Profitability is negative both for firms that voluntarily apply IFRS and for firms that do not, regardless if looking at return on total assets or return on total equity. Nevertheless, profitability is less negative for firms that apply IFRS voluntarily. It can also be deduced that firms that voluntarily apply IFRS have a higher degree of foreign investors, regardless if looking at presented amount (capital and votes) or counted amount (capital and votes), than firms that do not. Unfortunately, the number of firms included in presented amount (capital and votes) has had many losses because the information was not available. However, on this basis, the presented amounts (capital and votes) are higher than the counted amounts (capital and votes) for both firms that voluntarily apply IFRS and firms that do not, and the amounts are especially higher for firms that voluntarily apply IFRS.

Table 5 Descriptive statistics for the qualitative independent variables

		Voluntary application of IFRS		No voluntary application of IFRS	
	Independent variables	**N**	**Percent**	**N**	**Percent**
H3	***Audit firm***				
	➢ Within big four	62	73.81	94	61.84
	➢ Other audit firms	22	26.19	58	38.16
H6	***Foreign listing***				
	➢ Yes	0	0.00	1	0.69
	➢ No	84	100.00	144	99.31

From Table 5, it can be deduced that firms that voluntarily apply IFRS are audited by an audit firm within the big four to a higher extent than firms that do not voluntarily apply IFRS. For further insight to see how the percentage is divided between the audit firms within the big four, see Appendix 4. Firms that voluntarily apply IFRS are listed on foreign markets to a less extent than firms that do not voluntarily apply IFRS.

4.2 Bivariate analysis

In Table 6, the relationship between the variables from the bivariate analysis of the hypotheses is presented. The hypotheses were tested by T-test and Pearson Chi-Square test (e.g. Bjørnenak, 1997; Lee, Czerwinski, Choh, Demerath, Sun, Chumlea, Towne and Siervogel, 2006) with a significance level at 5 percent (e.g. Sánchez Ballesta and García-Meca, 2005).

Table 6 Bivariate analysis of the hypotheses

		Voluntary application of IFRS			
	Independent variables	**Test**	**N**	**Asymp. Sig. (2-tailed)**	**Asymp. Sig. (1-sided)**
H1	***Ownership dispersion***[a]				
	➢ Ownership concentration (capital)	T-test	176	.535	
	➢ Ownership concentration (votes)	T-test	176	.893	
	➢ Minority interests (capital)	T-test	168	.803	
	➢ Minority interests (votes)	T-test	168	.495	
H2	***Indebtedness***[a]	T-test	236	.701	
H3	***Audit firm***[b]	Pearson Chi-Square test	236		.042*
H4	***Industry***[b]	T-test	237	.002*	
H5	***Size***				
	➢ Employees[b]	T-test	226	.462	
	➢ Total assets[c]	T-test	231	.249	
	➢ Net profit[c]	T-test	231	.302	
H6	***Foreign listing***[b]	Pearson Chi-Square test	229	.446′	
H7	***Profitability***[a]				
	➢ Return on total assets	T-test	235	.761	
	➢ Return on total equity	T-test	234	.586	
H8	***Foreign investors***[a]				
	➢ Presented amount (capital)	T-test	21	.126	
	➢ Presented amount (votes)	T-test	20	.173	
	➢ Counted amount (capital)	T-test	140	.151	
	➢ Counted amount (votes)	T-test	140	.178	

a) Percentage b) Number c) SEKm
* Significant at 0.05 level (2-tailed/1-sided)
′ Asymp. Sig. 2-sided

From the bivariate analysis, it can be deduced that the independent variables *audit firm* and *industry* can explain the voluntary application of IFRS within the Swedish unregulated capital markets at a significance level of 5 percent. Therefore, *hypotheses 3* and *4* are not rejected. It can also be deduced that the independent variables *ownership dispersion*, *indebtedness*, *size*, *foreign listing*, *profitability* and *foreign investors* cannot explain the voluntary application of

IFRS. Therefore, *hypotheses 1-2* and *5-8* are rejected. In the following part, these findings will be described and analyzed together with the interview findings from the qualitative study.

The fact that an *audit firm* within the big four has an impact on the voluntary application of IFRS is supported by the respondent from firm 2, whose view is that its audit firm, which is within the big four was absolutely involved in the implementation of IFRS. Given that audit firms within the big four have an extensive work with IFRS-questions as Svanström (2008) and Bäckström (2009) state, this relationship is not surprising and shows that the audit firms' work have paid off. The respondent from firm 1, which is audited by an audit firm outside the big four, thinks that its audit firm could have had an impact but is not sure which indicates that audit firms outside the big four do not have the same ability to affect their clients. As can be seen in Appendix 5, among the firms that do not voluntarily apply IFRS there are more firms that have an audit firm outside the big four than expected count. At the same time there are less firms that have an audit firm within the big four compared with the expected count. Both these findings support that firms that do not voluntarily apply IFRS have an audit firm outside the big four. In turn, among the firms that voluntarily apply IFRS there are less firms that have an audit firm outside the big four than expected count. At the same time there are more firms that have an audit firm within the big four compared with the expected count. This supports that firms that voluntarily apply IFRS have an audit firm within the big four, which is in the same direction as explained for the firms that do not voluntarily apply IFRS.

The relationship that the more firms that voluntarily apply IFRS within the same *industry* have an impact on other firms within this industry to voluntarily apply IFRS is explained by the respondent from firm 1. The respondent says that the use of the same accounting system among firms is primarily good for the investors' decision making about where to invest, but is also good for the society as a whole. This indicates that the firms within an industry with several other firms that voluntarily apply IFRS do not dare not to apply IFRS voluntarily because it is used as a competitive tool to attract investors. March and Olsen (1976), DiMaggio and Powell (1983) and Moon (2008) say that, in general, firms are willing to act like each other, that is, they use a mimetic behavior. Therefore, if one firm applies IFRS, other firms will apply IFRS even if they do not know the outcome of it. The risk to not take part of the possible advantages of a voluntary application of IFRS and, thus, to not be a part of the successful group is too risky.

When it comes to the rejected hypotheses, it has been shown that *ownership dispersion*, regardless if looking at ownership concentration (capital and votes) or minority interests (capital and votes), and *indebtedness* cannot explain the voluntary application of IFRS. These findings indicate that the advantages that firms that voluntarily apply IFRS see are not those that the Agency theory advocates. That is, minimizing the information asymmetry that exists between the firm and its investors and, thus, making the investors more secure to engage in a relationship with the firm is not a major advantage. The firms are willing to voluntarily apply IFRS and take the costs that an application brings in terms of expenses for organizing and monitoring which, in turn, leads to that the firms' flexibility will be reduced (Deegan and Unerman, 2006; Falkman, 2001; Fama and Jensen, 1983; Hope, 2003; Kren and Tyson, 2009; Lang and Lundholm, 1996; Milgrom, 1981; Prencipe, 2004). This indicates that the firms that voluntarily apply IFRS see other advantages.

That the variables *size* and *foreign listing* either cannot explain the voluntary application of IFRS indicates that it is not crucial regardless if a firm has many employees, higher total assets, higher net profit or is foreign listed. The pressures that the Institutional theory describes have, therefore, no decisive significance. A use of a specific accounting practice can be explained by several reasons. The expectations and demands from the firms' investors, to be more competitive and seen as legitimate by the firms' surrounding and to meet the expected group norms, as explained by Perrow (1974), March and Olsen (1976) and DiMaggio and Powell (1983), are not the explanations to the voluntary application of IFRS.

The fact that the variables *profitability*, regardless if looking at return on total assets or return on total equity, and *foreign investors*, regardless if looking at presented amounts (capital and votes) or counted amounts (capital and votes), cannot explain the firms' voluntary application of IFRS. This indicates that the advantages, described by the Signaling theory, in terms of a certain reputation and image that signal the firms' ambitions, can be used as advertising to become more competitive and profitable; and make it possible to meet the foreign investors' need of an annual report that they are able to understand (Campbell et al., 2001; Skinner, 1994), is not crucial to the voluntary application of IFRS.

Due to that the independent variables *ownership dispersion*, *indebtedness*, *size*, *foreign listing*, *profitability* and *foreign investors* cannot explain the voluntary application of IFRS, it is interesting to look at the qualitative empirical findings. That is, the respondent from firm 1 explains that the advantage firm 1 sees with a voluntary application of IFRS consists of a better internal control, but which also requires that the employees in the firm are updated about the requirements on IFRS. The annual report also becomes more extensive and detailed which, in the long run, will attract more investors because a broader range of investors will be able to take more substantiated investing decisions. However, the average user can find it hard to understand the annual report when too much information is presented. Even the valuation of the firms' economic situation can be hard, because IFRS implies market valuation which can cause major shifts in profit and capital as a result of the current revaluations. It will be easier, that is, more convenient and less time-consuming, to compile a consolidated annual report if the subsidiaries use the same accounting system as the parent company. Another advantage is that the firm will be seen as a good corporate citizen that takes responsibility and is a part of the harmonization process and has an ambition to grow.

In turn, the respondent from firm 2 states that the advantages with a voluntary application of IFRS is that it creates more structure within the day-to-day work and creates routines. Unfortunately, it takes a lot of time to compile all the required information. More available information will make it easier for the readers, who are familiar with reading annual reports, to compare different firms that will lead to easier investment decisions for the investors. In the long run, this will lead to that the firms get more investors. A problem with more extensive information is that the average user may find it difficult to know what information is relevant but it also provides a mark of quality that shows the firms' ambitions not to hide information.

In Table 7, a summary of all the hypotheses is presented and if they are rejected or not.

Table 7 Summary of rejected and not rejected hypotheses

Hypothesis		
Hypothesis 1	There is a relationship between ownership dispersion and voluntary application of IFRS, that is firms with bigger ownership dispersion are more likely to voluntarily apply IFRS.	✕
Hypothesis 2	There is a relationship between indebtedness and voluntary application of IFRS, that is firms with less indebtedness are more likely to voluntarily apply IFRS.	✕
Hypothesis 3	There is a relationship between the use of an audit firm within the big four and voluntary application of IFRS, that is firms with an audit firm within the big four are more likely to voluntarily apply IFRS.	✓
Hypothesis 4	There is a relationship between the number of firms within the same industry applying IFRS and voluntary application of IFRS, that is firms within an industry with a higher degree of voluntary application of IFRS will be more likely to voluntarily apply IFRS.	✓
Hypothesis 5	There is a relationship between the firms' size and voluntary application of IFRS, that is bigger firms are more likely to voluntarily apply IFRS.	✕
Hypothesis 6	There is a relationship between foreign listing and voluntary application of IFRS, that is firms who are also foreign listed are more likely to voluntarily apply IFRS.	✕
Hypothesis 7	There is a relationship between profitability and voluntary application of IFRS, that is firms with a higher profitability are more likely to voluntarily apply IFRS.	✕
Hypothesis 8	There is a relationship between foreign investors and voluntary application of IFRS, that is firms with more foreign investors are more likely to voluntarily apply IFRS.	✕

✕ Rejected ✓ Not rejected

After examining the empirical evidence and analysis, the next part will present the conclusions and thoughts about the studied topic and give some suggestions for future research.

5 Conclusions

This study has examined if different factors have an impact on the voluntary application of IFRS within the Swedish unregulated capital markets and has identified the explanations to why firms voluntarily apply IFRS. It has been shown that their decision to voluntarily apply IFRS is related to the use of an audit firm within the big four and to the number of firms within the same industry that apply IFRS voluntarily. These two hypotheses were the only ones out of eight hypotheses that were not rejected. The theories, that have been useful to understand the empirical phenomena of the voluntary application of IFRS, are the Legitimacy theory and the Institutional theory. The firms’ explanations to why they voluntarily apply IFRS are primarily because of an increased internal control, a more extensive and detailed annual report and a good reputation in terms of a mark of quality. The firms are also seen as good corporate citizen and more investors will be attracted in the long run.

From these findings, we conclude that the voluntary application of IFRS is not a question of earning money today. Instead it should be seen as an investment for the future. The most important things for the firms today have proved to be to get legitimacy from their surrounding and create a feeling of acting in the right way. Acting as an audit firm advocates, creates a security for the firm, both internal and external, because an audit firm is seen as a profession that has a specific power, prestige and knowledge. The fact that firms are likely to emulate other firms also indicates that the firms have a need to feel inherence and that they do not have the courage to not apply IFRS if several other firms in their surrounding are doing it. That the firms’ expect; not to earn money today but instead receive return on their investment in the future, we see as a possible outcome because the investors will become more secure to engage in a relationship with the firm if the risk of surprises will be reduced. If the firm attracts more investors, the firm will receive more capital which leads to increased capacity of earning money.

This study involved 84 firms that voluntarily apply IFRS. Further research can be done in order to investigate to which extent these firms apply IFRS. This could be done by using a checklist over the requirements in IFRS. The fact that two interviews were done means it is not possible to generalize but it gives a start to do further research. This research can be done by doing interviews with a bigger sample of the 84 firms that voluntarily apply IFRS. With a bigger sample, it will be possible to make generalizations regarding firms that voluntarily apply IFRS on the Swedish unregulated capital markets.

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Appendix 1

Interview Questions

1) What is your title?
2) What kind of education do you have in accounting?
3) For how many years have you worked with accounting issues?

4) Which advantages do you think your readers see with that your annual report is presented in accordance to IFRS?
5) Which disadvantages do you think your readers see with that your annual report is presented in accordance to IFRS?
6) What difficulties do you see with the application of IFRS?
7) Has the voluntary application of IFRS led to that you have got more investors?
8) Which needs are being satisfied by your voluntary application of IFRS?
9) Have you experienced that there are expectations from the society that you should apply IFRS?
    a. If Yes, which are the advantages that you see with meeting those expectations?

10) At your decision to start to apply IFRS, did you get influenced by other companies that already applied IFRS?
    a. If yes, why did these companies had an influence on your decision to apply IFRS?
    b. Which advantages do you see with having the same accounting system as other companies?
    c. Which disadvantages do you see with having the same accounting system as other companies?

11) How much did the foreign investors own (capital/votes) 2009-12-31?

12) Did your audit firm have any impact on your decision to apply IFRS?

13) Has the decision to apply IFRS voluntarily changed the image of your firm?

If question 13 was answered with a Yes, please answer the following questions:

a. Which advantages has this changed image created?

b. Which disadvantages has this changed image created?

c. Has the changed image led to that you have got more foreign investors?

d. Which advantages do you see with having attracted more foreign investors?

e. Which disadvantages do you see with having attracted more foreign investors?

14) If you had got the chance to inspire another firm to voluntarily apply IFRS, what would you say to them?

Appendix 2

The 84 firms that voluntarily apply IFRS

- A+ Science Holding AB
- AdTail AB
- AIK Fotboll AB
- Allokton AB
- Alpcot Agro AB
- Altero AB
- Amhult 2 AB
- Arcam AB
- Aros Quality Group AB
- Axlon Group AB
- Beowulf Mining PLC
- Betting Promotion AB
- Biolight AB
- Biosensor Applications Sweden AB
- Bredband2 i Skandinavien
- Bringwell AB
- BRIO AB
- C2SAT holding AB
- Carnegie Investment Bank AB
- Chemel AB
- Cherryföretagen AB
- Clean Tech East Holding AB
- Confidence International AB
- Dannemora Mineral AB
- DnB Nor Bank ASA
- Empire AB
- EOS AB
- Followit Holding AB
- Free2move Holding AB
- G5 Entertainment AB
- Genovis AB
- Ginger Oil AB
- Glycorex Transplantation AB
- Guideline Technology AB
- Hammar Invest AB
- Hedson Technologies International AB
- Hifab Group AB
- HomeMaid AB
- HQ AB
- Human Care AB
- IBS AB
- IDL Biotech AB
- Intius AB
- Kopylovskoye AB
- Lappland Goldminers AB
- Lifeassays AB
- Lucent Oil AB
- MediRox AB
- Micro Systemation AB
- Mählers International AB
- NGS Group AB
- Novus Group International AB
- Obducat AB
- ONE Media Holding AB
- Panaxia Security AB
- Paynova AB
- PetroGrand AB
- PolyPlank AB
- Relation & Brand AB
- Rottneros AB
- RusForest AB
- Russian Real Estate Investment Company AB
- Safe at Sea AB
- SBC Sveriges BostadsrättsCentrum AB
- ScandBook Holding AB
- Scandinavian Clinical Nutrition i Sverige AB
- Servage AB
- Shelton Petroleum AB
- Skandiabanken AB
- Skåne-möllan AB
- Société Générale London Branch
- Sotkamo Silver AB
- Starbreeze AB
- Stille AB
- Stingbet Holding AB
- SwithCore AB
- Taurus Energy AB
- The Royal Bank of Scotland
- Tilgin AB
- TracTechnology AB
- Trimera AB
- Victoria Park AB
- Vinovo AB
- Vitec Software Group AB

Appendix 3

	Independent variable	Voluntary application of IFRS N	Voluntary application of IFRS Percent	No voluntary application of IFRS N	No voluntary application of IFRS Percent
H4	***Industry***				
	➢ Energy	5	35,71	9	64,29
	➢ Material	7	35,00	13	65,00
	➢ Industrial	11	35,48	20	64,52
	➢ Durable goods	7	21,88	25	78,13
	➢ Everyday commodity	3	37,50	5	62,50
	➢ Health care	12	30,77	27	69,23
	➢ Financial	16	55,17	13	44,83
	➢ IT	16	31,37	35	68,63
	➢ Telecom	3	42,86	4	57,14
	➢ Power supply	1	50,00	1	50,00
	➢ Other industries	3	75,00	1	25,00

Appendix 4

	Independent variable	Voluntary application of IFRS N	Voluntary application of IFRS Percent	No voluntary application of IFRS N	No voluntary application of IFRS Percent
H3	***Audit firm***				
	➢ PricewaterhouseCoopers	27	32.14	37	24.34
	➢ KPMG	11	13.10	13	8.55
	➢ Ernst & Young	16	19.05	38	25.00
	➢ Deloitte	8	9.52	6	3.95
	➢ Other audit firms	22	26.20	58	38.16

Appendix 5

			Voluntary application of IFRS 0	Voluntary application of IFRS 1	Total
Audit firm	**0**	Count	58	22	80
		Expected count	51.5	28.5	80.0
	1	Count	94	62	156
		Expected count	100.5	55.5	156.0
Total		Count	152	84	236
		Expected count	152.0	84.0	236.0

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