

Factors Affecting the Adoption of the International Financial Reporting Standards for Small and Medium-Sized Enterprises

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ABSTRACT

International Financial Reporting Standards (IFRS) as a plethora of new accounting rules that are commonly used by public companies to provide efficient and accurate financial information in an organisation. However, the study revealed that Malaysian Small and Medium-Sized Enterprises (SMEs) face persistent challenges and apparent shortcomings in the adoption of IFRS. To solve the problems of the study, the goals were created to find out how external environmental factors impact SMEs in Perlis, Malaysia, when adopting IFRS. The research is conducted based on real-time data and the currently published papers, which are related to factors affecting the implementation of IFRS for SMEs in different countries. The research was evaluated using a quantitative method that could be easily collected and analysed from the population size data in Perlis, Malaysia. The research revealed that institutional pressure, economic development, and project governance all had a favourable relationship with the IFRS initiative, but cultural considerations had no discernible influence on SMEs' adoption of IFRS. This research provides an opportunity for the important contributors in SMEs to quickly address both internal and external factors and the future success of adopting IFRS. It is important to emphasise that the results of the study can help SMEs overcome obstacles and take advantage of the benefits associated with the adoption of IFRS by providing valuable insights and actionable recommendations. As a result, SMEs can improve their financial reporting processes, transparency, and compliance, which in turn can improve their competitiveness and credibility in the international marketplace.

Keywords: Cultural Factors, Economic Development, International Financial Reporting Standards (IFRS), Institutional Pressure, Project Governance

1. INTRODUCTION

SMEs are essential for emerging nations' economic growth. SMEs represent nearly 90% of global business entities, which generate more than 50% of employment and as much as 40% of the Gross Domestic Product (GDP) in developing nations (World Bank, 2019). As evidence, the study conducted by Phuoc et al. (2022) indicated that SMEs could be advantageous to developing countries, especially Vietnam, by contributing to 1.2 million job opportunities and a \$404,105 billion GDP growth rate to enhance economic growth and stability. Furthermore, the rapid growth of SMEs also globally contributes to achieving the Sustainable Development Goals (SDGs) to promote more equitable access to development benefits (Šebestová & Sroka, 2020). In terms of economic contribution, Malaysia is one of the developing countries that has made significant achievements towards economic growth and reduced unemployment by focusing on the development of SMEs (Amir, 2020). With 1.15 million SMEs constituting 97.2% of business establishments, contributing 38.2% to GDP, and employing 7.3 million people in 2020, Malaysia's

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economic prospects are closely tied to the performance of these SMEs, as per the Department of Statistics Malaysia (OECD, 2019).

Mawutor et al. (2019) noted that globalization and the rapid development of global trade have increased the demand for the adoption of IFRS by SMEs. The emergence of IFRS denoted the importance of preparing relevant financial accounting reports to make managerial decisions for all business entities (Gardi et al., 2021). The studies indicated that the implementation of IFRS increased the transparency, comparability, and accuracy of financial reporting, which can improve the net revenue's capacity by allowing the company access to the foreign capital market, promote investment opportunities, and reduce the cost barriers (Hsu & Chen, 2020; Nguyen et al., 2023). Other studies also illustrated that the companies implementing IFRS demonstrate enhanced comparability, sustainability, and significantly greater levels of Corporate Social Responsibility (CSR) disclosure compared to those that do not adopt these standards (Weerathunga et al., 2020; Farshadfar et al., 2023).

In 2014, the Malaysian Institute of Accountants (MIA) established the Malaysian Private Entity Reporting System (MPERS) to replace the Private Entity Reporting Standards (PERS) (Rosli & Jamil, 2021). Subsequently, the Malaysian Accounting Standards Board (MASB) has implemented IFRS customized for SMEs in Malaysia's national context starting from January 1, 2016 (Krishna et al., 2020). IFRS for SMEs aims to provide suitable guidance for SMEs to prepare financial statements for release to the public to gain competitive advantages and attract long-term investment from the international market (Tawiah & Gyapong, 2023). However, a variety of external environmental factors may have an impact on the adoption of IFRS for SMEs (Sellami & Gafsi, 2018).

In Perlis, Malaysia, SMEs are seeking to implement IFRS, so this study examines the factors that influence the adoption of the standards. There are only a few fundamental studies and empirical knowledge on the requirements of SMEs users, which is an obstacle to the development of the research in Malaysia (Hamdan et al., 2021; Sassi & Damak-Ayadi, 2023). The key factors that affect the decision of SMEs to adopt IFRS: institutional pressure, economic development, project governance, and cultural factors will be discussed in this study. Furthermore, the study will contribute to a deeper understanding of the adoption of IFRS by SMEs and explore knowledge in this research area.

2. LITERATURE REVIEW

According to Bonito and Pais (2018), nations that are more likely to adopt IFRS for SMEs are typically those without the ability to create their own comprehensive financial accounting standards, nations where full IFRS is extended to non-listed companies, and nations with relatively weaker governance institutions. SMEs and sizable corporations have different motivations for implementing standards. Larger corporations focus primarily on attracting investment, and therefore they use IFRS standards as a way of demonstrating to investors the quality of their equity (Gonçalves et al., 2022). Therefore, the adoption of IFRS for SMEs is often driven by different factors for SMEs. In contrast to large enterprises, SMEs might not place as much emphasis on attracting investments from global financial markets as large corporations. Instead, their motivations for implementing IFRS may include simplifying the financial reporting process, reducing compliance costs, and increasing access to credit or finance in local or regional markets.

2.1 Institutional Pressure and The Adoption of IFRS for SMEs

One of the major variables affecting institutions' adoption of IFRS is reportedly institutional pressure. Institutions' characteristics, such as legal structure, limited liability, constraints on share transferability, and management control systems, are among the factors contributing to various forms of institutional pressure (BooLaky et al., 2020). For instance, the institutional role played by developed countries in the global economy has been the major influencer for North African countries such as Algeria, Morocco, and Tunisia to adopt IFRS (Khlif et al., 2020). Aside from internal factors of an institution, external pressure exerted on any organisation would have also influenced IFRS adoption. It is said that, if an organisation anticipates external pressures, it is more inclined to conform to these pressures when there are economic or legal incentives for compliance with institutional pressures. Conversely, when organisations anticipate that conformity will yield lower legitimacy and economic benefits, they may adopt a more determined resistance strategy (Martins et. al., 2020). In 2015, countries that adopted IFRS for SMEs, including Serbia, Brazil, the Dominican Republic, and Armenia, demonstrated a significant commitment to improving educational standards, with tertiary education enrolment rates ranging from 44.3% to 58.3%, and the adoption of IFRS was further facilitated by the introduction of accounting training programs (Sellami & Gafsi, 2018).

H₁: There is a significant impact of institutional pressure on the adoption of IFRS for SMEs.

2.2 Economic Development and the Adoption of IFRS for SMEs

Ayele (2020) emphasised the importance of implementing high-quality accounting standards such as IFRS, which has effectively attracted international investors with timely and accurate financial data necessary to assess the performance of companies in different countries. The adoption of IFRS is expected to reduce the transaction and capital costs associated with the assessment of financial statements by foreign users. In addition, they also argue that political and economic factors, as well as reliance on external debt, create a contractual incentive to adopt IFRS as a prerequisite for conducting global business. This suggests that the degree of economic integration of a country with partner countries that have previously adopted IFRS can serve as an explanatory factor for the benefits derived from the adoption of IFRS. IFRS is viewed as a commodity in this setting that depends on network effects (Sellami & Gafsi, 2019). According to network economic theory, an emerging economy like Ethiopia is anticipated to undergo a more pronounced adoption of IFRS as it establishes greater trade connections with partner countries that have already embraced IFRS. While the mandatory implementation of IFRS in Ethiopia may encounter resistance because it involves adopting an external regulatory system, empirical evidence from Al-Htaybat and von Alberti-Alhtaybat (2017) suggests that political factors can also serve as obstacles to the successful execution of IFRS projects.

H₂: There is a significant impact of economic development on the adoption of IFRS for SMEs.

2.3 Project Governance and the Adoption of IFRS for SMEs

Project governance can function as a mechanism for monitoring behaviour in projects, such as those related to the implementation of IFRS (Sirisomboonsuk et al., 2018). They emphasised that project management is an important part of corporate management, with a specific focus on project-related activities. The clear link between project management and project performance has led researchers and practitioners to recognise that the lack of effective project management is one of the reasons for unsatisfactory project outcomes. According to Mashiloane and Jokonya (2018), project governance is critical to the successful implementation of IT projects and emphasises the importance of clear project structures, reporting relationships, alignment with

strategic vision, decision-making authority, communication strategies, risk management, and reporting structures for all project types. The presence of effective governance structures and processes is crucial for achieving successful completion of IT projects within specified timelines, budgetary constraints, and project objectives. Efficient management structures and procedures are essential to enable the effective completion of IT projects within deadlines, budgetary constraints, and project objectives.

Project governance is an internal control framework designed to safeguard the owner's interests and mitigate risks throughout a project's lifecycle (Ekung et al., 2017). This term encompasses a comprehensive framework comprising management systems, rules, protocols, relationships, and structures that steer critical management decisions throughout project development and implementation, ultimately aimed at achieving specific business or strategic goals. Regardless of the nature of a project, be it a project on IFRS implementation can influence the structure of project governance in the context of IFRS adoption. IFRS implementation often entails the modernization of IT systems that underpin accounting and finance operations within organisations. In their examination of IT project governance, Mashiloane and Jokonya (2018) underscore the significance of bolstering governance and management practices in IT projects, emphasising the persistent challenges posed by insufficient governance for effective implementation.

H₃: There is a significant impact of project governance on the adoption of IFRS for SMEs.

2.4 Cultural Factors and the Adoption of IFRS for SMEs

In the previous literature, cultural factors are widely recognised as important factors influencing the diffusion and utilization of information systems projects. Cultural factors within the project's operational environment can also impact the implementation of IFRS. Cultural factors encompass a variety of elements such as beliefs, traditions, moral values, languages, and legal frameworks that influence the establishment of organisational culture in the context of adopting IFRS (Edeigba et al., 2020). For example, Hofstede's model of culture plays an important role in the country's SMEs deciding on adopting IFRS, which includes dimensions such as power distance, uncertainty avoidance, individualism-collectivism, masculinity-femininity, and short-term versus long-term orientation (Zahid & Şimga-Muşan, 2018).

Moreover, researchers discovered that cultural dimensions, such as the Anglo-Saxon Model, exert a significant influence on the adoption of IFRS (Damak-Ayadi et al., 2020). The Anglo-Saxon Model relies on general principles rather than strict rules and grants judges' broad interpretative latitude. This approach extends to the development of Accounting Standards, primarily guided by accounting principles and a conceptual framework for creating and reporting concise financial statements (Cerqueira, & Pereira, 2020).

H₄: There is a significant impact of cultural factors on the adoption of IFRS for SMEs.

2.5 Underpinning Theory

This article highlighted the theories highlighted in this study of institutional theory and diffusion and innovation theory which are generally accepted as the factors affecting the adoption of IFRS for SMEs in Perlis, Malaysia.

2.5.1 Institutional Theory

Applying institutional theory to business organisations offers an effective approach to interpreting organisational and managerial practices as outcomes of social influences rather than purely economic pressures (Gordon, 2023). Institutional theory is renowned for explaining non-economic rational organisational behaviour, contributing to its popularity (Daniel & Graziella, 2021). The significance of institutional theory becomes evident in the context of small organisations when it comes to the adoption and implementation of accounting standards such as IFRS (David et al., 2019).

Previous research has shown that applying institutional theory to SMEs helps to reduce barriers to organisational behaviour and management (Mendy & Rahman, 2019). For example, SMEs in Eastern Ghana (Medina) faced potential challenges in their ability to produce accurate financial statements when adopting IFRS, mainly due to pressure from regulatory authorities. Another study suggests that the limited compliance and enforcement of standards and codes by SMEs in Ghana can be attributed to the country's weak institutional capacity and regulatory framework, which has resulted in inadequate accounting practices for businesses operating in the country (Mawutor et al., 2019).

In addition, Malaysian SMEs might find it necessary to apply institutional theory to enhance consistency in financial reporting standards and to obtain reliable accounting information. For example, external pressures, such as mandatory controls imposed by the government or other agencies, are intended to enhance the development and design of improved financial decisions. The notable contribution of this study is that it can help authorities develop effective strategies to address the technical and non-technical challenges related to the implementation of IFRS in Malaysian SMEs (Jamil, 2021). Institutional theory provides an effective approach to developing and accessing accounting systems within a legal framework.

2.5.2 Diffusion of Innovation Theory

Diffusion of Innovations (DOI) theory illuminates how new scientific, technological, and other innovations spread across societies and cultures before gaining widespread acceptance. DOI aims to provide insight into the diffusion and adoption of new concepts and practices over longer periods. According to the DOI, individuals might postpone the adoption of a new technology until it attains popularity and gradually garners broader acceptance within society. The assessment of the relative benefits or effects of IFRS adoption from the perspective of the DOI has been somewhat limited in scope (Dayyala et al., 2020; El-Helaly et al., 2020; Elmghaamez, 2019).

Moreover, DOI can be employed to understand how financial institutions develop new concepts, practices, and products like IFRS across different countries (CFI Team, 2023). As indicated in prior studies, it requires a significant amount of time for an innovation to achieve widespread adoption once it becomes available. The adoption of IFRS, introduced in 2003, has witnessed substantial growth in the number of nations that either require or allow its implementation. To comprehend the factors influencing the acceptance of IFRS, it is essential to examine its diffusion and a nation's decision regarding the adoption of this particular accounting innovation (El-Helaly et al., 2020).

3. RESEARCH METHODOLOGY

In this study, the quantitative method and the empirical analysis were utilised to provide a comprehensive exploration of the factors affecting the adoption of IFRS for SMEs in Perlis, Malaysia. The questionnaire was developed according to the existing literature review. The survey consisted of seven sections where Part 1 obtains respondents' demographic profile with

3 questions; Part 2 obtains SMEs profile with 4 questions; Part 3 is related to the adoption of IFRS with 6 questions; Part 4 is related to institutional pressure with 5 questions; Part 5 is related to economic development with 5 questions; Part 6 is related to project governance with 5 questions; and Part 7 is related to cultural factors with 6 questions. Additionally, the journal articles from ResearchGate, Academia, Google Scholar, and other sources, to complete the research. The target respondents are accountants working in the different sectors of SMEs. The Krejcie and Morgan method is an effective probability sampling method that is used to select a sample size from a large population. The sample size is 364 accountants over the total population of 6808, which is evaluated based on Krejcie and Morgan formulas. The 30 respondents were selected randomly to generate a normal distribution and evaluated by using Cronbach's Alpha to access the questionnaire and proceed with IBM SPSS Statistics 26.0. The conceptual framework is shown as below:

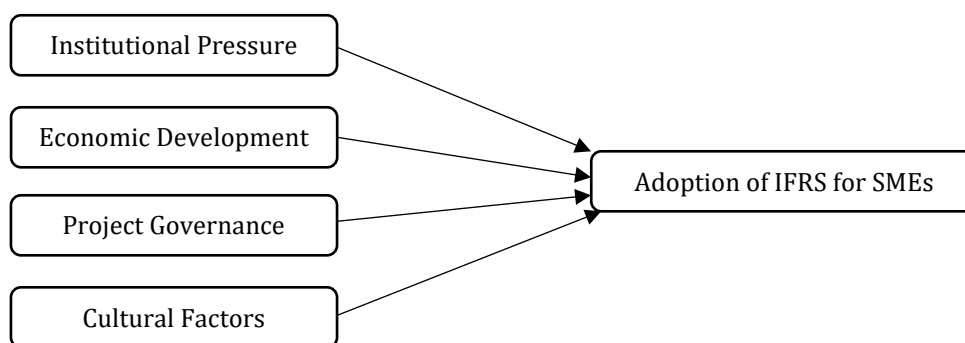


Figure 1. Conceptual Framework

4. RESEARCH FINDINGS

4.1 Descriptive Analysis

Based on the findings, there are 91% of useable questionnaire surveys were successfully collected from respondents, a total number of 364 out of 400 respondents. The descriptive analysis included demographic profiles such as age, gender, and education qualification, as well as SME profiles such as types of industry, number of years in operation, number of employees, and turnover to provide a comprehensive overview of the study participants and the SMEs in the sample. The demographic and SME profiles are shown in Table 1.

Table 1 Descriptive Analysis

Demographics	Frequency	Percent (%)
Respondent's Profile		
<u>Gender</u>		
Male	189	51.1
Female	174	47.0
Prefer not to say	1	0.3
<u>Age</u>		
17-30 years old	201	54.3
31-45 years old	120	32.4
45 years old above	43	11.6

Demographics	Frequency	Percent (%)
<u>Education Qualification</u>		
Diploma	91	24.6
Bachelor	194	52.4
Master	55	14.9
Doctorate	24	6.5
<u>SMEs' Profile</u>		
<u>Types of Industry</u>		
Food & Agriculture	38	10.3
Manufacturing	81	21.9
Commerce	80	21.6
Tourism	23	6.2
Transportation & Warehousing	10	2.7
Professional Service	115	31.1
Others	17	4.6
<u>Number of Year in Operation</u>		
2-10 years	163	44.1
11-20 years	129	34.9
Above 20 years	72	19.5
<u>Number of Employees</u>		
Less than 50 employees	273	73.8
50-200 employees	91	24.6
<u>Turnover</u>		
Less than 1 million	275	74.3
1 million-5 million	89	24.1

According to Table 1, 189 (51.1%) were male, 174 (47.0%) were female, and only 1 (0.3%) respondent preferred not to disclose their gender. The result shows that the number of males is greater than the number of females. Therefore, it indicates there is an imbalance in gender due to the higher employment of males than females in the SME industry.

The table also showed that the age of the respondents was categorised into three different groups including 17-30 years, 31-45 years, and 45 years and above. Majority of the respondents in SMEs were from the age group of 17-30 years with 201 (54.3%), followed by the age group of 31-45 years with 120 (32.4%), and 43 (11.6%) were from the age group of 45 years and above, which constituted a minority of the respondents. Therefore, the results showed that most of the respondents have a higher ability to learn and work experiences at a suitable work age.

Besides that, it can be seen that each respondent possesses different educational qualifications such as a diploma, degree, master's, and doctorate. Out of the 364 SMEs interviewed, 194 (52.4%) of the respondents had a bachelor's degree, which is the highest educational qualification, followed by 91 (24.6%) of the respondents with a diploma or certificate, 55 (14.9%) with a master's degree, and 24 (6.5%) with a doctorate's degree. By making a comparison, the result of education qualification showed that respondents with diplomas and bachelor's degrees have a higher opportunity to be recruited in the SME industry.

The table shows the different types of industries such as food and agriculture, manufacturing, commerce, tourism, transportation and warehousing, professional service, and others. Among the SMEs, professional service had the highest number of employees with 115 SMEs (31.1%), followed by manufacturing and commerce with 81 (21.9%) and 80 (21.6%) SMEs. Food and

agriculture, tourism, and transport and storage had the lowest number of employees with 38 (10.3%), 23 (6.2%), and 10 (2.7%) SMEs respectively. Therefore, professional services require more accountants to manage their accounting and financial reporting within SMEs.

Additionally, the table showed the three different categories of years in business, including 2-10 years, 11-20 years, and 20 years and above. The largest number of SMEs with 2-10 years of operation is 163 (44.1%), followed by 129 (34.9%) with 11-20 years of operation and 72 (19.5%) with more than 20 years of operation. Therefore, most of the SMEs have been in 2-10 years, which is considered a growth or expansion stage in their business operations.

The table shows that the number of employees in SMEs was divided into two categories, including less than 50 employees and 50-200 employees. Most of the SMEs had less than 50 employees with 273 (73.8%), followed by 50-200 employees with 91 (24.6%). Therefore, the result showed that most of the SMEs have limited business assets and a small scale of business operations.

Lastly, the table also showed the turnover of SMEs was categorised into two groups, including those with a turnover of less than 1 million and those with a turnover of 1 million to 5 million. There were 275 SMEs (74.3%) with a turnover of less than 1 million, which was higher than the 89 SMEs (24.1%) with a turnover between 1 million and 5 million. Therefore, most SMEs are interested in increasing their profitability rather than revenue growth and focus on the small niche market by reducing the turnover levels.

4.2 Correlation Analysis

The results were obtained from Pearson’s Correlation, which can be used to illustrate the relationship between the variables, including the institutional pressure, economic development, project governance, and cultural factors toward the adoption of IFRS on SMEs in Perlis, Malaysia.

Table 2 Correlations

		The Adoption of IFRS	Institutional Pressure	Economic Development	Project Governance	Cultural Factors
The Adoption of IFRS	Pearson Correlation	1	.578**	.430**	.561**	.206**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	364	364	364	364	364
Institutional Pressure	Pearson Correlation	.578**	1	.295**	.526**	.439**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	364	364	364	364	364
Economic Development	Pearson Correlation	.430**	.295**	1	.611**	.005
	Sig. (2-tailed)	.000	.000		.000	.920
	N	364	364	364	364	364
Project Governance	Pearson Correlation	.561**	.526**	.611**	1	.280**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	364	364	364	364	364
Cultural Factors	Pearson Correlation	.206**	.439**	.005	.280**	1
	Sig. (2-tailed)	.000	.000	.920	.000	
	N	364	364	364	364	364

** correlation is statistically significant at the 0.01 level.

Based on the Table 2, the constructs of institutional pressure, economic development, and project governance have a moderate positive relationship with the adoption of IFRS-based Pearson's Correlation Coefficient (0.578, 0.430, and 0.561), respectively. However, cultural factors have a weak positive relationship with the adoption of IFRS at the correlation value of 0.206. The significant level of the correlation coefficient among institutional pressure, economic development, project governance, and cultural factors towards the adoption of IFRS were significant at 0.00 ($p = 0.01$).

Furthermore, Table 2 also represents the correlation between predictors. The correlation between predictors is the fundamental aspect of this study as it reveals the degree and direction of the relationship between the variables. The construct for the institutional pressure has a moderate positive relationship with the adoption of IFRS, project governance, and cultural factors, with the correlation values at 0.578, 0.526, and 0.439 respectively and the significant levels of these constructs were at 0.00 ($p = 0.01$). Moreover, the value of the correlation coefficient between economic development with the adoption of IFRS and institutional pressure were 0.430 and 0.295 which are in a moderate positive relationship, economic development, and project governance are considered strong positive relationship with a value of 0.611, and economic development with cultural factors was a very weak or negligible positive relationship at 0.005. Besides that, the significant levels for the variables such as economic development and the adoption of IFRS, institutional pressure, and project governance are highly significant at 0.00 ($p = 0.01$) while the cultural factors were not statistically significant with a value of 0.920, which is greater than $p = 0.01$.

Additionally, the construct for project governance has a strong positive relationship with the adoption of IFRS, institutional pressure, and economic development at the coefficient values of 0.561, 0.526, and 0.611. Nevertheless, the cultural factors are moderately positively correlated with project governance, $r = 0.280$. The significant level of project governance with the adoption of IFRS, institutional pressure, economic development, and cultural factors is less than $p = 0.01$, which is 0.00. The adoption of IFRS is weakly and positively correlated with institutional pressure ($r = 0.439$, $p < 0.01$) and project governance ($r = 0.280$, $p < 0.01$). However, it had almost no linear relationship with economic development ($r = 0.005$, $p > 0.05$). Surprisingly, cultural factors were perfectly positively correlated with IFRS adoption ($r = 1$), which may indicate a strong cultural influence but should be interpreted with caution due to its extreme values. That is because the influence of cultural factors is not a strong or perfectly linear relationship on IFRS adoption. Therefore, extreme values in the analysis may have misrepresented the initial perception of a perfect correlation.

4.3 Regression Analysis

Multiple regression analysis was utilised to evaluate the factors, including institutional pressure, economic development, project governance, and cultural factors that affect the adoption of IFRS on SMEs in Perlis, Malaysia.

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.665 ^a	.442	.436	.39849	.442	71.211	4	359	.000

a. Predictors: (Constant), Cultural Factors, Economic Development, Institutional Pressure, and Project Governance

b. Dependent Variable: The Adoption of IFRS

Table 3 explains the results of the regression model summary. The table shows the R-values, R-squared, adjusted R-squared, and standard errors of the estimates from the model summary. The correlation coefficients are represented by the R-values, and the percentage of variation in the dependent variable that can be explained by the independent variables is represented by the R-squared. However, since the adjusted R-squared is a correction for the limitations of the R-squared, the value of the adjusted R-squared is regarded as a measure of the applicability of the model. The table shows that the R-squared value is 0.442, indicating that the independent variables in the model explain 44.2 percent of the variation in the dependent variable. Therefore, the regression model has a good fit, indicating that the independent variable is the main factor influencing the adoption of IFRS by SMEs in this study.

Table 4 Coefficients

Model		Unstandardised Coefficients		Standardised Coefficients		Correlations			
		B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part
1	(Constant)	.645	.222		2.902	.004			
	Institutional Pressure	.389	.046	.418	8.409	.000	.578	.406	.331
	Economic Development	.154	.055	.142	2.790	.006	.430	.146	.110
	Project Governance	.325	.069	.269	4.726	.000	.561	.242	.186
	Cultural Factors	-.042	.035	-.053	-1.178	.240	.206	-.062	-.046

Dependent Variable: The Adoption of IFRS

Table 4 showed that there are four independent variables were used for testing in this study, including institutional pressure, economic development, project governance, and cultural factors. The p-value of 0.000 for institutional pressure, 0.006 for economic development and 0.000 for project governance are less than 0.05 ($p < 0.05$). These three independent variables are statistically significant for IFRS adoption by SMEs. In addition, there is a non-significant positive correlation between cultural factors and IFRS adoption by SMEs with a regression coefficient of 0.035 and a p-value of 0.240 ($p > 0.05$). Therefore, according to the coefficient analysis, the adoption of IFRS by SMEs is positively correlated with the independent variable.

4.4 Hypotheses Test and Discussion

Table 5 Hypotheses Test

Variables	Hypothesis	Std. Error	Beta	T value	Sig	Decision
Institutional Pressure	H ₁	0.046	0.418	8.409	0.000	Accepted
Economic Development	H ₂	0.055	0.142	2.790	0.006	Accepted
Project Governance	H ₃	0.069	0.269	4.726	0.000	Accepted
Cultural Factors	H ₄	0.035	-0.053	-1.178	0.240	Rejected

In this study, both the correlation and regression analyses revealed a positive correlation between institutional pressure and SMEs' adoption of IFRS. Table 5 shows that the correlation coefficient is 0.578, which is highly significant at the 0.01 level. Furthermore, the regression

analysis reinforces the significance of the association between institutional pressure and IFRS adoption by SMEs. The regression coefficient is 0.046, the t-statistic is 8.409, the beta value is 0.418, and the p-value is 0.000. These results strongly support the view that institutional pressure has a substantial effect on IFRS adoption by SMEs, therefore H_1 was accepted.

According to the results in Table 5, there is a positive correlation between economic development and the adoption of IFRS by SMEs. Specifically, the correlation coefficient for economic development is 0.430, which is statistically significant at the 0.01 level. In addition, the results of the regression analysis indicate that there is a significant relationship between economic development and the adoption of IFRS by SMEs, with a regression coefficient of 0.055, a t-statistic of 2.790, a beta value of 0.142, and a p-value of 0.006. These results collectively provide strong evidence of the significant impact of economic development on IFRS adoption by SMEs, therefore H_2 was accepted.

The data presented in Table 5 shows that there is a positive relationship between project governance and IFRS adoption by SMEs with a correlation value of 0.561, which is statistically significant at the 0.01 level. In addition, the results of the regression analysis indicate that there is a significant relationship between project governance and IFRS adoption by SMEs. The regression coefficient is 0.069, the t-statistic is 4.726, the beta value is 0.269, and the p-value is 0.000. These findings affirm the significant effect of project governance on IFRS adoption by SMEs, therefore H_3 was accepted.

Based on the results in Table 5, the correlation and regression analyses show that there is no statistically significant relationship between cultural factors and the adoption of IFRS by SMEs. The result of the Pearson correlation shows a correlation coefficient of 0.206, which is not statistically significant at the 0.01 level. Furthermore, the regression analysis shows a weak relationship between cultural factors and IFRS adoption by SMEs, with a regression correlation coefficient of 0.035, a t-statistic of -1.178, a beta value of -0.053, and a p-value of 0.240. These results indicate that cultural factors do not have a significant effect on IFRS adoption by SMEs, and therefore H_4 is rejected. The majority of the studies are conducted based on different factors affecting IFRS adoption within SMEs in foreign countries rather than Malaysia (Tran et al., 2019; Damak-Ayadi et al., 2020; Lackson & Muba, 2021). Although there has been considerable international research on the factors affecting the adoption of IFRS by SMEs, with a few studies conducted in Malaysia, it can present an opportunity to explore this crucial area more comprehensively.

5. POLICY IMPLICATIONS

This study aims to investigate the factors influencing the adoption of IFRS by SMEs in Perlis, Malaysia. The results of the study indicate that factors such as institutional pressure, economic development, and project governance are positively associated with successful IFRS implementation. However, cultural factors were not significantly associated with IFRS project success. In analysing the factors influencing the adoption of IFRS by SMEs, there are several key factors to consider. These include the importance of context, the research methodology used, and a basic understanding of the background and attributes of SMEs and IFRS. It is also important for researchers to understand the challenges, requirements, and constraints faced by SMEs in adopting IFRS. The researcher should explore the impact of various factors such as institutional pressures, economic development, project governance, and cultural factors influencing the adoption of IFRS by SMEs. After the inquiry, the researcher should choose appropriate research methodology and data collection methods such as questionnaire survey, case study, and data analysis to collect relevant data. The study can also analyse the behaviour of IFRS adoption by SMEs through quantitative research methods.

This study provides an opportunity for key stakeholders of SMEs, including internal and external parties, government agencies, and accountants, to gain insights into the impact of IFRS adoption by SMEs. The results of this study can provide insights to these contributors to help them address the challenges and barriers that SMEs face in adopting IFRS, analyse how IFRS affects their decision-making and implementation, and identify best practices to overcome these challenges. In addition, the study has the potential to enhance the knowledge and professional skills of accountants, enabling them to provide valuable guidance and advice to assist SMEs in effectively adapting to and complying with the requirements of IFRS.

6. CONCLUSION

In this study, both previous and recent studies have examined the role of institutional pressure, economic development, project governance, and cultural factors in the adoption of IFRS for SMEs. However, there is a significant difference in the hypotheses' results if compared to the existing research studies. Previous research indicated that these variables positively influenced the SMEs' decision on the implementation of IFRS, while our research has produced different outcomes, indicating that institutional pressure, economic development, and project governance play a significant role in changing IFRS adoption practices among SMEs in Perlis, Malaysia. These discrepancies are attributed to the differences in sample size and the decisions made by the respondents through questionnaire surveys. These divergent results allowed for further investigation into the nuanced effects of these variables on the adoption of IFRS among SMEs.

7. RECOMMENDATION

The recommendations in this study serve as a crucial element in offering guidance based on the research findings. Within these recommendations lie various suggestions and proposed solutions that should be considered for future research efforts. The main objective of future research endeavours is to address and overcome the limitations that have been identified in the present study. Firstly, future researchers can improve the representativeness and reliability of the study by expanding the sample size to cover a wider range of Malaysian SMEs. In addition to employing questionnaire surveys, future researchers may consider utilising the interview method as an alternative approach to gather more valuable and significant insights regarding the adoption of IFRS among SMEs. Future researchers can explore the impact of SMEs' adoption of IFRS on various aspects, such as business performance, market evaluation, and international competitiveness, by conducting empirical research using empirical data and evidence.

Furthermore, future researchers have the opportunity to delve deeper into variables such as project governance and cultural factors, which can be included in the research study on the adoption of IFRS among SMEs. By implementing these methodologies and research approaches, it becomes possible to tackle the limitations of research concerning the adoption more effectively of IFRS by Malaysian SMEs. This, in turn, facilitates the generation of findings that are both more accurate and comprehensive, leading to more practical recommendations for policymakers, business regulators, and academics.

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