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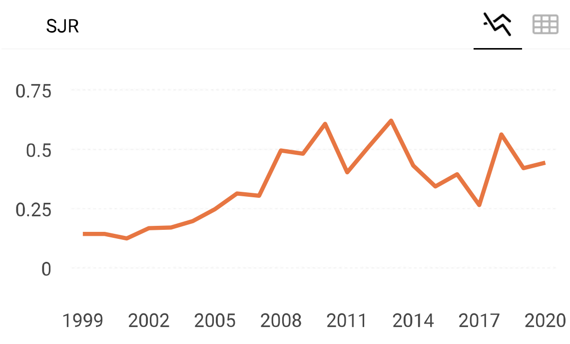

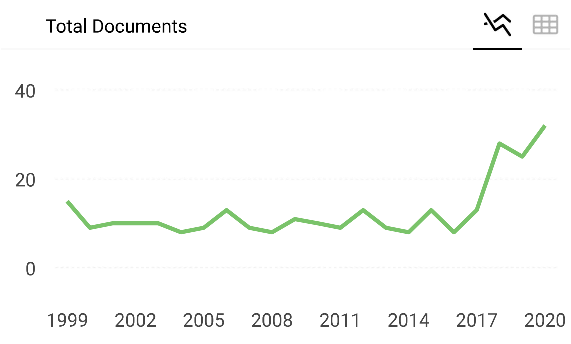

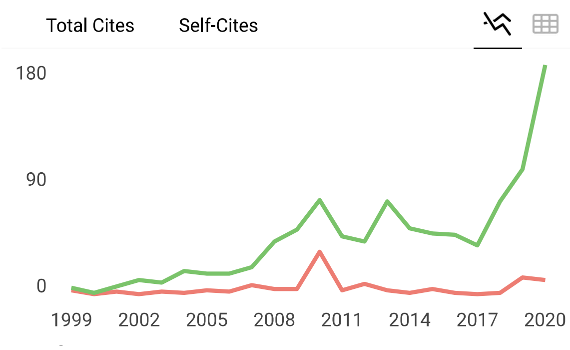

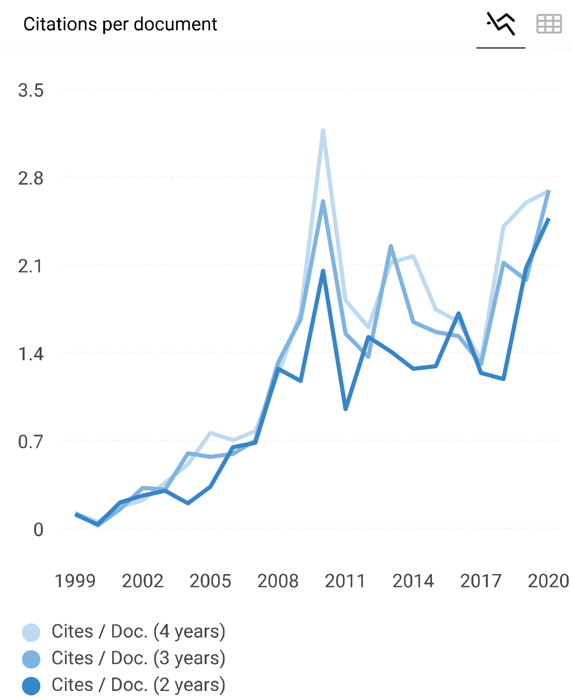

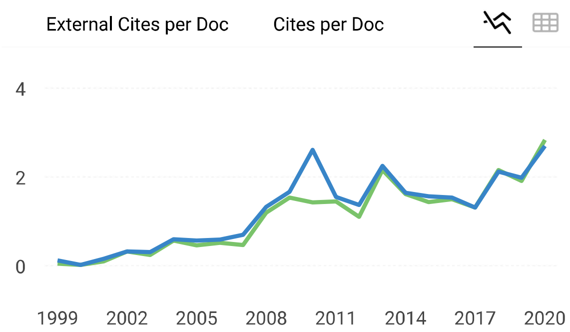

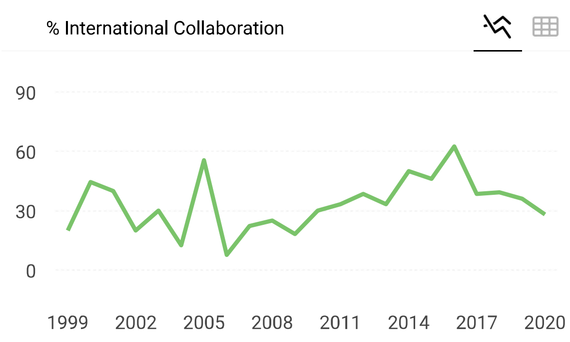

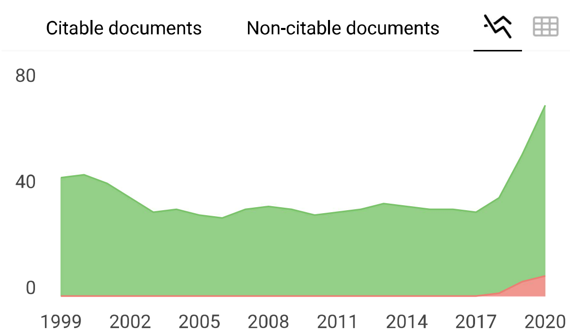

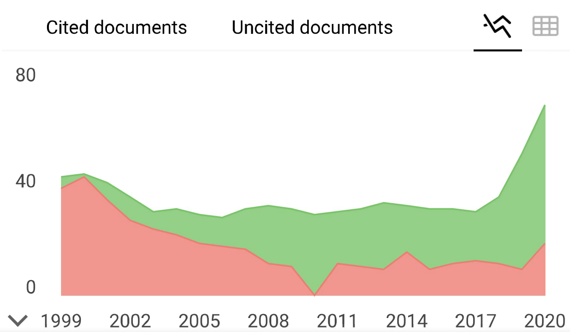

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Perceptions regarding the implementation of International Financial Reporting Standards in Portugal and Brazil

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A B S T R A C T

This study responds to calls for further research on how the institutional context of code law rooted countries impeded or supported the adoption of International Financial Reporting Standards (IFRS). We contribute to the debate on whether the pre-IFRS Anglo-Saxon versus Continental European model persists under IFRS. The experiences of Brazil and Portugal with respect to IFRS are underexamined and allow a comparison of an advanced economy and an emerging market, thereby offering further research on this topic. This study also helps overcome the lack of research on IFRS implementation by unlisted firms. Findings reveal that as many as seven or eight years after formally adopting IFRS, full *de facto* international accounting convergence in Portugal and Brazil is not yet achieved. Evidence from both countries show a coercive isomorphism being exerted mainly by informal market forces rather than by formal supervisory mechanisms. This observation together with enduring professional resistance and a low level of professional development, most noticeably in Brazil, is consistent with the possibility of decoupling or loose coupling. The cultural traits that influenced the continental model adopted prior to IFRS are perpetuated in both countries, thereby suggesting that culture poses a major obstacle to the complete adoption of IFRS.

1. Introduction

While the worldwide adoption of International Financial Reporting Standards (IFRS) constituted a historic milestone for accounting, the effects of this remain somewhat uncertain (André & Kalogirou, 2019; Ball, 2016; García et al., 2017; Uzma, 2016). This research is motivated by continued debates on the obstacles to and benefits from IFRS adoption, as well as on *de facto* versus *de jure* implementation. National standards previously used by countries influence IFRS implementation (Ghio & Verona, 2015), thereby leading to the persistence of international accounting diversity (Albu et al., 2020; Gassen, 2017; Lourenço et al., 2018). For example, based upon a broad sample of 24 jurisdictions, Gassen (2017) found significant cross-

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jurisdictional variation in financial transparency and in the adoption of IFRS for Small and Medium-sized Entities (SMEs). Kvaal and Nobes (2010) underlined the importance of investigating whether the pre-IFRS two-class model (Anglo-Saxon versus Continental European) can persist under global adherence to IFRS standards. Other researchers (e.g., Lourenço et al., 2018) propose different classifications of accounting systems.

Although the primary mandate of the International Accounting Standards Board (IASB) is to provide a set of high-quality standards to be used worldwide (Lopes et al., 2016; Steinbach & Tang, 2014), empirical evidence shows that countries adopting harmonized accounting standards do not in and of itself assure uniform financial reporting (e.g., Ball, 2016; Ghio & Verona, 2015; Nakao & Gray, 2018). For example, given that IFRS are principle based, professional judgment must be exercised when implementing the standards. Some studies, such as Doupnik and Richter (2004), Tsakumis (2007), and Tsakumis et al. (2009), point out that cultural values can lead to disparate interpretations of the standards' embedded concepts and may influence preparers' professional judgment across different countries. Consistent with Baker and Barbu (2007), Nakao and Gray (2018) concluded that due to legal and other institutional barriers, the harmonization process in each country is different and occurs at substantially distinct paces. In summary, extant empirical evidence is consistent with Nobes' (1998) claim that the accounting model in each country is influenced by factors, such as their financial system, colonial heritage, education level, economic development, culture, institutional structures, inflation, and legal system.

The expected benefits of IFRS have undoubtedly played a key role in the global push for IFRS convergence (Ozkan et al., 2019). However, although the number of countries making IFRS adoption mandatory is increasing each year, the realized benefits remain unclear (Christensen et al., 2013). A great deal of empirical research focuses on ascertaining the results of IFRS adoption and its benefits (e.g., Albu & Albu, 2012; André & Kalogirou, 2019; García et al., 2017; Lopes et al., 2016; Nakao & Gray, 2018; Nurunnabi, 2018). Still, there are recent calls for further research regarding the benefits of IFRS adoption (Nurunnabi, 2018; Tsalavoutas et al., 2020), particularly in countries with a code law institutional tradition (Albu et al., 2014). Implementing IFRS in countries whose traditions differ from the Anglo-Saxon traditions, upon which IFRS are based, may lead to dissimilar outcomes (Albu & Albu, 2012; Albu et al., 2014). Institutional factors strongly influence IFRS implementation and its outcomes (Albu & Albu, 2012; Albu et al., 2020; Nakao & Gray, 2018). A major contribution of our research is in providing an enhanced understanding of how the institutional context of code law rooted countries impacts the obstacles to and benefits of IFRS adoption.

Prior literature suggests adoption alone will not automatically deliver the IFRS's expected benefits (Albu & Albu, 2012; Christensen et al., 2013; Daske et al., 2013). Evidence shows that to effectively reap the claimed benefits, a *de facto* implementation of the embedded principles and standards is necessary, that is, the accounting convergence process must go beyond a mere formality (Ball, 2006; Barth et al., 2008; Daske et al., 2008, 2013). For example, Daske et al. (2013) analyzed the capital market effects of IFRS adoption and concluded that only entities adopting the new accounting standards effectively (i.e., *de facto*) benefited from increased liquidity in the stock market and reduced capital costs. Based on the established correlation between the degree of realized expected IFRS benefits and IFRS *de facto* implementation, our study further clarifies the extent of the latter in each investigated country. Simultaneously, it adds to the debate on whether the pre-IFRS two-class model (Anglo-Saxon versus Continental European) could persist under IFRS.

Our focusing on Portugal and Brazil was driven by several considerations. First, Brazil was previously a Portuguese territory, and both countries continue to share the same official language, are tied by a strong cultural heritage, and have the same normative basis grounded in the code law philosophy. As Lopes (2011, p. 341) stated, "Brazil was considered to be a continental model country because its financial reporting system was strongly influenced by its Portuguese colonizers." Thus, both Portugal and Brazil pose *ex ante* unfavorable jurisdictions for IFRS implementation, and a common language for the interviews facilitated our investigation.

Second, both countries exhibit additional traits of a weak institutional environment where the dominant business structure is mainly composed of SMEs and ownership is concentrated. Therefore, we respond to an acknowledged need for IFRS research to explore country characteristics, such as culture (El-Helaly, Ntim, & Soliman, 2020; Tsalavoutas et al., 2020).

Third, both countries completely converged to IFRS in 2010. Fourth, both countries' experiences with IFRS remain under-investigated, and comparing an advanced economy and an emerging market responds to recent research calls. For example, Maradona and Chand (2018) call for further empirical research investigating the effects of institutional factors on IFRS implementation, including how application of IFRS may differ between developed and emerging countries. Nakao and Gray (2018) called for additional research to investigate whether the high degree of a legacy from book-tax conformity in Brazil could be confirmed in a developed IFRS-adopting country with a similar history of book-tax conformity.

Further, our study responds to the lack of IFRS research on emerging countries (e.g., Lungu et al., 2017; Nurunnabi, 2017; Uzma, 2016). Firms in emerging markets generally experience significant growth opportunities that cannot be internally funded (Lopes et al., 2016). So, our research investigates the extent to which this context may affect IFRS adoption. In particular, limited research is available on IFRS in Brazil (Uzma, 2016); however, Brazil is the largest Latin American country in terms of land area and Gross Domestic Product (GDP) (Steinbach & Tang, 2014), and is the single largest emerging market that has fully adopted IFRS for both separate and consolidated financial statements.

Portugal's experience with IFRS is also under-investigated. Uzma (2016) makes no reference to Portugal in a comprehensive review of empirical literature on IFRS adoption by European Union (EU) member states. Oliveira et al. (2018) reviewed the scarce IFRS literature about Portugal. However, there is an ongoing interest in the experience of EU countries adopting IFRS (Tsalavoutas et al., 2020), and "country studies are the key to international accounting research in the future" (Gordon et al., 2019, p.7).

Our interviewees provided their perceptions based on their experience with non-financial unlisted companies. The demand for regulating reporting standards of unlisted companies is important for both national and international regulators (André & Kalogirou, 2019). Thus, our study also helps expand the limited research on IFRS adoption by unlisted companies, as most empirical studies on IFRS adoption focus on the experience of listed companies, which are mostly larger (Christensen et al., 2013; Daske et al., 2008; Ding et al., 2007; Lopes et al., 2016; Mita & Amarullah, 2018; Nakao & Gray, 2018). Yet, most companies are unlisted (Uzma, 2016). As most unlisted firms are smaller, findings suggested that the informational requirements of SMEs differ from those of publicly traded companies because their accounting is primarily directed toward tax authorities and capital providers (banks), and they have little or no involvement with international operations (Quagli & Paoloni, 2012).

Our qualitative approach is another distinctive characteristic compared to most extant, quantitative IFRS research (e.g., García et al., 2017; Lopes et al., 2016; Nakao & Gray, 2018), which draws upon firm-level archival data and, with a few exceptions (e.g., Albu et al., 2014, 2020; Nurunnabi, 2018), tends to ignore the perspectives and experiences of many relevant stakeholders. Evidence was gathered by analyzing tax officials' perceptions collected through 18 personal interviews, 9 in each country studied. To the best of our knowledge, no similar research is based on evidence obtained from tax officials for this purpose. Portugal (Guerreiro et al., 2012a) and Brazil (Black & Nakao, 2017; Castro & Santana, 2018) have both historically been immersed in a book-tax conformity culture. Therefore, tax inspectors are well-positioned to perceive the expected improvement (or lack thereof) following IFRS adoption. Although tax officials do not prepare financial statements themselves, they deal closely with preparers and managers in their inspections. Moreover, accounting research identifies tax authorities as the primary users of SME's financial statements (Arafat et al., 2020; Damak-Ayadi et al., 2020; Gassen, 2017). Therefore, by interviewing tax officials, we gained access to perceptions based on their experiences with many different unlisted companies and their financial statement preparers.

The remainder of this paper is organized as follows. Section 2 discusses the theoretical lens that guides the research. Section 3 summarizes the institutional context of the countries examined. Section 4 describes the research method applied. Section 5 presents and discusses the findings. Finally, the final section presents major conclusions and implications as well as avenues for further research.

2. Theoretical lens of institutional theory

Following the inadequacies of various theories in financial literature, such as the efficient market, agency, and contingency theories, the institutional theory is often used to study the phenomena of change and stability in systems of accounting (Albu et al., 2014; Burns & Scapens, 2000; Granlund, 2001; Guerreiro et al., 2012a; Hassan et al., 2014; Nurunnabi, 2017; Scapens, 2006; Siti-Nabiha & Scapens, 2005; Tsamenyi et al., 2006; Youssef, 2013). Although institutional theory is widely discussed and grounded by sociologists, it is applicable in the context of accounting because all organizations are socially constructed and subject to regulatory processes and operate under local and global governance structures. Such regulatory processes, laws, and accounting standards offer organizations legitimacy for their operations in both national and international markets (Dillard et al., 2004). Therefore, institutional theory is applied to better understand sociological aspects of how accounting influences and/or is influenced by the dynamics and participation of various agents (Dillard et al., 2004). Scapens and Roberts (1993) were early advocates of this approach for analyzing the institutional perspective of accounting in organizational management and stressing the role of accounting in creating organizational routines. Systems of accounting are no longer perceived as inert (van Zijl & Maroun, 2017); but are viewed as incorporating rules and uniform routines that can serve organizations in exogenous and endogenous ways (Quinn, 2014).

Institutional theory may be considered an approach for evaluating formal organizational structures, the social forms of how these processes take place, and their natures (Dillard et al., 2004). From the perspective of the social sciences, institutional theory incorporates the assertions of Dillard et al. (2004), because sociology looks at a given phenomenon as a whole - from the collective perspective. Dillard et al. (2004) stated that institutionalization is the process whereby expected practices in various social contexts are developed and learned. They highlighted that institutional theory based accounting research should be grounded and expanded to depict better the contexts and processes underlying the institutionalization of accounting standards. The individual behavioral perspective is addressed within psychology and expands the understanding of practice variations under the institutional approach, thereby justifying the perspectives in Albu et al. (2014). These authors suggest that implementing new rules requires individual knowledge, resources, and support from many actors, including managers, accountants, and auditors, whose networks and interests are locally constructed and trigger varying organizational responses to proposed institutional changes on a country level. Therefore, Albu et al. (2014) explain why some organizations are IFRS compliant, while others even within the same country only exhibit a *de jure* adoption.

The implementation of IFRS may be understood by considering that most contemporary societies are capitalist and are strongly influenced by international and multi-market conducts. These societies bear the burden of constantly seeking economic efficiency so that they can exist (Dillard et al., 2004; van Zijl & Maroun, 2017), while also competing for political power, institutional legitimation, and social adequacy (DiMaggio & Powell, 1983). Furthermore, organizations depend on individual actors to create patterns of behaviors responsible for implementing the international standards (Albu et al., 2014).

Meyer and Rowan (1977) suggested that rules and rationalization in organizations boost the idea of legitimacy. They further argued that organizational efficiency appears to bring *de facto* legitimacy, and therefore, culture, although important, appears to remain in the background because organizations must adapt to cultural standards imposed by the social and political context. Zucker (1977) studied the cultural patterns of organizations but with a view that culture is persistent and poses an obstacle to organizational change. Consistent with this perspective, the literature reveals that the diversity of countries' accounting cultures is a challenge to implementing IFRS globally (Doupnik & Richter, 2004; Ghio & Verona, 2015; Gray, 1988; Guerreiro et al., 2012a; Tsakumis et al., 2009; Tsakumis, 2007).

In the context of remarkable competitiveness, economic changes, shifting paradigms, uncertainty, and high connectivity of information systems globally, companies respond by seeking progressive improvement and are, thus, under continual evolution. These external environmental pressures ultimately precipitate a phenomenon termed isomorphism: the tendency of institutions to resemble each other, consciously or unconsciously, which leads them to become increasingly alike (Granlund, 2001). According to Dillard et al. (2004, p. 509), "isomorphism refers to the adaptation of an institutional practice by an organization." Granlund (2001) pointed out that despite a tendency toward isomorphism or standardization, systems of accounting are among the most difficult to change due to an institutional inclination toward accounting continuity or due to a resistance to change (which is generally an unconscious process among the individuals within organizations). According to Scapens (2006), it is necessary to consider that the presence of a complex mix of interrelated influences shape organizational practices, especially accounting practices.

DiMaggio and Powell (1983) defined two types of isomorphism: competitive and institutional isomorphism. Competitive isomorphism presupposes a rational system that evidences market competition. This vision is complemented by an institutional view, namely institutional isomorphism, indicating that there are external forces pressuring organizations to adapt to the outside world. DiMaggio and Powell (1983) classified institutional isomorphism into three types, coercive, mimetic, and normative isomorphism, which allowed the understanding of homogeneity in organizational forms and practices, even in apparently differentiated entities. These three types of institutional isomorphism may lead to different outcomes (DiMaggio & Powell, 1991).

Coercive isomorphism refers to a similarity within a population of organizations that is a response to pressures, whether formal or informal, being exercised through governments (tax, regulatory, and environmental laws), other organizations they depend upon (acceptance and inclusion), or the cultural expectations of society (search for legitimacy) (DiMaggio & Powell, 1983).

At the international level, institutions, such as the IASB, the World Bank, the International Monetary Fund, G20, the International Organization of Securities Commissions, the World Federation of Exchanges, and the International Federation of Accountants, are acknowledged as the major global coercive institutional forces pushing countries towards adopting IFRS (Hope, 2003; Nurunnabi, 2017; Uzma, 2016). These groups employ strategies that develop supervisory mechanisms (at the global level) within what could be considered a coercive isomorphism. Their actions exert formal and informal pressures over organizations that are compelled to adopt the new standards in the search for legitimacy and market acceptance.

There is also a real coercive isomorphism exerted by the market. Market forces cause companies to incorporate and adapt to new, consensually accepted rules, or else face exclusion from the market player group. Thus, formal and informal regulatory pressures are observed. Formal pressures include being regulated by the IASB, as supported by other previously mentioned international institutions, in addition to authorities, agencies, and supervisory institutions existing in the various countries. Informal pressures are exerted by the market, in particular the desire for harmonization of financial reporting for listed companies (Hope, 2003).

Coercive isomorphism is also present at the national level because each country may designate an independent authority responsible for ensuring the effective implementation of IFRS. However, countries differ in terms of the supervision level employed to ensure adherence to IFRS (Albu & Albu, 2012; Consoni & Colauto, 2016; Daske et al., 2008; Hope, 2003; Nurunnabi, 2014), which causes differences and uncertainties regarding the conformity of companies' financial statements (Hope, 2003). Schipper (2005) maintains that the progress of convergence toward IFRS is directly related to the effectiveness of supervisory mechanisms as they aim to ensure the proper application of the standards and consequently the transparency and quality of information.

Enforcement mechanisms are an essential element of the convergence process and individual countries' adoption of international accounting standards (Guerreiro, 2009; Silva et al., 2003). Previous research consistently establishes a relationship between the level of enforcement and how IFRS are implemented. For example, Daske et al. (2008) found that benefits, such as the improved quality of accounting information, only occurred in countries with a high enforcement level. An absence of effective enforcement caused a culture of noncompliance in Romania (Albu & Albu, 2012), and in Bangladesh (Nurunnabi, 2014, 2017). Recently, Albu et al. (2020) surveyed 152 auditors from 10 Central and Eastern European countries and found that perceptions of IFRS benefits were higher in countries with stronger enforcement. As Nurunnabi (2014, p. 234) noted, "lack of regulation regarding penalties may encourage companies to decide not to comply ... (or at least, nothing exists to discourage them from doing so)."

Mimetic isomorphism occurs when fear, ignorance, uncertainty, or even a dearth of technology drives organizations to imitate others that are considered successful or role models in an attempt to become more legitimate or successful themselves. According to DiMaggio and Powell (1983), in this process of mimicry, the imitated organization may diffuse its model involuntarily or indirectly, through employee turnover, the use of consultancy services, and professional associations. An environment of uncertainty and the progressive worldwide adoption of IFRS encouraged mimetic isomorphism in the sense that organizations started to imitate the accounting practices used by influential and reference organizations, thereby seeking to reinforce their legitimacy by adopting internationally accepted accounting standards.

Finally, normative isomorphism is based on technical developments and the growth of professional networks, through which norms and processes are created, applied, and subsequently widely adopted (DiMaggio & Powell, 1983). For example, economically dominant agents, such as the Big 4, are shaping accounting practices by monopolizing the audit industry (Ghio & Verona, 2015).

Behnam and MacLean (2011) report that organizations generally benefit from adhering to IFRS, which may serve as a strategic tool to enhance external relationships with investors, associates, customers, government agencies, and others. Accordingly, the explanation for implementing IFRS resides in the search for demonstrations of social, environmental, and economic impact, although such adherence may be compulsive or even illustrative (*decoupling/loose coupling*). Institutionalists employ the term *decoupling* to refer to the gap between the formal and the actual organizational structures (Meyer & Rowan, 1977). Although mandatory adoption of IFRS may be welcomed by organizations interested in transparency, it may also propel *decoupling* or *window-dressing* (Daske et al., 2013).

The practice of window-dressing refers to the misapplication of accounting standards to enhance a company's image or reputation. A worldwide concern regarding the effects of such practices is noted given that financial reports support decision-making by all stakeholders (Bildersee & Kahn, 1987). For example, existing empirical evidence is inconsistent regarding the impact of IFRS adoption on earnings management and manipulation (El-Helaly, Ntim, & Al-Gazzar, 2020; Uzma, 2016). Hope (2003) points out that imposing financial reporting standards tends to be more effective when backed by regulation and government surveillance; furthermore, there is a greater chance that the information provided is less transparent or manipulated. Hope (2003) conducted an international study covering 22 countries and found that a high level of enforcement with respect to accounting standards is associated with increased forecast accuracy.

3. Portuguese and Brazilian institutional context and convergence to IFRS

The countries selected for this study, Portugal and Brazil, share a strong cultural heritage and have the same normative basis grounded in code law philosophy. *Culture* is a multidimensional concept. Using Hofstede's cultural dimensions, both countries score extremely high in terms of uncertainty avoidance, particularly Portugal (on a 100-point scale, Brazil scores 76 and Portugal scores 99, based on the Values Survey Module (VSM) available from www.geerthofstede.nl) (Hofstede, 2011). A strong degree of uncertainty avoidance indicates the "need for rules – even if not obeyed" (Hofstede, 2011, p. 10), which is in contrast to the principle-based IFRS philosophy. This finding is consistent with empirical evidence in Guermazi and Halioui (2020), who found that conditional conservatism in the post-IFRS period is higher in countries where uncertainty avoidance is greater (although the scope of their study was confined to publicly listed firms in EU countries).

The convergence process towards IFRS implied an abrupt departure from traditional accounting practices by code law countries, including Portugal (Caria & Rodrigues, 2014; Guerreiro et al., 2012a) and Brazil (Castro & Santana, 2018; Lopes, 2011; Nakao & Gray, 2018). The influence of the legal origin on accounting philosophy, namely code law (the continental model) versus common law (the Anglo-Saxon model underlying IFRS) is well-established in the literature. Countries influenced by the continental model, such as Portugal and Brazil, tend to exhibit a preference for accounting practices based on prescribed legal procedures at the expense of flexibility and the exercise of professional judgment (Gray, 1988). In the continental model, laws (particularly tax laws) are the normative basis for accounting practices, and a strong link exists between financial accounting and tax rules (Carvalho & Salotti, 2013; Castro & Santana, 2018; Doupnik & Riccio, 2006; Lopes, 2011).

However, compliance with IFRS demands strict disentanglement between financial and tax accounting, that is to ensure the tax neutrality of international accounting standards, financial statements prepared under IFRS must be adjusted to calculate taxable profits (Castro & Santana, 2018; Lopes, 2011; Nakao & Gray, 2018). In Brazil, adopting IFRS necessitated the Transition Tax Regime and the issuance of Federal Laws 11941 in 2009 and 12973 in 2014. These Laws defined rules regarding adjustments to taxable income resulting from differences in the financial accounting measures of income (Nakao & Gray, 2018). Before that, book-tax conformity indicated that, for example, expected losses from receivables were subject to a ceiling dictated by tax legislation (Castro & Santana, 2018).

Historically, accounting practices in Brazil and Portugal had a high degree of conservatism and secrecy because businesses are mostly bank-financed, and accounting practices were primarily directed towards banks and tax authorities (Black & Nakao, 2017; Gray, 1988; Guerreiro et al., 2012a, 2012b; Lopes, 2011). By contrast, in common law countries where the capital markets are the main source of business financing, the primary users of accounting information are external stakeholders, including investors, society, and regulators (Ding et al., 2007; Lopes, 2006, 2011; Nobes, 2011; Tarca, 2004). Therefore, given the desire for a true and fair perspective to have preference over compliance with detailed rules, there is a tendency for extensive disclosure with IFRS (Tarca, 2004).

Another common cultural trait shared by Portugal and Brazil with implications for these countries' IFRS convergence is their low level of individualism (per VSM, Portugal scores 27 and Brazil 38 based on the 100-point scale). These cultures emphasize the importance of "belonging" and believe that "harmony should always be maintained" (Hofstede, 2011, p. 11). This supports the institutional idea of legitimacy and the phenomenon of isomorphism as explained in the previous section. Guermazi and Halioui (2020) found a negative relationship between countries' individualism and conservatism in the post-IFRS period.

The cultural similarity between Portugal and Brazil is revealed by a large power distance dimension (scores of 63 and 69, respectively). These scores convey the view that "Power is a basic fact of society antedating good or evil: its legitimacy is irrelevant", "Subordinates expect to be told what to do", and corruption is common (Hofstede, 2011, p.9). Although extant research generally reports a positive correlation between IFRS adoption results and strong enforcement (Oz & Yelkenci, 2018), under these conditions, IFRS enforcement mechanisms are expected to play a particularly vital role. Consistent with code law countries being well known for their weak enforcement mechanisms (Oz & Yelkenci, 2018), both Portugal and Brazil exhibit weaker governance performance indicators for all six dimensions of governance over the period 1996–2019 (World Bank, 2020).

The enforcement of accounting standards for unlisted companies in Portugal is the responsibility of the *Comissão de Normalização Contabilística* (CNC, the Portuguese Accounting Standards Board), supervisory body of certified accountants [*Ordem dos Contabilistas Certificados* (OCC)], and the supervisory body of statutory auditors [*Ordem dos Revisores Oficiais de Contas* (OROC)] (Isidro & Pais, 2017). In Brazil, initiatives to support accounting compliance are undertaken by the body that provides access to the auditing and accounting professions, that is, the Federal Council of Accountants [*Conselho Federal de Contabilidade* (CFC)] (Lopes, 2011; CFC Portal, 2018).

Although formalized by Decree Law 158/2009 of July 13 in 2009, Portugal's CNC is not yet doing any enforcement (Isidro & Pais, 2017). The OCC regularly checks accounting professionals' work, whereas the OROC performs quality checks on auditors (Isidro & Pais, 2017). In both countries, statutory auditors play an important supervisory role for accounting processes among entities subject to external auditing (Batista & Lopes, 2018; Guerreiro, 2009; Isidro & Pais, 2017; Silva et al., 2003).

The independent bodies responsible for translating and introducing IFRS in Portugal and Brazil are, respectively, the CNC and the *Comitê de Pronunciamentos Contábeis* (CPC, the Brazilian Accounting Standards Board). After the CNC (Isidro & Pais, 2017) and CPC (García et al., 2017; Lopes, 2011; CPC Portal, 2018) analyze and approve standards issued by IASB for their respective countries, each issues technical resolutions, orientations, and interpretations.

While the Portuguese CNC started operating in 1983, the CPC was more recently created in 2005 to establish Brazil's commitment to the IASB for adopting and maintaining accounting standards based on IFRS (Portal Comitê, 2018). In 2008, the CPC translated and introduced the first IAS (International Accounting Standard) and IFRS in Brazil (Castro & Santana, 2018). CPC members represent relevant stakeholders, including preparers, auditors, users, academics, and the government (Castro & Santana, 2018; Rodrigues et al., 2012). Similarly, CNC members include representatives of professional associations, stock market regulators, academia, industry, tax authorities, and government bodies. Both these accounting standard setters benefit from strong government support (Castro & Santana, 2018; Isidro & Pais, 2017).

Despite being a code law country (Caria & Rodrigues, 2014; Guerreiro et al., 2012a), Portugal began to reflect some degree of influence from international accounting standards as far back as 1992 when CNC started issuing International Accounting Standards Committee (IASC)-inspired Accounting Guidelines (DC – *Directrizes Contabilísticas*). These guidelines were supplementary accounting instructions governing issues not covered by Portuguese national Generally Accepted Accounting Principles (GAAP), known by the acronym POC - *Plano Oficial de Contabilidade* (Official Accounting Plan) (Isidro & Pais, 2017). However, the release of the EU Regulation 1606/2002, requiring all EU-listed companies to prepare their consolidated financial statements in accordance with the so-called *EU-endorsed IFRS* from 2005 onwards, was a breakthrough in Portugal's IFRS convergence process (Guerreiro et al., 2012a, 2012b).

In 2007, the CNC approved a new Accounting Standards System, the *Sistema de Normalização Contabilística* (SNC, System of Accounting Standardization), to align Portugal's GAAP with the EU-endorsed IFRS and requiring compulsory adoption by non-financial unlisted companies from 1 January 2010 onwards (Decree-Law 158/2009 of July 13). The SNC incorporates simplified optional reporting frameworks tailored for small and micro-entities because SMEs represent 99% of Portuguese businesses (Caria & Rodrigues, 2014; INE, 2018). Therefore, small entities report under NCRF (28 accounting and financial reporting standards) or NCRF-PE (accounting and financial reporting standard for small entities), whereas micro entities are granted a third option, which is to report under NC-ME (accounting standard for micro entities). Finally, non-profit entities use NCRF-ESNL (accounting and financial reporting standard for non-profit entities). All these SNC standards are similar to IFRS (Isidro & Pais, 2017). In 2015, Decree-Law 98/2015 of June 2 amended SNC to incorporate new aspects of the 2013 EU Directive. In force since 2016, these changes further reduced the burden on small businesses by enlarging the threshold definition of a 'small' entity and by simplifying micro entities' financial reporting requirements.[1]

The process of IFRS convergence in Brazil developed over three periods (García et al., 2017). In the earliest stage (pre-IFRS period), accounting practices were valid until 2007 (García et al., 2017). In December 2007, Federal Law 11638/2007 was approved, thereby breaking with mandatory book-tax conformity under which "tax accounting rules were, in practice, financial accounting standards" (Nakao & Gray, 2018, p. 483) and adopting IFRS. This event initiated a transitional stage in Brazil's accounting convergence during 2008–2009, characterized by partial convergence. Although voluntary early full-IFRS adoption was permitted during this period, only eight companies adhered (Nakao & Gray, 2018). In 2008, the CPC approved 14 IFRS standards for implementation, and the remaining standards were approved in 2009. Finally, starting in 2010 there was full IFRS adoption, although modifications were made for small entities, because similar to Portugal, approximately 99% of Brazilian businesses are small. From January 1, 2010, listed companies, those defined as large companies, and companies preparing consolidated financial statements had to fully adopt the accounting standards based on IFRS (Federal Law 11638). Non-financial SMEs were allowed to adopt a simplified version based on *IFRS for SMEs* (Resolution 1255/2009 of December 10). From January 1, 2012, micro and small entities could adopt an even further simplified IFRS-based model (Res-

[1] For a more comprehensive review of the current Portuguese accounting system see Isidro and Pais (2017).

olution 1418/2012 of December 5). While in Portugal adoption of IFRS-based standards by unlisted firms is mandatory since 2010, its adoption in Brazil by unlisted firms remains voluntary.[2]

4. Research methodology

Our exploratory and descriptive study uses a qualitative method of data collection and analysis. Detailed data were obtained directly from tax officials in Portugal and Brazil, through personal interviews. Supported by relevant literature, we performed content analysis of these tax officials' perceptions regarding aspects of IFRS implementation in their countries by non-financial unlisted companies. Unlisted companies deserve attention as they are remarkably distinct from their listed peers in terms of financial reporting needs, accounting resources, and timeliness of accounting teams' update.

Eighteen interviews, nine in each country, were conducted between September 2017 and February 2018, which is about seven or eight years after formal IFRS adoption. Our final sample size was determined by reaching theoretical saturation, that is the point "…when incremental learning is minimal because the researcher is observing phenomena seen before" (Marginson, 2004, p. 331). For comparability, the sample size was the same in both countries. Based on this rationale, previous IFRS research often utilizes small samples (e.g., Albu et al., 2014; Che Azmi & English, 2016). As acknowledged by Villiers et al. (2019, p. 1463), "Most qualitative [research] studies involve a limited number of participants (usually between 10 and 30) … [and] It is not a flaw in the study's design. Some researchers take the position that amalgamating individual experiences explains the functioning of accounting."

Field interviews, most often semi structured, are a widely used method for eliciting qualitative data in accounting research, as it allows the researcher to capture perceptions and personal experiences (Chua & Mahama, 2007; Mahama & Khalifa, 2017). Accordingly, the same flexible script covering general and specific topics was used in both Portugal and Brazil, and the average interview length in both countries was 54 minutes. The interviewer allowed interviewees to express their opinions freely throughout the interview without having to restrict themselves to the pre-defined questions. Such a flexible formulation of questions, whose sequence is determined by the natural dynamics of the conversation between interviewer and interviewee, allows for a deep understanding of the studied phenomenon (Mahama & Khalifa, 2017). For reliability, all interviews were recorded with prior permission from the interviewees, and immediately transcribed for analysis.

Interviewees were selected based on their knowledge of and role in our research theme (Mahama & Khalifa, 2017). So, our participants are Portuguese and Brazilian tax officials involved in the external inspection of companies. In Brazil, they were federal tax officials located in Rio de Janeiro.

Both countries historically adhered to book-tax conformity; therefore, tax inspectors are well positioned to assess any improvement in this regard following IFRS adoption. Although tax officials do not prepare financial statements themselves, they work closely with accountants and managers in their inspections. Interviewing this group of tax professionals provided access to perceptions based on their experiences with a broad sample of unlisted companies and accountants. The interviewees are definitely well positioned to share their perceptions of the dimensions being investigated. So, our study responds to recent calls for international accounting research to address issues from the perspective of professionals other than accountants and shareholders (e.g., Gordon et al., 2019).

In addition, to maximize the likelihood of obtaining highly relevant empirical evidence, interviewees were selected by considering their level of education and years of experience. All interviewees in both countries held at least a bachelors' degree, and most (67% PT; 56% BR) held a postgraduate course or degree. Furthermore, most interviewees had more than 15 years of relevant experience (89% PT; 67% BR); whereas no Portuguese tax officials and only one Brazilian tax official had less than five years of experience. Although the interviewed professionals were highly experienced, most of them were no more than 54 years old with the dominant age group being 35–44 years in Portugal (PT) (67%), and 45–54 years in Brazil (BR) (67%). Age heterogeneity was deliberate in order to balance an expectable greater willingness to change and seek professional development by younger interviewees, with the greater experience of more mature professionals. Finally, most interviewees were male (89% PT; 78% BR), reflecting a dominant professional trait. Table 1 shows the demographics and characteristics of the participants.

Transcripts were subjected to content analysis using pre-established categories, as suggested by Mahama and Khalifa (2017). To increase internal validity and reliability, each researcher independently coded all transcripts. The final categories were reached by researcher consensus and reflect their *ex-ante* suggested importance in the literature review as well as main topics that emerged during the interviews. Then the primary categories were interpreted (cf. Ryan et al., 2003) utilizing a joint analysis, and any differences were discussed until consensus was reached (cf. Berg, 2001). This inductive approach to analyzing interview data is aptly described as "an interactive and iterative process involving back-and-forth movement between data and theory in order to make sense of and give meaning to the data" (Mahama & Khalifa, 2017, p. 334). We did not use any qualitative data analysis software. Table 2 summarizes the final thematic coding which is discussed next in the results section.

[2] For details on Brazil's convergence process to IFRS, see Lopes (2011) and Rodrigues et al. (2012).

Table 1
Sample description.

Tax official	Country	Education	Gender	Age	Experience
1	Portugal	Bachelor's	Male	35–44	>15 years
2		Master	Male	35–44	10–15
3		Master	Male	35–44	>15
4		Bachelor's	Female	>54	>15
5		Postgraduation	Male	35–44	>15
6		Master	Male	35–44	>15
7		Bachelor's	Male	>54	>15
8		Master	Male	35–44	>15
9		Master	Male	>54	>15
10	Brazil	Bachelor's	Female	45–54	>15
11		Bachelor's	Female	45–54	<5
12		Postgraduation	Male	45–54	>15
13		Master	Male	45–54	>15
14		Bachelor's	Male	35–44	10–15
15		Master	Male	45–54	>15
16		Bachelor's	Male	>54	>15
17		Master	Male	45–54	>15
18		Postgraduation	Male	35–44	10–15

Table 2
Thematic coding.

Main node	Sub-category(ies)	
I. Perceptions of situational factors	IFRS' context adequacy	In-country adequacy
		Business adequacy
	Accounting culture	Cultural adequacy
		Change of values: conservatism and secrecy
	Enforcement	
II. Perceptions of benefits	Contextual benefits	
	Operational benefits	

5. Results and discussion

The Appendix A summarizes the perceptions of the tax officials interviewed regarding situational factors and perceived benefits related to adoption of an IFRS-based model in their respective countries. This section is organized in the order of the thematic coding as presented and summarized in Table 2 and detailed with data in the Appendix A.

5.1. Perceptions of situational factors

5.1.1. IFRS' context adequacy

5.1.1.1. In-country adequacy. Unlike Portugal's tax officials, Brazil's were mostly supportive of at least a reasonable level of in-country adequacy with respect to the adopted IFRS-based model (44% PT; 89% BR). However, the overall perception of in-country adequacy emerged to be highly dependent upon one's underlying reference frame. Portuguese tax officials who disagreed with IFRS' in-country adequacy provided arguments related to the characteristics of small businesses. Although Brazilian tax officials agreed with Portuguese tax officials that the IFRS-based model is a better fit for larger companies, they focused more on motivations for adopting IFRS and the claimed benefits at the country level. This could reflect a cultural difference between Portugal and Brazil in terms of Hofstede's cultural dimension of indulgence versus restraint (on a 100-points scale, per VSM, Brazil has a score of 59 for indulgence compared with 33 for Portugal). More indulgent societies, such as Brazil's, are "more likely to remember positive emotions" (Hofstede, 2011, p. 16).

The single Brazilian tax official disagreeing with in-country adequacy held a view consistent with the dominant Portuguese perception: "*The new* [IFRS] *model is a misfit with Brazil because (...) IFRS adoption was geared at international convergence and investment attraction, thereby overlooking the needs and idiosyncrasies of the vast majority of Brazilian companies, which are of small size and do not participate in the international market nor use the capital market as a source of finance*." Moreover, three Brazilian tax officials who perceived in-country adequacy favorably, also disagreed with overall business adequacy based upon size-related constraints. Furthermore, most tax officials in both countries (89% PT, 56% BR), perceived that a lack of verifiability and availability of market values for use in determining fair value conditions IFRS full implementation. In what follows, the majority of tax officials in both countries felt that IFRS were not sufficiently adaptable to small companies.

Despite the aforementioned statements, tax officials in both countries vividly and spontaneously described their reasons for favoring IFRS adoption, namely: (i) enhanced information (56% both PT and BR); (ii) businesses internationalization (22% PT; 67% BR); (iii) international accounting harmonization (33% PT; 56% BR); (iv) financial statements comparability (33% PT; 44% BR); (v) enhanced national image at the international level (11% PT; 67% BR); (vi) EU membership (44% PT), and consequent governmental pressures from public authorities (11% PT); (vii) attraction of foreign investment (44% BR); and (viii) protection of foreign investors' interest (33% BR).

This finding suggests that interviewees mostly regarded IFRS adoption as an 'inevitability' to their countries, which is consistent with the isomorphism phenomenon (Dillard et al., 2004; DiMaggio & Powell, 1983). Competitive isomorphism is characterized by a search for integration, harmonization, and standardization with the rest of the world in response to market competition. Institutional isomorphism, both coercive and mimetic, is also indicated because organizations had to adapt to the outside world while considering the cultural expectations of society in an attempt to seek legitimacy (market visibility), by imitating iconic countries in the market. The perception of legitimacy obtained by adopting IFRS supports an acquiescent response consistent with other empirical studies (e.g., Albu et al., 2014). Guerreiro et al. (2012a) previously reported that in Portugal, the transition from POC to SNC suffered from the direct influence of coercive and mimetic institutional factors, and we find the same applies to Brazil's emerging economy.

5.1.1.2. Business adequacy. While tax officials perceived an overall business adequacy of the IFRS-based model, 56% in both countries perceived a mismatch. Invariably, these tax officials based their views on the fact that small businesses dominate their economies. Notably, there was a unanimous perception in both countries that the IFRS-based model was a better fit for larger, international companies. Moreover, there was an almost unanimous view that IFRS adequacy was greater for firms with low ownership concentration (100% PT; 89% BR).

One third of tax officials in both countries said that most businesses are family-owned and managed, which leads them to overlook the benefits from adopting IFRS. For these small businesses, accounting as an information system is irrelevant (55% PT; 22% BR); rather, it ought to serve tax purposes (33% in both countries). Furthermore, because most of these firms do not participate in the capital markets (11% in each country), banks are their major source of finance (33% PT; 22% BR). Therefore, adopting IFRS entails significant costs that are often difficult to bear (22% PT; 11% BR). The following comment clearly expresses the lack of interest in accounting information among Portuguese entrepreneurs: *"(...) often we* [Tax officials] *ask the accountant 'how are these financial costs recorded? How come this is like this?' (...) and they answer 'right, I do ask them* [managers] *for the bank extracts but sometimes they don't even bring them, and If I insist, they will discard my services and move on to a colleague that does not upset them.'"*

To deepen the discussion of the usefulness of financial statements in their respective national environments, interviewees were asked regarding the primary users of those statements. They perceive financial statements as oriented towards tax authorities (100% in both countries) and banks (100% PT; 89% BR), which is consistent with prior research, such as Gassen (2017), who covered 27 jurisdictions including Portugal.

Managers and creditors emerged as the least important end users of financial statements, although there are noticeable differences in perceptions between Portugal and Brazil. In Brazil, all interviewees stated that satisfying investor needs is as important as meeting tax goals. Furthermore, in Portugal, meeting management objectives emerged as the least important use of financial statements (55% PT), whereas in Brazil, this factor was perceived to have equal importance as satisfying banking needs (89% BR).

Next, respondents were asked whether the perceived uses of financial statements would undermine the adaptability of principles-based IFRS to the national environment. Portuguese tax officials were more pessimistic on this issue (77% PT; 44% BR). However, in both countries, 33% of tax officials perceived an absence of tax meddling in accounting practices because "*the mechanism of tax corrections allows accounting to get rid of the constraints of taxation*". Although an *ex-ante* independence between accounting and taxation exists, a Portuguese interviewee commented that the intrusion of tax legislation in the preparation of financial statements can be motivated by "*a matter of laziness or cost or routine*", making old habits of accountants to endure.

In summary, consistent with Quagli and Paoloni (2012) and Nurunnabi (2017), tax officials in Portugal and Brazil perceive their countries' business structures as having traits and requirements that are a mismatch to what they seem to believe are IFRS' underlying premises. Seven to eight years after formally adopting an IFRS-based model, traces of the influence of the code law philosophy remain in Portugal and Brazil. Arguably, this effect is stronger in Portugal, where accounting is perceived to meet the interests of the state and banking rather than management. The results are worrisome because evidence exists that there is a loss of information quality when financial reporting is closely associated with tax rules (Nakao & Gray, 2018). Nakao and Gray (2018) found a correlation between financial accounting practices and tax considerations in Brazil. Importantly, results suggest that most managers, who could be sources of pressure for preparers in terms of coercive isomorphism toward IFRS adherence and improved financial reporting quality, are not interested in accounting as an information system and whether their companies are IFRS compliant. This result is consistent with findings in Albu et al. (2014) for Romania, and Nurunnabi (2017) for Bangladesh.

5.1.2. Accounting culture

5.1.2.1. Cultural adequacy. Most tax officials from both countries (67% PT; 78% BR) shared the view that the accounting culture in their countries posed an obstacle to fully implementing the IFRS philosophy. Portuguese tax officials pointed out two major arguments supporting this perspective. First, there are accounting profession related issues, such as little concern and thoroughness (22% PT), reluctance to adhere to the Anglo-Saxon philosophy (11% PT), and deep-rooted practices (22% PT). The following is an illustrative comment: "*(…) most accountants despite formally adopting the IFRS-based model, they think fully in terms of POC* [the prior Portuguese accounting model]." Indeed, like its predecessor POC, the SNC still provides account codes and a list of accounts titles, which are not used in the IASB's IFRS model.

Second, upon request by the accountants' clients, accounting records are often manipulated to ensure that clients owe less taxes to the tax authorities (44% PT), or to help obtain bank financing (22% PT). Brazilian tax officials see cultural-related barriers, including the need for a total paradigm shift to change ingrained routines (33% BR). They believe procedures based on strict rules found in legal criteria (11% BR) will take time to change (44% BR). Tax officials also reported that accounting professionals lacked preparedness to a much greater extent in Brazil (89%) than Portugal (33%), based upon the following arguments: (i) a lack of knowledge and technical capacity (67% BR); (ii) resistance to abandoning old customs and habits (33% BR); (iii) a lack of 'pressure' to update their professional qualifications, either because accounting professionals continue to focus on tax-oriented accounting (22% BR) or regard the supervisory or enforcement mechanisms of accounting as ineffective (11% BR); and (iv) specialization by most professionals in accounting for small companies (22% BR). As one tax official stated, "*due to the dominant small business size, technicians end up specializing in companies subject to a low level of compliance and offering scarce opportunities for applying the major novelties brought about by the IFRS-based model, thereby not being impelled to learning and becoming truly committed to IFRS.*"

This evidence corroborates prior research. For example, Taylor and Zittei (2016) concluded that although Brazilian accounting professionals knew the importance of adopting IFRS, they did not yet have sufficient skills for its *de facto* implementation; new concepts in the IFRS-based model were poorly mastered and applied by Brazilian accountants in São Paulo. Cavalheiro et al. (2017) found that Brazilian accountants struggle with the professional judgment and subjectivity required by IFRS and resist changing the accounting culture; old procedures and habits prevail among accounting professionals at the expense of the new paradigm. The lack of qualified accountants is also identified as the root of many IFRS implementation problems in other emerging economies, including Bangladesh (Nurunnabi, 2017) and Romania (Albu et al., 2014).

Despite an overall perception of professional adequacy by six of the nine Portuguese tax officials, to some extent they all acknowledged caveats, such as "*poor execution, not because they* [accountants] *lack in preparation, but rather because they are unwilling to put into practice the learned concepts, thereby underestimating the informative potential of accounting*" (44% PT), or because "*…they disregard the profession itself, often taking for granted a mere administrative role… assuming the passive position of a professional that is paid to do what the client establishes*" (22% PT). The lack of commitment by Portuguese accountants was made clear by one tax official who is a regular trainer of the OCC: "*On my fortnightly meetings with accountants, 70% of their questions relate to tax issues, 25% are about the Companies Code law or the Social Security system, and as few as 5% are accounting questions.*" While Guerreiro et al. (2012a) reported that the transition from POC to SNC in Portugal was not smooth because adoption was resisted by some accounting professionals, our evidence reports a more mature stage of implementation.

To gain a deeper understanding of problems related to professional suitability, interviewees were invited to share their perceptions of IFRS's complexity. All Brazilian tax officials and most (77%) Portuguese tax officials considered IFRS to be fairly to highly complex for one or more of the following reasons: (i) complex language/concepts difficult to grasp (56% PT; 89% BR); (ii) lengthy texts (22% PT; 56% BR); or (iii) insufficient preparation by many users of financial statements (11% PT). Most interviewees agreed that this perceived complexity threatened to reduce the usefulness of financial statements (56% PT; 78% BR) by arguing that complex and difficult to understand words and concepts reduced the ease of applying IFRS (22% PT; 44% BR). They also mentioned difficulties with subjective issues, such as professional judgment (22% PT; 11% BR). The few Portuguese and Brazilian tax officials who did not perceive that IFRS's complexity threatened the usefulness of financial statements (44% PT; 22% BR) contended that commitment to and training on IFRS could overcome any barrier.

Overall, these findings support the individual behavioral perspective that complements the institutional approach. This is particularly salient for the effective implementation of new IFRS concepts and practices, which requires actors, such as accountants, to be convinced of both their importance and desirability, and to secure the fundamental knowledge and skills required for their proper application. Disappointingly, seven to eight years after formal IFRS adoption, enduring professional resistance and poor professional execution are still perceived in Portugal and even more so in Brazil. This is consistent with the phenomenon of *decoupling*.

5.1.2.2. Change of values: Conservatism and secrecy. The extant literature identifies conservatism and secrecy as the cultural values that most harm the comparability of financial statements among countries (Tsakumis, 2007). So, we asked about any changes in these values after IFRS adoption.

The dominant perception was that conservatism (78% PT; 56% BR) and secrecy (78% PT; 44% BR) remained as ingrained values and practices in Portugal and Brazil. This casts doubt on the full, *de facto*, implementation of IFRS in these counties and implies continued impaired international comparability of financial statements. This is consistent with Doupnik and Riccio (2006) contention that maintaining the cultural values of conservatism and secrecy may harm the interpretation and application of IFRS by financial information preparers, resulting in differences at the recognition and disclosure levels, and impairing the comparability of financial statements.

Tax officials perceived two reasons for perpetuating conservatism. First, deep-rooted cultural practices are difficult to overcome (55% BR). Second, most companies being small and not relying on accounting for much (55% PT) may lead to a preference for the cost method over the fair value method. The former is more reliable and easier to apply (22% PT; 55% BR) and less expensive (22% PT; 55% BR). Interviewees also mentioned that the rare instances of fair value adoption, rather than being motivated by a desire for enhanced information, stem from specific goals, such as seeking bank financing (55% PT) or attracting foreign capital (11% PT). This is consistent with the fact that notwithstanding IASB's endorsement of fair value accounting in the context of relevance and transparency, its adoption as the primary approach to accounting measurement results in difficulties and criticisms. These include its subjectivity and the greater potential for manipulation (Barlev & Haddad, 2003; Richard, 2004), as well as increased volatility in reported asset values and earnings and the potential for decreased comparability (Uzma, 2016). Fonseca (2007) and others argued that historical cost accounting is more reliable because the measures are objective and known to all. Many tax officials (67% PT; 44% BR) perceived that adopting fair value negatively impacts information credibility. In their view, the fair value method may facilitate the manipulation of results (55% PT; 33% BR) and it is difficult to supervise its application (11% PT; 22% BR). Some respondents (22% PT; 11% BR) also stated that applying fair value is more relevant for large companies and those with a dispersed ownership structure.

Regarding secrecy triggers, tax officials cited strategic considerations for hiding business information from competitors (22% PT; 33% BR), and noted that companies disclose information to the extent that such disclosures have economic benefits (22% BR). While the Notes to a financial statement are important under IFRS, if not properly presented they may offer no added value (44% PT). Relatedly, a Portuguese tax official thought that: "*The Notes are a facade (…) most companies are alike in terms of what they write in there (…) any accountant uses the same or similar text for the whole portfolio of clients,* i.e.*, the informative content is virtually nil.*" Nurunnabi (2017) found evidence that accountants copy portions of their Notes, such as accounting policies, from the Notes to the financial statements of large companies. We agree that this practice, which results in a lack of transparency, illustrates the need for stringent enforcement mechanisms. Indeed, extant research fails to provide firm evidence of improved transparency in financial statements from countries with weak enforcement systems (Uzma, 2016). Ghio and Verona (2015) also found financial disclosures in Brazil to be of low quality after IFRS adoption.

5.1.3. Enforcement

When asked about the level of enforcement in their respective countries, all Portuguese tax officials reported that enforcement of the correct application of IFRS was insufficient: "*Despite enforcement mechanisms being formally established, they are not being put into practice, perhaps because the Comissão de Normalização Contabilística (CNC) may lack the financial resources required to scrutinize*" (11% PT), or "… *if SMEs were in fact scrutinized they would be highly penalized for the negligent actions of accounting professionals*" (11% PT). Another Portuguese tax official acknowledged that, "*the biggest corrections are made by the tax authorities.*" Two other interviewees harshly criticized the independence of statutory auditors to the extent they are chosen and paid by the companies whose financial statements and records they review. Yet, legal auditing is an essential enforcement mechanism. Most Brazilian tax officials shared this sentiment regarding enforcement inadequacy (78% BR), stating they were not aware of any oversight carried out in this regard, or of any company having been charged with IFRS non-compliance.

The evidence gathered for Brazil is consistent with Consoni and Colauto (2016), who concluded that Brazil exhibits a poor level of enforcement, and with Martins et al. (2007), who contended that supervisory bodies, such as the CFC, the *Instituto dos Auditores Independentes do Brazil* (IBRACON, the Institute of Independent Auditors of Brazil), and the *Comissão de Valores Mobiliários* (CVM, the Securities and Exchange Commission of Brazil), fail to exercise real enforcement power because they lack legally established standards for doing so.

The observations about the lack of genuine enforcement are compatible with the notion that in both Portugal and Brazil, coercive isomorphism is more informal than formal, as it is being exerted more by market forces than by supervisory mechanisms. This lack of enforcement may severely delay the convergence process to IFRS (Schipper, 2005), and cause differences and uncertainties regarding conformity of company financial statements (Hope, 2003). Therefore, we recommend that stringent enforcement mechanisms should be put in place because extant research suggests this to be a perquisite for reaping the benefits from IFRS adoption (e.g., Daske et al., 2008).

5.2. Perceived benefits

Seeking to collect more extensive evidence on the extent of IFRS implementation in Portugal and Brazil, with an open-ended question tax officials in both countries were asked about benefits that may have emerged from adopting IFRS. Portuguese and Brazilian tax officials then spontaneously and confidently pointed out a variety of contextual and operational benefits. Overall, Brazilian perceptions of benefits were slightly more favorable.

5.2.1. Contextual benefits

While all Brazilian tax officials acknowledged foreign investment attraction as a country-level benefit from IFRS adoption, Portuguese tax officials were greatly divided in this regard. This could be because, as an emerging market, Brazil may offer greater investment opportunities than Portugal. Albu and Albu (2012) and Lopes et al. (2016) maintain that reforming accounting standards may incrementally enhance the attractiveness of emerging markets by providing a more favorable environment for foreign investment. In the same vein, Lungu et al. (2017) found countries adopting IFRS benefited from increased foreign direct investment compared to non-adopters, especially among emerging countries. Both Portuguese and Brazilian tax officials perceived increased legitimacy for the accounting profession (67% PT; 56% BR), and 89% from each country felt it improved their country's image and legitimacy in the eyes of other countries.

In terms of business-level benefits by adopting IFRS, tax officials thought the following: (i) it facilitated internationalization (44% PT; 78% BR), although some perceived such benefits to be confined to larger companies (22% PT; 11% BR); (ii) improved access to foreign capital (44% PT; 67% BR), with three Portuguese and four Brazilian tax officials believing such benefits extend to domestic capital access; and (iii) improved business reputation (22% PT; 78% BR). Notably, two Portuguese tax officials believed adopting IFRS did not produce any benefits for Portuguese companies. Similarly, one Brazilian interviewee opined that "*IFRS adoption will only bring benefits to smaller companies, the predominant business size, given that they will start employing accounting for management purposes rather than tax purposes, which in turn demands a major cultural change on the part of both preparers and entrepreneurs.*" In a more optimistic view, another Brazilian tax official commented, "*it is a matter of time for smaller companies to adapt… today they may not acknowledge true benefits from IFRS adoption, but as time goes by, they will.*" These findings are consistent with Behnam and MacLean (2011), in that for both in Portugal and Brazil, the dominant perception was that IFRS adoption brought legitimacy-related contextual benefits, namely improved external relationships.

5.2.2. Operational benefits

Principles-based accounting standards are deemed to benefit the information credibility, relevance, and consistency of financial reporting quality. Common law based financial statements tend to be more useful to investors, society, and regulatory bodies (Ding et al., 2007; Lopes et al., 2016; Uzma, 2016). Portuguese and Brazilian tax officials were asked about their perceptions of how IFRS contributed to improving various qualitative characteristics of useful financial information, as defined by the IASB Conceptual Framework.

Most respondents from both countries (89% PT; 78% BR) agree that IFRS improved the overall quality of accounting information. The only two dissenting respondents, one each from Portugal and Brazil, claimed that SMEs do not use financial statements for management purposes. Corroborating the paradigm of usefulness underlying the IFRS model, most in both countries perceived an increase in the usefulness of accounting information (67% PT; 78% BR). Most tax officials also agreed that their respective IFRS-based accounting models better met the information needs of all business stakeholders (67% PT; 56% BR). More specifically, a positive impact was more evidently perceived in terms of satisfying the information needs of management and investors (78% PT; 100% BR), followed by creditors (78% for both), and less consistently, governments (67% PT; 45% BR). This is in line with IFRS' concern with providing a true and fair view, where accounting practices do not generally abide by tax rules, which results in more adjustments to accounting records for tax purposes. In the words of one Brazilian tax official, "*at the initial stage of IFRS implementation, there were no clear rules on how adjustments would be made for tax clearance… then it came the transitional regime, equally very confusing, and finally, nowadays several adjustments are needed for the calculation of taxes, which makes the activity more laborious.*"

Brazilian tax officials unanimously perceived the greater international comparability sought by IASB and other proponents of IFRS, although Portuguese interviewees were divided in this regard (56% PT). One dissenter justified such view based on the extremely limited participation of SMEs in the international market. Most Portuguese tax officials perceived the other dimensions of comparability, consistency over-time and national business comparability, to have remained mostly unchanged (89% PT; 78% PT, respectively). Even the more optimistic Brazilian tax officials were divided on this issue. One Portuguese tax official did not perceive an improvement in national business comparability because "*the Notes are, after all, the same for a small company that makes 80,000 euros and another one that makes 80 million*", thereby not adding true information (33% PT).

Our findings on the impact of IFRS adoption with respect to attracting foreign investment and on the international comparability of financial reporting are consistent with the established view that having comparable financial statements, by making it easier for external investors to evaluate foreign companies and reducing information asymmetry, should increase foreign investment (e.g., Lopes et al., 2016; Steinbach & Tang, 2014). We found that, in Brazil, tax officials unanimously perceived an increase in comparability and foreign investment.

Tax officials, especially the Portuguese, were greatly divided on the impact of IFRS adoption regarding understandability and verifiability. While two-thirds of Brazilian tax officials agreed that financial statements became more understandable, most Portuguese tax officials (56%) perceived just the opposite. In terms of verifiability, the two countries are remarkably disparate. While 89% of tax officials in Brazil perceived that IFRS made a positive impact, most Portuguese tax officials (67%) disagreed. The main argument was that verifiability is lost due to the misuse of fair value and the substantial tax evasion resulting from the extant parallel economy. It was suggested that this harms the presentation of a true and fair view of many micro and small companies.

That Portuguese tax officials perceived fewer operational benefits than Brazilian officials is clearly expressed by one Portuguese interviewee: "*I did not testify real changes with the implementation of the new model. Little more than the name of things has changed.*" Our evidence also suggests that operational benefits from IFRS adoption were already reaped to some extent, although more so in Brazil than in Portugal. This could be because in emerging economies "IFRS can be a 'passport' to economic development" (Albu & Albu, 2012, p.350). Emerging markets present greater growth opportunities and, therefore, a greater need for external capital (Lopes et al., 2016); which is a good fit given the investor-oriented standards of the IFRS model. Indeed, Brazil's decision to adopt IFRS was mainly motivated by its desire to attract foreign capital and investment (Ghio & Verona, 2015). Consistent with that goal, Lopes et al. (2016) and García et al. (2017) found that IFRS adoption results in more relevant and informative financial reporting in Brazil. In turn, higher quality financial reporting increases investor confidence in financial statements and promotes international investment (Steinbach & Tang, 2014). Importantly, and consistently with prior findings on maintaining secrecy, no Portuguese or Brazilian interviewees acknowledged increased transparency in financial reporting, which according to IFRS literature, is an expected outcome of higher accounting quality (Ozkan et al., 2019).

6. Conclusion and implications

Although convergence with IFRS has been *de jure* fully accomplished in Portugal and Brazil, we gathered evidence that the degree of *de facto* implementation was mixed. Seven to eight years after formal IFRS adoption, there is still a need to devote additional efforts to achieving full international accounting convergence, in both Portugal and Brazil. These findings illustrate that international accounting convergence entails a lengthy transitional process, consistent with Granlund (2001) contention that systems of accounting are among the most difficult to change.

In summary, traces of influence from the code law philosophy appear stronger in Portugal than Brazil, where evidence showed that accounting has begun to meet the interests of management and investors and that operational benefits were realized to a greater extent. Considering that the real benefits of implementing IFRS are likely to be realized only upon effective adoption, our evidence is compatible with a higher level of *de facto* implementation in Brazil than in Portugal.

This study contributes to international accounting research by showing how the globalization of accounting interacts with national contexts (Gordon et al., 2019). Our results have important implications for local and international policymakers as they plan for the future. In particular, it may attract attention from accounting professionals and their associations as well as from the IASB and national accounting standards setting bodies regarding the effective scope of objectives proposed by the IASB and the necessary ground rules to set for IFRS adoption to achieve the desired outcomes. Although results suggest IFRS adoption plays a role in ensuring the quality and comparability of financial statements, national standard-setting bodies could play a greater role to ensure proper adherence to the new accounting model. For example, actions could be taken against non-complaint companies and their auditors who do not issue a qualified opinion under such circumstances. Greater endeavors to overcome cultural barriers could quicken the pace at which international accounting convergence is taking place. Accountants could receive extra attention from governments and professional associations, so that they play a more active role as agents of change rather than passively cooperating with managers in resisting adoption. Accounting professionals should be made aware of the need for and benefits of change, thereby encouraging them to abandon rooted habits. In Brazil, evidence suggests accountants need to be empowered by improving their technical skills through continuous training and development courses. Arguably, the lack of guidance in certain areas and the considerable flexibility allowed by many IFRS standards could be reduced to avoid tax-motivated interpretations. In increase the success of implementation, such lessons from Portugal's and Brazil's experiences with IFRS could be useful for other emerging or developed economies that are either considering IFRS adoption or are at an early stage of adoption. Our findings on the effect of IFRS adoption with respect to attracting foreign investment are particularly relevant for Brazil and may encourage policy makers in emergent economies to consider IFRS adoption as a possible component of their macroeconomic decisions.

However, we acknowledge that our results may be biased in three primary respects: (i) in Portugal, adoption of IFRS-based standards by unlisted firms has been mandatory since 2010, whereas in Brazil, adoption by unlisted firms remains voluntary; (ii) Brazil is a more indulgent society than Portugal (Hofstede, 2011), which could influence perceptions; and (iii) economic conditions in terms of inflation rates, currency issues, and GDP growth are quite different between Portugal and Brazil.

Our findings also need to be interpreted with caution due to the inherent limitations of in-depth qualitative studies, namely a small sample size, the non-probabilistic nature of the study, and the subjectivity inherent in perceptions that restricts the potential to generalize the results. Thus, evidence from this research should be seen as exploratory in nature, and may be country-specific. It may also be biased by the perceptions of the professional group interviewed. Tax officials' perceptions may provide a more conservative view than would emerge from IFRS adopters themselves, as these officials review tax returns in light of tax laws (which, for example, generally prohibit the use of fair value).

Future research could test the insights of this study by including more interviews and engaging with additional stakeholder groups, such as accountants, statutory auditors, and credit analysts. Another avenue for research would be to further compare code law and common law countries adopting IFRS, in order to sharpen insights on the additional efforts required by code law countries to achieve the benefits of convergence. Furthermore, this research could be replicated with other code law adopting countries to ascertain whether major obstacles and benefits encountered are country-specific.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendix A. Perceptions of dimensions of adoption of the IFRS-based model

	Portugal			Brazil			Total		
	Agree	Undecided	Disagree	Agree	Undecided	Disagree	Agree	Undecided	Disagree
SITUATIONAL FACTORS:									
IFRS' context adequacy									
In-country adequacy (reasonable or high)	4	–	5	8	–	1	12	–	6
Negative impact on in-country adequacy from limited verifiability / availability of market values for the fair value	8	–	1	5	2	2	13	2	3
Business adequacy	4	–	5	2	2	5	6	2	10
Better fit with...									
• Larger companies	9	-	-	9	-	-	18	-	
• International companies	9	-	-	9	-	-	18	-	-
• Spread ownership	9	-	-	8	1	-	17	1	-
Main users of financial statements:									
• Tax authorities	9	–	–	9	–	–	18	–	–
• Management	4	–	5	8	–	1	12	–	6
• Bank	9	–	–	8	–	1	17	–	1
• Investors	6	–	3	9	–	–	15	–	3
• Creditors	6	–	3	7	–	2	13	–	5
Impact of financial statements' objectives on IFRS' *de facto* adoption:									
• Negative impact from direction toward tax authorities and banks	7	–	2	4	2	3	11	2	5
• Negative impact from a tight connection between accounting and taxation	6	–	3	4	2	3	10	2	6
Accounting culture									
Cultural adequacy	3	–	6	2	–	7	5	–	13
Professional adequacy	6	–	3	1	–	8	7	–	11
• Fair to high IFRS complexity	7	–	2	9	–	–	16	–	2
	5	–	4	7	–	2	12	–	6

Perceptions of dimensions of adoption of the IFRS-based model (*continued*)

	Portugal			Brazil			Total		
	Agree	Undecided	Disagree	Agree	Undecided	Disagree	Agree	Undecided	Disagree
• Negative impact of IFRS' complexity toward financial statements usefulness									
Change of values									
• Conservatism	2	–	7	–	4	5	2	4	12
• Secrecy	2	–	7	3	2	4	5	2	11
Fair value...									
• Negative impact on information credibility	6	–	3	4	2	3	10	2	6
Enforcement adequacy	**–**	–	9	2	–	7	2	–	16
PERCEIVED BENEFITS:									
Contextual benefits									
Benefits at the country level:									
• Foreign investment attraction	4	–	5	9	–	–	13	–	5
• Increased legitimacy of the accounting profession	6	–	3	5	4	–	11	4	3
• National legitimacy	8	1	–	8	1	–	16	2	–
Benefits at the business level:	a								
• Internationalization	4	–	5	7	–	2	11	–	7
• Access to national capital	3	–	6	4	–	5	4	–	14
• Access to foreign capital	4	–	5	6	–	3	10	–	8
• Business reputation	2	–	7	7	–	2	9	–	9
Operational benefits									
• Overall quality of accounting information	8	–	1	7	1	1	15	1	2
• Usefulness of accounting information	6	–	3	7	–	2	13	–	5
• Satisfaction of all financial statements' users	6	–	3	5	3	1	11	3	4
• Ability to tackle the information needs of...									
– Government	6	–	3	4	–	5	10	–	8
– Management	7	–	2	9	–	–	16	–	2
– Investors	7	–	2	9	–	–	16	–	2
– Creditors	7	–	2	7	–	2	14	–	4
• Over time comparability	1	–	8	5	–	4	6	–	12
• National business comparability	2	–	7	5	–	4	7	–	11
	5	–	4	9	–	–	14	–	4

(*continued on next page*)

Perceptions of dimensions of adoption of the IFRS-based model (*continued*)

	Portugal			Brazil			Total		
	Agree	Undecided	Disagree	Agree	Undecided	Disagree	Agree	Undecided	Disagree
• Cross-country comparability									
• Understandability of financial statements	4	–	5	6	–	3	10	–	8
• Verifiability of accounting information	3	–	6	8	–	1	11	–	7

Legislation

Portuguese:

Decree Law 158/2009, of July 13, which approves the Portuguese IFRS-based Accounting Standards System (*Sistema de Normalização Contabilística* - SNC, System of Accounting Standardisation) and revokes the Portuguese official plan of accounts. In *Diário da República* (Official Gazette), 1st series, No. 133, 13 July 2009.

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Brazilian:

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