

IFRS for SMES and the internationalization of SMES: reality or a myth? A discussion about the Moroccan case

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Abstract: *The interest in small and medium-sized enterprises (SMEs) has become a global phenomenon (Torrès, 1999). Today, they represent a key source of economic growth, international dynamism and flexibility for both advanced industrialized countries (OECD, 2007) and developing economies (Todd and Javalgi, 2007). Otherwise, Accounting is one of the key factors that help the SMEs get a better view of its situation and develop a better decisional reaction.*

As therefore, this paper intends to analyze and discuss exhaustively the standard IFRS of SMEs published in 2009 and applied in more than 80 countries at the moment and its use, benefits and danger if being adopted by SMEs generally and specifically studying the opportunities that can provide to the internationalization process of certain exportation Moroccan SMEs, if it exists.

Key Words: *IFRS, Internationalization, SME; exportation, Morocco*

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Introduction:

The increase in trade and the involvement of protagonists from around the world, of varying sizes and sectors, makes the need for comparability and relevant information essential to satisfy investors' requirements. With this in mind, the IFRS standard for SMEs has just completed the regulatory accounting vacuum to improve their information production process for this type of company that is stereotyped for its various limits.

The role of accounting in organizational design is signaled by a study of the "InXponential US Controllership Foundation," which commissioned a group of management theoreticians from Carnegie Mellon University (Simon et al., 1954). Thus, the success or failure of a business depends on accurate and timely accounting information to provide a clear financial picture (Ankrah, Mensah & Ofori-Atta, 2015).

The harmonization of accounting started to be very well discussed during the late 20 years. Otherwise, looking for an accounting standard close to the perfect is not a simple task in a realistic context.

On the other hand, studies have suggested that the smaller a company, the more likely it is to have links with other firms, constrained by "a limited set of capabilities, limited access to full market research and inability to engage experts who can help them "(Musteen et al., 2010, 197). in this perspective we want to discuss **“how the “IFRS for SMEs” can contribute to enhancing the internationalization of Moroccan exportation SMEs?”**

1- The IFRS for SMES: the benefits for SMES

1-1- definition

The IFRS for SMEs is a modification and simplification of all IFRS standards to meet the needs of users of financial information of private companies and to reduce the financial information burden of private companies through a cost-benefit approach.

In the process of international harmonization of accounting, the IFRS standard for SMEs, issued by the IASB in July 2009, was developed to familiarize small and medium-sized enterprises, which have no public accountability, International Accounting Standards. Today, it's adopted in more than 80 countries³.

³ IASB (2019).

Of course, the IFRS for SMEs ⁴is an autonomous global accounting and financial reporting standard, applicable to general purpose financial statements and other financial information of entities defined in many countries as small and medium-sized entities.

1-2- Scope

As already explained, the IFRS for SMEs is intended for use by SMEs. But, with one prerequisite, they are entities that publish general purpose financial statements for external users and have no public accountability⁵.

However, the IASB does not intend to exclude entities that hold assets as trustee for reasons related to their core business (eg travel agents, schools and utilities) of the use IFRS for SMEs.

In practical terms, this standard is considered an accounting framework for smaller entities and does not have the resources to use full IFRSs.

2-3- Framework for the preparation and presentation of financial statements.

2-3-1. Historical cost and fair value:

From its publication in 2009 until 2015, the IFRS for SMEs required that items be recorded at the historical cost to raise the problem of valuation at fair value (need for expertise, market value). vs utility value ... etc.). However, the reevaluation was imposed only on the fair value of investment properties and biological assets, when the information is available. However, for certain financial instruments, the fair value reevaluation is taxed as well.

After the 2015 amendment, the SME standard adopts the fair value measurement of property, plant and equipment and converges with one of the main differences that existed with full IFRS and diverges with one of the closest commonalities with Moroccan accounting standardization.

2-3-2. Qualitative characteristics of the financial statements:

⁴ The full IFRS and IFRS standards for SMEs are promulgated by the International Accounting Standards Board "IASB" and interpreted by IFRAC.

⁵ As defined by the IASB, an entity has a public liability if:

- Filing or filing financial statements with a securities commission or other regulatory body to issue any class of instruments on a public market;
- Or holds assets in trust for a broad group of external third parties

Qualitative key principles that make the information provided in the financial statements useful to converged users with the one that constitutes the conceptual framework of complete IFRSs (Intelligibility, relevance, materiality, reliability, substance over form, prudence, completeness, comparability)⁶. However, the IFRS framework for SMEs adds another condition that is speeding.

In respect of the principle of rationality, the benefits obtained from the information provided must be higher than the costs that had to be incurred to produce them. In this context, information is significant if its omission or inaccuracy can influence the economic decisions that users make in the light of the financial statements.

Thus, the relative importance depends on the size of the element or the error, appreciated in the particular circumstances of its omission or inaccuracy.

2-3-3. Faithful image and compliance with IFRS for SMEs

The primary purpose of the IFRS financial statements for SMEs is to present a "fair presentation" of an entity's financial position, performance and cash flows. In this context, the application of the relevant provisions of IFRS for SMEs and the respect of the main qualitative characteristics set out above is presumed to be a reason for obtaining the faithful image.

However, in extremely rare circumstances, the entity may derogate from the IFRS standard for SMEs if it believes that compliance with one aspect of the standard would be misleading to the point of being contrary to the objective of the financial statements. As such, the nature, purpose and impact of the waiver must be explained in the financial statements.

2-3-4. First adoption

Due to the complexity and opacity of IFRS, the IASB decided to implement IFRS 1 in June 2003 to simplify the procedure for first-time adopters (IFRS 1 IN2 complete). In addition, first-time adopters are entities using for the first time

2- Review of literature.

In theory, a one size fits all repository can be optimal under certain conditions (Ray 2012). The emergence of multinationals that are close in size and large investors in several markets may be one of these optimum. However, it is not certain that a global monopoly of standardization

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is desirable, and the maintenance of competitive benchmarks such as US GAAP could be justified (Hail et al., 2010). In addition, national accounting standards have also converged, either with each other or with international standards. Ding et al. (2007) study, for example, the determinants of differences between national standards and IAS to show the influence of certain institutional factors in the evolution of standardization.

C.N. Albu et al. (2013), tried through their article titled **"IFRS for SMEs in Emerging Economies: Stakeholder Perceptions in the Czech Republic, Hungary, Romania and Turkey"** to examine the perceptions of stakeholders involved in financial reporting in four emerging economies European Union (the Czech Republic, Hungary, Romania and Turkey) with regard to the possible application of IFRS for SMEs, in terms of costs, benefits and adoption strategy, which they found only IFRS standards for SMEs in these four countries is more favorable than is suggested by the results of the European Commission's consultation for the European Union as respondents on the norm either with a convergence (respondents) to or full adoption of the standard (users).

DP Schutte et al. (2011) through their article **"A CRITICAL ANALYSIS OF THE CONTENTS OF THE IFRS FOR SMES - A SOUTH AFRICAN PERSPECTIVE"** which they tried to examine the relevance of the content of the IFRS for SMEs in the South African environment based on user needs where it is found that the IFRS for SMEs is likely to adequately address the reporting requirements of SMEs in South Africa.

D. Kaya and M. Koch (2014) through his article: **"Countries' adoption of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) - early empirical evidence"** found that IFRS for SMEs are mainly applied in non-EU developing countries, suggesting that demand for IFRS for SMEs may be lower in developed than in developing countries. And confirms that voluntary adoption leaves it to each company to decide whether IFRS standards for SMEs are the set of accounting standards best suited to its specific needs.

Maria-Gabriella Baldarelli et al. (2012) studied through their article **"ACCOUNTING HARMONIZATION FOR SME-S IN EUROPE: SOME REMARKS ON IFRS FOR SME-S AND EMPIRICAL EVIDENCES"**

Samujh, Helen and Devi, Susela. (2015) examined the evolution of the IFRS for SMEs, focusing on the participation of academics and SMEs from developing countries through their

article "**The Political Economy of Convergence: The Case of IFRS for SMEs**" and also analyzed political economy representation of developing countries in the processes needed to achieve broad convergence of IFRS for SMEs from the point of view of developing economies.

C.N. Albu et al. (2010) through their article: "**The context of the possible IFRS for SMEs implementation in Romania: an exploratory study**" analyzes the regulations in force in Romania (OMFP 1752) in relation to IFRS (for SMEs) which they show that there are still many inconsistencies in our current legislation, both conceptually and normatively. This is even more apparent from accounting practices, as shown by the interviews conducted. Otherwise, in the same country Mr. Loana (2013) through his document: "**IFRS IN THE SMALL AND MEDIUM-SIZED ENTITIES. DIFFICULTIES AND OPPORTUNITIES OF THE IFRS FOR SMES**"

Pálka et al (2011) studied the financial impact of this standard through their article: "**Implementation of IFRS for SMEs and its Impact on Performance Indicators**" was one of the first articles that tried to study the transition from a technically and financially using the method of "pyramidal ROE breakdown" in order to quantify the impact of IFRS for SMEs on the financial information presented in the financial statements

In the same way and in the same country, P. PÁLKA and B. SVITÁKOVÁ (2011) through their article: "**Impact of IFRS for SMEs Adoption on Performance of Czech Companies**" analyzed the financial impact has studied a particular company to through the use of ratios where they found that the ROE decreased by 0.74% as well as 7 other ratios that were reduced and 12 indicators that increased.

In a Moroccan Case, the research about the impact of IFRS for SMES is still inexistent and some very few articles try to study their applicability⁷.

3- The internationalization of SMES:

Internationalization is one of the main vectors of business growth that is often cumbersome and complex for SMEs. Thus, the last three decades have witnessed an impressive number of research projects on the theme of the internationalization of SMEs, which today constitute a distinct and lively thematic field (Torrès 1999, McDougall and Oviatt 2000, Lu and Beamish

⁷(Behayoun 2017, 2018, Amzil 2015).

2001; Fillis, 2001, Hutchinson et al., 2005, Chtourou, 2006, Doole et al., 2006, Ruzzier et al., 2006, Laghzaoui 2009, Raymond 2010, Yener and al. 2014; J St-Pierre - 2017etc)

In 1994, a survey of the leaders of the largest French firms showed that internationalization is the biggest change in companies over the past two decades (Tarondeau, Jolibert and Choffray, 1994).

3-1- the situation of Moroccan SMES:

Morocco, like any other country, does not escape the demands of the process of globalization governed by the law of the strongest. The country has begun to prepare its economy for this new foreign trade agreement, which particularly affects small and medium-sized enterprises (SMEs) constituting 92% of the Moroccan industrial fabric. All large companies, most of which are foreign, are already oriented towards the European market. Priority is therefore given to all measures aimed at strengthening the competitiveness of SMEs.

In the Moroccan case, it is ruthless to neglect the immense role of the SME in an economy whose GDP does not exceed the 121 billion dollars. The Moroccan SME sector is considered as a generator of significant incomes and a significant creator of jobs. However, SMEs contribute only 20% of the national added value and generate to the state fund about 20% of the revenues of the 'Corporation tax.

In terms of openness to the international economy. SMEs are ubiquitous in the field of export also mainly with the textile sector which amounts to 45% to small and medium-sized enterprises, the second place is occupied by a sector which knows a great growth such as agribusiness with a participation of 39% and a medium influence of chemical production up to 10%.

Admittedly, in an international environment rich in several managerial cultures and econometric doctrines. Communication between companies requires understanding between them and ease of information assimilation. As a result, differences in data processing processes may create a degree of caution for foreign firms to rely on import and export operations especially for firms in developing countries such as the United States. The product is not the only criterion of choice to communicate business, but also the confidence rate between the protagonists. However, the "Global Competitiveness Index" mentions that Morocco suffers

from corruption and the informal sector which hinder the improvement of the image of the company and the Moroccan SME which wishes to internationalize.).

3-2- The theoretical approaches of internationalization.

Internationalization is seen as a choice between internalization and outsourcing activities.

The company chooses the form of organization that minimizes transaction costs. But critics of this theory emphasize that it helps to understand the investment behavior, but does not include a long-term vision of international development (Coviello and McAuley, 1999). Thus, the geographical expansion of the firm appears as a growing function of its size according to Mahone (1994) and Wagner (1995).

4- Discussion of the Contribution of IFRS for SMES on Their internationalization

A change in accounting standards cannot be seen as a simple tool change with neutral economic effects under the pretext that the economic reality represented is the same. Accounting has a real impact, albeit difficult to measure, on the functioning of the economy. It necessarily determines the vision of the different users of the accounts of the company and that in turn, this vision influences the behavior of these actors vis-à-vis the company. The development of accounting rules for SMEs similar to IFRSs can lead to a focus on short-term goals at the SME level.

4-1- Advantages of IFRS for SMEs internationalization on the Moroccan SMES:

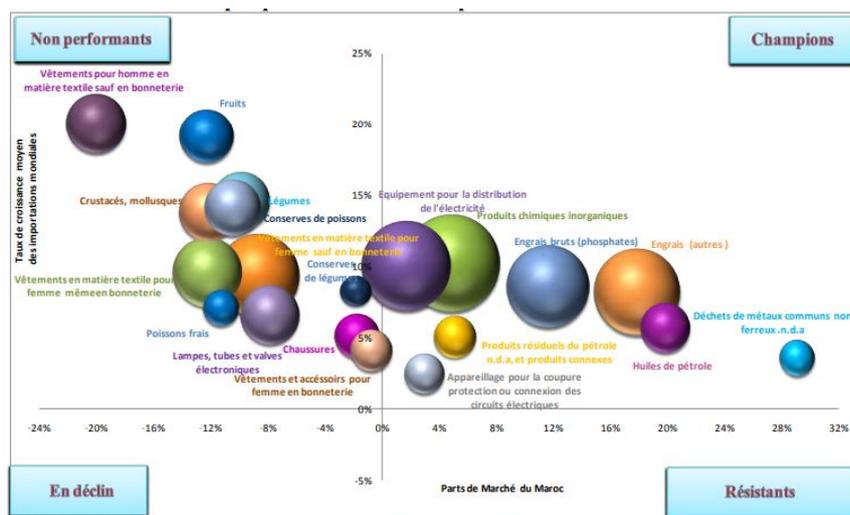
The benefits of IFRS for SMEs include / better access to capital; financial institutions, creditors and venture capitalists who fund across borders can manage their capital more easily. The IFRS for SMEs provides for regular accounting for entities that control in more than one country, which automatically reduces reporting costs. In addition, the quality of financial information will also increase with the help of international accounting standards. The costs of maintaining the standards on a national basis are also reduced and very useful for growing companies preparing to enter the public financial markets, where the application of full IFRS is required (The IASB publishes IFRS for SMEs, 2009).

It is advantageous for companies that have subsidiaries in other countries as well as for subsidiaries or multinationals that already use "full IFRS", which facilitates the use of consolidated accounts.

- It makes it easier for companies looking to finance themselves internationally or to attract foreign investors, planning an international expansion or even planning an IPO.
- It provides better understanding and comparability for investors, business partners and creditors through the consistent use of a single accounting language.⁸
- However, because of its qualitative nature, benefits are not always apparent or measurable.

The studies carried out on the Moroccan exporting SME mainly focus on their production capacity, cost reduction and improvement of the quality of the products in order to satisfy the different international standards (ISO etc.). branding and the reputation and financial health that the company produces through its summary reports are poorly stated in the researchers' work.

Figure 1. Profile of Moroccan exports



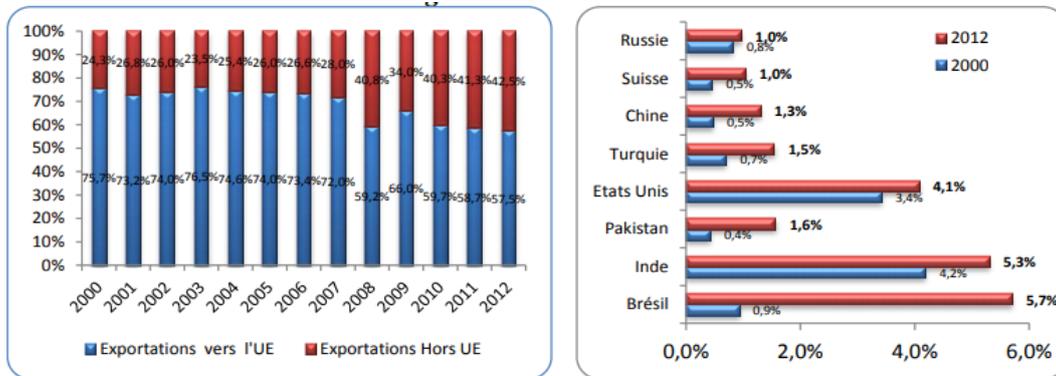
Source: report of the Moroccan Ministry of Economy and Finance

Admittedly, in an international environment rich in several managerial cultures and econometric doctrines. Communication between companies requires understanding between them and ease of information assimilation. As a result, differences in data processing processes may create a degree of caution for foreign firms to rely on import and export operations especially for firms in developing countries such as United States. the product is not the only criterion of choice to communicate business, but also the confidence rate between the protagonists. However, the "Global Competitiveness Index" mentions that Morocco suffers from corruption and the informal sector that hinder the improvement of the image of the

⁸ Mona SAID BOUSTANY : la norme IFRS pour PME un pas vers l'internationalisation

company and the Moroccan SME that wishes to internationalize which can explain that, SMEs represent only 1% of the volume of Moroccan exports⁹

Figure 2. Evolution of the main partners in global exports in Morocco



Source: Office of Changes, Calculation DEPF.

Moroccan exports are experiencing a new era of globalization. According to the figure below. We note the birth of a new exporter network with countries such as India and Brazil which have a very different economic and financial culture than the Moroccan one always inspired by the French-speaking prudential philosophy embedded in the legal age.

As a result, the Moroccan SME must meet the international requirements of communication between companies. Morocco's trade is starting to overtake the EU and common with countries like Brazil and Turkey or the inspiration and economic doctrine differ from the dominant French-speaking one applied to spring the financial information on the part of Moroccan companies and SMEs to communicate in a globalized and highly competitive environment.

To this end, we ask ourselves the question, how the quality of the financial information and accounting system influences the competitiveness of the SME and how it integrates in its process of internationalization.

4-2- Challenges of IFRS for SMEs in the internationalization on the Moroccan SMES:

The biggest challenge in adopting IFRS for SMEs is to provide adequate training to enable practitioners to acquire the necessary skills before preparing the first set of financial data. The Board of Directors of the IASB stated that accountants would need adequate training to understand the implications of using IFRS for SMEs when preparing the IASB (2004) financial

⁹ 6000 companies out of 60,000 SMEs are the exporting companies having carried out at least one export operation in 2017 (Source: Chamber of Commerce and Industry).

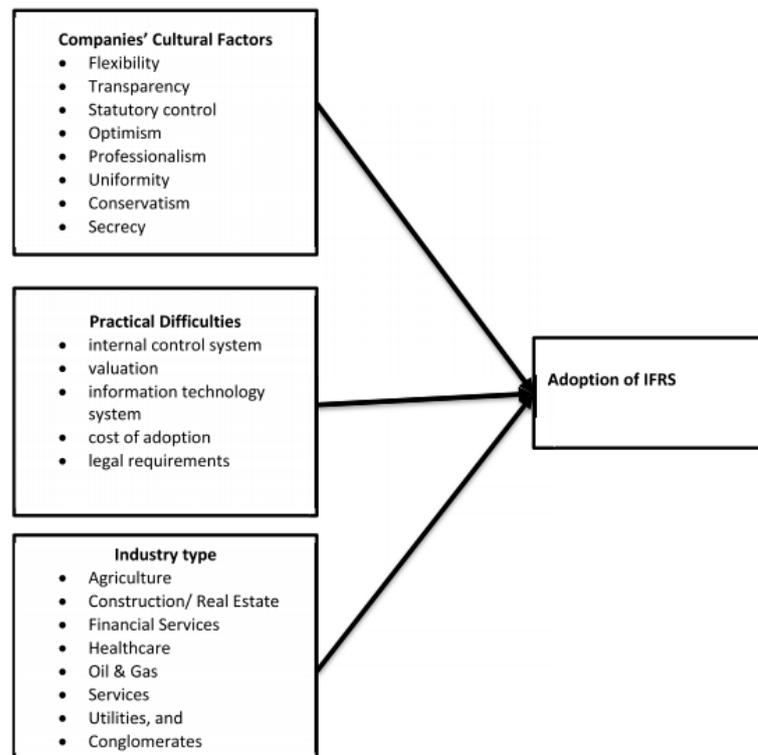
statements. Bukics et al. (2009) stated that professional regulatory bodies and their members should engage in careful and thoughtful discussions before deciding to adopt IFRS for SMEs.

Therefore, to understand the key differences between the full IFRS, the IFRS for SMEs and the CGNC, accountants in Morocco need to be adequately trained. Training and the adoption of a deep learning process are important elements for a successful transition to IFRS for SMEs and necessary to ensure that the potential benefits of adoption materialize in the near future.

Challenges can be resumed as:

- Complexity of the standards
- The cost of applying
- Fair value assumes periodic valuations, which in the absence of a market value, require the application of mathematical models that are complex enough to calculate
- Culture practices of local SMES
- Formation of accountants.

Figure 2. Challenges of adoption of IFRS



Source: J.E. Edeigba (2017)¹⁰

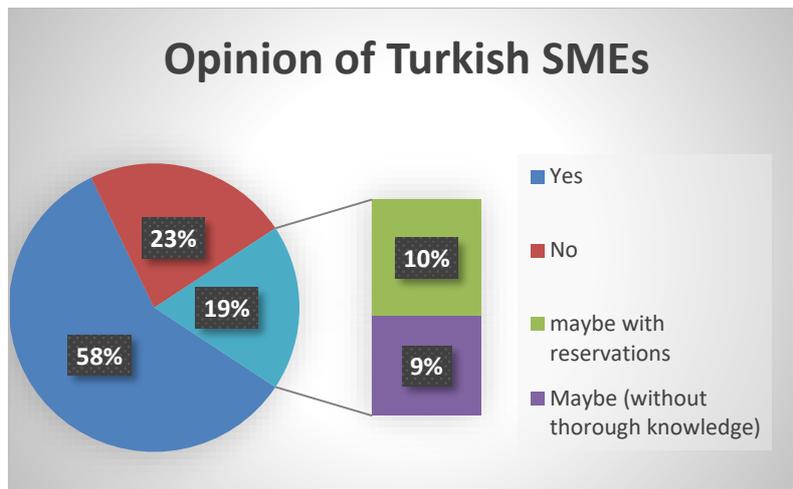
¹⁰Schaltegger, Stefan & Burritt, Roger. (2010). Sustainability Accounting for Companies: Catchphrase or Decision Support for Business Leaders. *Journal of World Business*. 45. 375-384. 10.1016/j.jwb.2009.08.002.

As a result, the four major audit firms (big 4) have already provided extensive training of their employees to IFRS, and as a result, the adoption of IFRS for SMEs would not require much training. Big 4 practitioners may need to understand the differences between IFRS and IFRS for SMEs and consider them accordingly.

4-3- a previous of results of an exploratory study:

Given the great need to produce reliable surveys in Morocco his face does a survey on the vision of the actors of SMEs. a study is currently being finalized, with some results showing that Turkish SMEs will have more confidence if Moroccan SMEs adopt this standardization and increase confidence in their summary statements and their mode of governance.

Figure 3. The opinion of some Turkish SMEs on increasing confidence with Moroccan SMEs when adopting the IFRS for SMEs...



Conclusion

Thus, the biggest question must be “how big is the impact of the adoption of this IFRS for SMEs” is now and not just if its applicable or no.

The IFRS for SMES make a reliable tool for exportation SMEs firms to make easier their process of internationalization by providing a better access to capital and a better communication trust with other countries using this standard. However, further quantifiable studies must give more clarification about this question.

Today, Morocco has It has a stronger relationship with the Latin-American countries, of which the majority of them (95%) adopt IFRS standards for SMEs. Thus, it opens a common economic

language with an economic land in addition to expansion and which our companies can benefit from.

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