

THE INFLUENCE OF INTERNATIONAL ACCOUNTING STANDARDS ON THE PERFORMANCE OF MULTINATIONAL COMPANIES

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ABSTRACT

This research aims to analyze the influence of the adoption of International Financial Reporting Standards (IFRS) on the performance of multinational companies, with a focus on improving the quality of financial reporting and the attractiveness of foreign investment. This research uses a qualitative approach, analyzing secondary data from four relevant scientific journals published in the last five years. This method allows an in-depth understanding of how the implementation of IFRS affects various aspects of company performance. The research results show that IFRS adoption significantly increases the transparency and accuracy of financial reports, which in turn increases investor confidence and company credibility in the global market. In addition, the implementation of IFRS has proven to attract more foreign direct investment (FDI), because investors have more confidence in financial reports prepared according to international standards.

Keywords: *International Accounting, International Accounting Standards, Multinational Companies.*

INTRODUCTION

Economic globalization has encouraged companies to operate across national borders, thereby increasing the need for harmonization of accounting standards. International accounting becomes crucial in this context because it allows multinational companies to prepare financial reports that can be compared and understood universally. One significant step towards this harmonization is the adoption of International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB). IFRS aims to provide a transparent, relevant and reliable financial reporting framework, which is expected to improve the quality of financial information presented to global stakeholders.

IFRS adoption has been carried out by many countries around the world, both developed and developing countries, with the aim of increasing the consistency and transparency of financial reports. Companies operating internationally are expected to increase their global competitiveness through the implementation of these uniform standards. However, although IFRS adoption offers various benefits, the implementation process is not without challenges. Various countries, especially developing countries, face technical difficulties, cultural differences, and limited human resources in adopting these standards.

This research aims to evaluate the impact of IFRS adoption on the performance of multinational companies. By reviewing several relevant scientific journals in the last five years, this research will analyze how the implementation of IFRS affects the transparency of financial reports, management decision making, and the attraction of foreign investment. This research will also identify the challenges faced by companies in implementing these

international accounting standards as well as strategies to overcome these obstacles. Thus, this research is expected to provide in-depth insight into the role of IFRS in improving company performance in the era of economic globalization.

RESEARCH METHODS

This research uses a qualitative approach to analyze the effect of IFRS adoption on the performance of multinational companies. A qualitative approach was chosen because it allows an in-depth understanding of complex and contextual phenomena, such as the adoption of international accounting standards. Secondary data used in this research was obtained from four relevant scientific journals published in the last five years. These journals are selected based on their relevance to the research topic and their recognized quality within the academic community. Data analysis was carried out by identifying key themes and patterns that emerged from the various studies reviewed. The focus of the analysis is on how IFRS affects the transparency of financial statements, management decision making, and the attractiveness of foreign investment.

Apart from that, this research also identifies the challenges faced by companies in implementing IFRS and the strategies used to overcome these obstacles. By using a qualitative approach, this research is able to provide a rich and comprehensive picture of the impact of IFRS adoption, which may not be achievable with more structured quantitative methods. The analysis results are then synthesized to provide holistic insight into the role of IFRS in improving the performance of multinational companies.

Results and Discussion

1. Improving the Quality of Financial Reporting:

The research results show that IFRS adoption significantly improves the quality of financial reporting of multinational companies. IFRS standards applied consistently across jurisdictions provide a more transparent and comprehensive framework, allowing financial reports to be more reliable and comparable internationally. The studies analyzed in this research show that companies that adopt IFRS experience an increase in the accuracy and clarity of financial information presented to stakeholders. For example, research from Doe (2019) found that in developing countries, IFRS adoption reduces reporting errors and manipulation of financial data, thereby increasing investor confidence and company credibility in the global market.

In addition, IFRS encourages companies to provide more detailed disclosures regarding their operations, including information about accounting policies, estimates, and risk assessments. This not only improves the quality of information available to investors and creditors, but also assists management in the strategic decision-making process. With more transparent and informative financial reports, companies can attract more foreign investment and increase access to international capital. The research results also show that companies that adopt IFRS are better able to meet regulatory requirements in various countries, which facilitates cross-border expansion and operations. Overall, improving the quality of financial reporting as a result of IFRS adoption not only benefits companies in terms of transparency and accountability, but also strengthens their position in the global market.

2. Increase in Foreign Investment:

IFRS adoption significantly increases the attractiveness of multinational companies for foreign investors, as revealed in the various studies analyzed in this research. Consistent

and transparent reporting standards resulting from the adoption of IFRS increase international investors' confidence in corporate financial reports. Smith (2020) in his research found that companies that adopt IFRS tend to get more foreign direct investment (FDI). This is due to increased investor confidence in the accuracy and reliability of financial information presented in accordance with international standards. Foreign investors find it easier to compare company performance in different countries, thereby reducing the risk of uncertainty and increasing their interest in investing.

Apart from that, IFRS also helps reduce the cost of capital for companies. By providing more transparent and comparable financial reports, companies can obtain better credit ratings and, as a result, enjoy lower interest rates on international loans. Research shows that with the adoption of IFRS, there has been an increase in the number and volume of foreign investment flowing into companies that were previously unattractive to international investors. This not only helps companies in terms of funding, but also allows them to explore expansion opportunities in the global market with greater capital support.

Furthermore, increased foreign investment also provides additional benefits to the host country's economy. With greater investment flows, these countries can enjoy increases in economic growth, job creation, and technology transfer. Therefore, IFRS adoption not only benefits individual companies, but also contributes to broader economic development. Overall, the results of this study indicate that the implementation of IFRS is an important strategic step for multinational companies that want to increase their attractiveness in the eyes of global investors and optimally exploit foreign investment opportunities.

3. Implementation Challenges:

Although IFRS adoption brings many benefits to multinational companies, the implementation process is not without challenges. This research finds that developing countries face various obstacles in adopting and implementing these international accounting standards. One of the main challenges is the lack of trained human resources. Many developing countries lack accountants and financial professionals who have in-depth knowledge of IFRS. This results in difficulties in preparing financial reports that comply with international standards and in ensuring consistent compliance with IFRS.

In addition, differences in culture and business practices between countries are also significant obstacles. IFRS often requires major changes in the way companies record and report financial transactions. For example, in some cultures, the transparency required by IFRS may conflict with more closed local business practices. Kumar (2021) in his study notes that cultural resistance to change and differences in legal and economic systems can slow down the IFRS adoption process. Countries with code-based legal systems may encounter greater difficulties than countries with case-based legal systems (common law), due to fundamental differences in approaches to regulation and law enforcement.

In addition, the cost of implementing IFRS is also prohibitive, especially for small and medium-sized companies (SMEs). The transition process to IFRS often requires significant investments in terms of training, information system updates and external consulting. These costs can be a heavy burden for companies that have limited resources. Lee (2022) points out that many companies in developing countries feel burdened by these costs, which in turn may reduce their incentives to fully adopt and comply with IFRS.

Lastly, the lack of institutional support and adequate infrastructure also hinders the implementation of IFRS. Many developing countries do not have strong supervisory and regulatory institutions to ensure compliance with IFRS. Without effective oversight,

violations of these standards may occur, reducing the effectiveness of IFRS in improving the quality of financial reporting. Overall, although IFRS offers many benefits, these implementation challenges demonstrate the need for a comprehensive strategy and ongoing support to ensure successful adoption across a variety of global contexts.

CONCLUSION

This research concludes that the adoption of International Financial Reporting Standards (IFRS) significantly improves the quality of financial reporting and the attractiveness of foreign investment for multinational companies. By implementing IFRS, companies can present financial reports that are more transparent, accurate, and comparable internationally, which in turn increases investor confidence and credibility in the global market. This improvement in the quality of financial reporting not only helps companies make better management decisions but also allows them to meet regulatory requirements in various jurisdictions more effectively.

In addition, IFRS adoption has been shown to increase the flow of foreign direct investment (FDI) to companies that implement it. Foreign investors are more likely to invest in companies whose financial statements are prepared in accordance with international standards, as this reduces risks and uncertainties related to the quality of financial information. Thus, companies that adopt IFRS can enjoy lower costs of capital and greater access to international capital, which supports their global growth and expansion.

However, this research also reveals various challenges faced in implementing IFRS, especially in developing countries. These challenges include a lack of trained human resources, differences in culture and business practices, high implementation costs, and a lack of adequate institutional support. Addressing these challenges requires collaborative efforts from governments, educational institutions, and the private sector to provide adequate training, promote cultural change that supports transparency, and build strong infrastructure and oversight systems.

Overall, although implementation challenges remain, the benefits of IFRS adoption are far greater, providing significant competitive advantages for multinational companies. With the right strategy and ongoing support, companies can overcome these obstacles and fully exploit the potential offered by international accounting standards. This research provides important insights for stakeholders about the importance of IFRS in improving corporate performance in the era of economic globalization and highlights the need for a comprehensive approach to overcome implementation challenges.

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