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Language challenges for global adoption and implementation of IFRS

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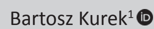

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Accounting emerged around 10 000 years ago (Mattessich 1987). Over the centuries, it has achieved the well-deserved status of being the only universally accepted language of business. The reason for its current position is the ability to capture and measure the notion that has always been of utmost interest to ancient, medieval and modern era entrepreneurs – capital. Accounting is a measurement discipline (Ijiri 1975), although not every scholar is positive about that statement (Vickrey 1970). If we measure our height, it is always the same, regardless of whether we perform the measurement task in the United States, United Kingdom, or South Africa. It does not depend on local laws and customs (and imperial measurements are easily converted into international metric standard). However, the same cannot be said for a company's financial accounting profits. Until recently, financial accounting laws served the purposes of various stakeholders (investors, banks, etc.), so differences in regulations were justified. At the same time, similarities in financial reporting among countries were identified (Nobes 1983). In the late 20th century, it became clear that institutional and individual investors, who provide essential capital to companies, should be the primary focus. And biggest stock exchanges (such as New York Stock Exchange [NYSE] or London Stock Exchange [LSE]) are the means for efficient capital distribution. Highly successful and renowned company Daimler Benz was the first German company that looked for capital at NYSE. Yet, how surprising it must have been for laymen, when in 1993 Daimler Benz reported an after-tax loss of 1.84 billion Deutsche Marks (DM) under American accounting law compared to 615 million Deutsche Marks (DM) net profit under German accounting law (Widman 1994). Hidden reserves were mainly blamed for that discrepancy. Clearly, there was a need driven by investors and capital markets for the unification of financial accounting standards, although academia found valid and significant drawbacks to a monopoly in that area (Sunder 2016).

But which standards should prevail? It is not an exaggeration to claim that International Financial Reporting Standards (IFRS) have won the battle and become the globally accepted accounting standards for companies listed on regulated markets. As the IFRS Foundation reports, 147 jurisdictions require IFRS for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets (www1 2023). It is generally assumed that the principles-based standards, such as IFRS, are more flexible and require more professional judgement than the rules-based standards. The advantage of the former is that the underlying substance of economic transactions might be more accurately represented in financial statements. However, a drawback is that individual judgements are inherently associated with a lack of consistency in individual decisions across the whole population of accountants. After all, accountants, exactly as other professionals, have different cultural backgrounds and speak different languages.

Because of the worldwide acceptance of IFRS and increased popularity of internationally recognised qualifications with exams held in English (such as Association of Chartered Certified Accountants [ACCA]), accountants started to develop and pursue international careers more than ever before. At the same time, IFRS education became an inherent part of the curriculum in business schools around the world. This ensures that no matter where accounting graduates come from, they can easily take jobs in financial centres, where economically rational decisions are made.

However, contrary to common beliefs, people do not make the same decisions in their native and foreign languages. Evidence from psychological research suggests that thinking in a foreign tongue reduces decision-making biases, as it provides greater cognitive and emotional distance (Keysar, Hayakawa & An 2012). Literally interpreted, it would suggest that it is beneficial for the global economy to encourage accountants, auditors and analysts to work in a foreign, non-native language setting. However, upon deeper examination, other issues emerge. Principles-based IFRS use verbal uncertainty expressions (e.g. 'probable', 'highly probable', 'highly unlikely', etc.). Most importantly, these expressions are not specified in numerical terms. The accountants must utilise their knowledge and experience to make decisions as required by a particular standard.

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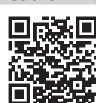

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And the translation of these verbal terms brings significant issues for accounting judgements. The so-called 'foreign language effect' has been proven to exist in accounting, for example, when a reduction in overall directionality biases is observed in groups of subjects that use a foreign language (Zang et al. 2020). It also turns out that, in the case of bicultural individuals, the phenomenon known as 'frame switching' occurs (Huerta, Petrides & Braun 2016). These individuals are influenced by the language in which they read the accounting standard.

These issues play an important role in multilingual and multicultural regions, such as the European Union, with its 24 official languages, or South Africa with its 11 official languages. It would not be an exaggeration to claim that the accounting profession is an attractive choice for young, educated individuals from various linguistic and cultural backgrounds who are keen on travelling and working in finance centres around the world. Therefore, the research in this field would benefit both academia (in terms of accounting education and research) as well as accounting practice.

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