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SCHOOL OF BUSINESS, ECONOMICS AND LAW

The Transition to the K3 Framework

An examination of possible effects on the accounting profession

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Abstract

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Title: The transition to the K3 framework - An examination of possible effects on the accounting profession

Background and problem discussion: The Swedish accounting framework is currently in a transition stage. The Swedish Accounting Standards Board has since 2004 been working on a project that aims to reform the standard setting for what is generally accepted accounting principles in Sweden. The purpose is to simplify the regulatory requirements and to develop an overall framework for four categories of companies. The so-called K3 framework, which will become the main framework replacing the current standard setting within a few years, is under construction and is essentially based on IFRS for SME. This main framework will be less detailed and contain fewer examples than today's framework and may therefore include some adjustments for the accounting profession in Sweden. This study will investigate how the transition to the K3 framework and the change that this means, will affect those working with accounting in Sweden.

Aim of the thesis: The aim of this study is to identify possible effects on the accounting profession with the introduction of the K3 framework. The study will be performed by investigating the expectations on what a shift from a more detailed framework to a regulatory framework that is more driven by the prevailing principles means to the accounting profession and the existing accounting culture within the profession.

Method: The empirical data is gathered through personal interviews with knowledgeable persons within the accounting profession in Sweden. The interviews were conducted with three different groups; experts, accounting experts and accountants, in order to get a broader view of the problem area.

Conclusion: The study indicates that the transition to the K3 framework will mean that the accounting profession must make more judgments and adapt a new way of thinking. It has also emerged that not only the transition to the K3 framework will impose demands on the profession but also the change by itself; change is always difficult and requires an effort. The transition by itself will also require some education for the practitioners to learn the framework.

Proposals for future studies: During the study several areas for future studies has been identified; what the implementation will actually mean, what the K3 framework will provide for the accounting and the outcome of the financial statements, and if the company's method of reporting will distinguish itself more with the introduction of the K3 framework since the framework is more flexible than the current regulations. In addition, it would be interesting to investigate how the accounting profession will be affected by the fact that Sweden will have both regulatory frameworks based on principles and based on rules.

Abbreviations & definitions

CFO	Chief financial officer
EU	The European Union
Far	The professional institute for authorized public accountants, approved public accountants and other highly qualified professionals in the accountancy sector in Sweden.
FASB	The Financial Accounting Standards Board in the United States
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
K1	Companies establishing simplified annual financial statement, for example sole proprietorships.
K2	Smaller companies and smaller financial associations.
K3	All companies that are not conforming under K1, K2 or K4.
K4	Listed companies conforming to the EU adopted standards of IFRS in their consolidated accounts.
SEK	Swedish crowns
SME	IASB's abbreviation for small and medium-sized enterprises
SRF	The Association of Swedish Accounting Consultants (Sveriges Redovisningskonsulters Förbund)
US GAAP	United States Generally Accepted Accounting Principles
USD	American dollars

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1 Introduction

This chapter begins with a background description, which will pass into a main question and a problem discussion. The chapter ends with a description of our aim and the scope of our study.

1.1 Background

For a long time there have been major differences in accounting between countries since accounting especially has been developed at a national level through time. With an increasing number of companies active in markets all over the world the need for an international accounting has increased. The ongoing globalization is a major factor - the stock of foreign direct investment for developed countries in the world has increased from USD 1.6 trillion in 1990 to USD 12.4 trillion in 2009¹. Besides from globalized markets and firms there have also been other forces driving acceptance towards a common set of accounting standards, for example political integration. The European Union (EU) has for some time tried to harmonize the accounting in the member countries through the so-called corporate directives in purpose to influence the legislation in the member countries. It was up to the countries themselves how to go through with the implementation of the directives and the number of options within the directives and that they were interpreted differently in different countries contributed to that the harmonization through the directives failed. Because of the failure, the EU searched other ways to harmonize the accounting which led to collaboration with the International Accounting Standards Board (IASB) and ultimately in 2002 the EU adopted IASB's IAS standards, called the IAS regulation. Due to the IAS regulation all listed companies within the EU would now have to follow standards under the International Financial Reporting Standards (IFRS) adopted by the EU.²

In Sweden, the accounting standard setting traditionally has been based on principles rather than rules. Before the Annual Accounts Act (Årsredovisningslagen 1995:1554) was implemented in 1997, there was not much guidance and details of how the accounts would be handled; the accountants simply did their own assessments in order to reflect the business transactions. As the Swedish regulatory framework looks like today, non-listed companies can choose to apply or take guidance from the standards issued by the Swedish Accounting Standards Board (Bokföringsnämndens allmänna råd) or the standards issued by the Swedish Financial Accounting Standards Council (Redovisningsrådets rekommendationer), while listed companies are reporting under IFRS. The standards issued by the Swedish Financial Accounting Standards Council are based on the IAS regulation and are therefore principles-based just as IFRS. The standards issued by the Swedish Accounting Standards Board on the other hand are a simplification of the standards issued by the Swedish Financial Accounting Standards Council with expanded commentaries and guidance which make this regulation more detailed. The standards from the Swedish Financial Accounting Standards Council are mainly applied by larger companies and company groups. Most of the company groups that today report under IFRS reported under the standards issued by the Swedish Financial Accounting Standards Council before IFRS was introduced in 2005. The Swedish Financial Accounting Standards Council stopped updating its standards in 2004.³

¹ UNCTADSTAT

² Marton et al, *IFRS - i teori och praktik*, 2010

³ FAR SRS Förlag. Samlingsvolymen 2010

The Swedish accounting framework is currently in a transition stage. The Swedish Accounting Standards Board has since 2004 been working on a project that aims to reform the standard setting for what is generally accepted accounting principles in Sweden. The purpose is to simplify the regulatory requirements and to develop an overall framework for four categories of companies, K1-K4. The category K4 contains listed companies, since 2005 those are conforming to the EU adopted standards of IFRS in their consolidated accounts. The K2 framework was finished in 2009 and can be applied by smaller companies and smaller financial associations while the K1 framework is very simplified and designed to be used by for example sole proprietorships establishing simplified annual financial statement.⁴ In 2010, the Swedish Accounting Standards Board issued a draft of the Establishment of Annual Accounts, the so-called K3 framework which will become the main framework replacing the current standard setting within a few years. On November 29th 2010, the statutory period for comments on the draft expired. The Swedish Accounting Standards Board has now begun the process of issuing a full set of rules for a complete framework. The K3 framework is based essentially on the IFRS for small and medium-sized enterprises (IFRS for SME) issued by the IASB, and is a simpler form of the regulatory IFRS. The introduction of this new legislation means internationalization of Swedish accounting and to some extent a framework with fewer details. The Swedish Accounting Standards Board's plan is that the K3 framework will be ready for use in annual reports as from 2012.⁵

The Confederation of Swedish Enterprise, Sweden's largest and most influential business federation, writes in its response to the draft of the Establishment of Annual Accounts, that a principles-based system with very few examples involves a risk that those who will implement the general recommendations will be unsure of the meaning of the requirements. Following this, the Confederation of Swedish Enterprise finds that there should be higher demands on the Swedish Accounting Standards Board concerning additional guidance.⁶ This view was also expressed in the response received from Far which is the professional institute for authorized public accountants, approved public accountants and other highly qualified professionals in the accountancy sector in Sweden.⁷ When, the IFRS was introduced for listed groups in Sweden in 2005, Träff & Clemendtson discussed the problem when a principles-based framework is getting too detailed in an article published in the paper *Dagens Industri*. In the article they write that when users are requesting excessively detailed information about how the accounting should be performed we alienate ourselves from the principles-based accounting that IFRS is based on. Furthermore, they bring up that the accounting system in the U. S. initially were principles-based, but companies and auditors did not undertake the responsibility of interpretation that a principles-based system is based on, which led to today's very comprehensive and detailed regulatory framework for the United States Generally Accepted Accounting Principles (US GAAP).⁸

The way the K3 draft looks like, the framework will be more principles-based than the Swedish accounting framework is today. The difference from today's framework will not be enormous but the K3 framework will be more flexible and contain fewer examples. For the accountants a more principles-based approach will mean some changes. According to Carmona and Trombetta, a

⁴ Bokföringsnämnden^C (the Swedish Accounting Standards Board)

⁵ Bokföringsnämnden^B (the Swedish Accounting Standards Board)

⁶ Svenskt Näringsliv (the Confederation of Swedish Enterprise), *Remissyttrande*, 2010

⁷ Far, *Fars Remissvar*, 2010

⁸ Träff & Clemendtson, 2005

transition to a more principles-based approach entails major changes in the expertise held by the accountants and also on the educational background and training programs.⁹

1.2 Problem discussion

When the K frameworks will be fully implemented they will replace all former standard settings in Sweden. Although the content of the K3 framework will not cause any enormous objective changes from the standard settings that exists today, especially not compared with the standards from the Swedish Financial Accounting Standards Council, the implementation will mean that the profession must be familiarized with a new framework with less details and examples compared to today's framework.¹⁰ Since a change and amended regulations will place new requirements on the profession it requires that the profession must reject previous learning and replace it with new learnings. How a change is received depends on whether the change is compatible with the existing culture within the profession or not. If a change requires a cultural change it imposes much greater demands on the practitioners.¹¹

With the introduction of the K3 framework, Sweden will make a transition to a main regulatory framework with less details, comments and guidance which can be likened to a transition from a sort of rules-based accounting to a more principles-based accounting. A rules-based system provides the user with guidance in how accounts should be done and goes into detail on how individual situations should be treated, while a principles-based system provides some basic principles to be considered in order to make professional judgements and interpretations based on qualitative principles.¹²

Principles-based versus rules-based accounting has for a long time been a controversial area¹³. The discussion about how the best financial reporting is achieved and how the two different types of accounting affect the behavior of the practitioners have been discussed in many articles, among others in the journal *Accounting Horizons*. Nelson discusses in his article *Behavioral Evidence on the Effects of Principles-and Rules-based Standards* how a rules-based versus a principles-based regulatory framework affects the financial statements and the practitioners' behavior. Nelson states that with a lot of details follows a higher precision but also greater complexity. He also writes that practitioners often complain that too many rules provide a *standard-overload* and that very few practitioners are able to accumulate and absorb the information that the standard setters are trying to communicate. Just following detailed rules may affect the judgements of the practitioners negatively, since it only encourages them to follow the rules and not think for themselves. Without precise rules the requirements to reason by analogy and find relationships between standards, practices and specific problems increases for the practitioners.¹⁴

A transition from a framework which contains details and more precise rules to a more principles-based framework with less guidance ought to include some adjustments for the accounting profession in Sweden. New requirements are likely to be needed because the upcoming principles-based accounting will include relatively few examples regarding how the rules of the K3 framework will be applied. This will probably require the practitioners to make their own assessments based on given principles in a greater extent than today. The fact that the K3 framework will be more

⁹ Carmona & Trombetta, 2008

¹⁰ Bokföringsnämnden^B (the Swedish Accounting Standards Board)

¹¹ Schein, 2004

¹² Marton et al, *IFRS - i teori och praktik*, 2010

¹³ Alexander, 2006

¹⁴ Nelson, 2003

principles-based and include less examples and comments than today's framework has been criticized in a number of responses received by the Swedish Accounting Standards Board on the K3 draft. The critic is among others coming from Far¹⁵ and the Confederation of Swedish Enterprise¹⁶. They conclude that the Swedish Accounting Standards Board should provide all the detailed comments required, even though the purpose of the principles-based regulatory in certain aspects might disappear, just like Träff & Clemendtson discussed about IFRS being more and more detailed in their article¹⁷. The purpose of a principles-based standard setting is that every business is unique and requires professional judgements in order to give the account the right meaning. The accounting profession in Sweden can now apply or obtain guidance in different frameworks; therefore the transition to the K3 framework will be different for different companies. Some practitioners are used to have more detailed comments and examples than the new K3 framework will provide when others conform to a framework that is not very different from what the K3 framework will look like.

We want to investigate how the transition to the K3 framework and the change that this means, will affect those working with accounting in Sweden.

1.3 Research question

According to the problem discussion above we have the following main research question for the thesis:

- What general requirements are set on the accounting profession with the transition to the K3 framework?

To concretize our main question we have the following sub questions:

- What requirements are set on the profession as the new regulatory framework will contain fewer examples and less guidance than today's framework?
- Are the expectations about the implementation of the K3 framework that the existing culture within the profession must change, and in that case, what does this mean for the practitioners?

1.4 Aim of the thesis

The aim of this study is to identify possible effects on the accounting profession with the introduction of the K3 framework. A change to a new framework consists a reconversion which by itself affects the profession. With the transition to the K3 framework the profession is also affected because the accounting system gets less detailed and more flexible. We will do this study by looking at the expectations on what a shift from a more detailed framework to a regulatory framework that is more driven by the prevailing principles means to the accounting profession and the existing accounting culture within the profession. By identifying the possible effects that the introduction of the K3 framework will provide we might help the accounting profession in Sweden to be prepared for the transition to the new framework.

¹⁵ Far, *Fars Remissvar*, 2010

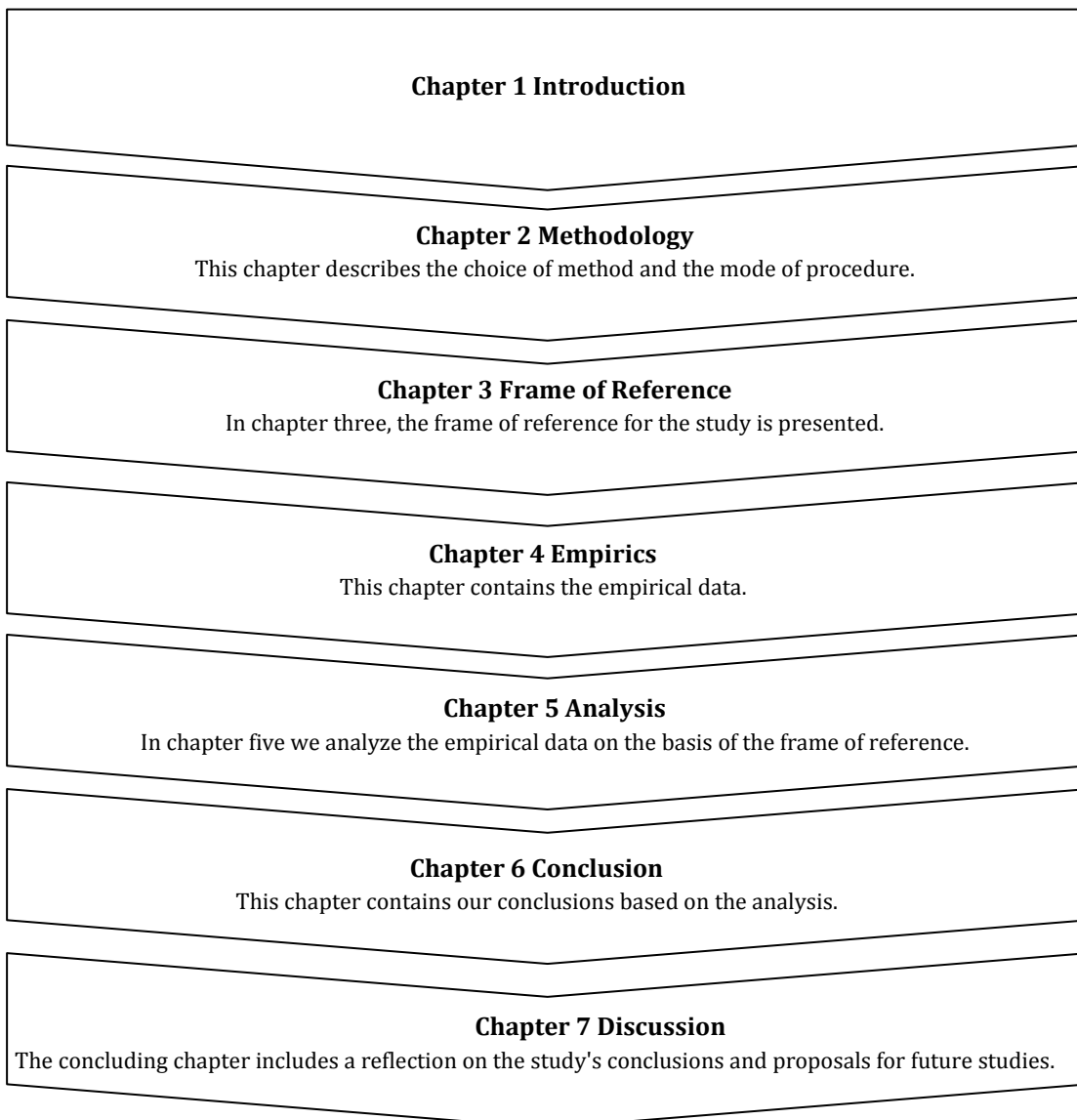
¹⁶ Svenskt Näringsliv (the Confederation of Swedish Enterprise), *Remissyttrande*, 2010

¹⁷ Träff & Clemendtson, 2005

1.5 Scope

Because we are examining the transition to the K3 framework we automatically limit ourselves to Sweden and the Swedish accounting profession. The K3 framework will be the main regulatory framework in Sweden, applicable to all companies that are not forced to use the K4 or voluntarily applying the K4, the K2 or the K1. There are a number of different groups within the accounting profession in Sweden who will be affected by the transition to the K3 framework; we will limit our investigation to how the new standard setting affects accountants, accounting consultants and in some way auditors. We also limit our study by looking at the concept of the K3 framework, thus not going into details about specific standards.

1.6 Disposition



2 Method

This chapter presents the implementation and the method selection of the survey, the data collection methodology, how we did the literature search, the compilation of the data, the method we used for the analysis and the credibility of the study.

The aim of our study is to investigate and explain how the accounting profession is affected when the accounting system gets less detailed and more flexible with the transition to the K3 framework. Our study relies on qualitative data that does not provide objective facts and the study is of a descriptive nature.

2.1 Data collection method

In the empirical data collection, we collected data through interviews with selected respondents. In order to get the best possible view of the problem, we have chosen to interview different groups of professionals with different experience and professional roles. We have also used the responses that the Swedish Accounting Standards Board has received from various organizations and other stakeholders regarding the draft of the K3 framework.

2.1.1 Selection of respondents

The first thing we did before selecting respondents for our interviews was to call companies that will be applying the K3 framework after its conclusion. The purpose of these calls was to determine the awareness of the forthcoming legislation and whether they knew what impact the regulation will have on their accounting. After contacting fifteen companies, we realized that the knowledge about the K3 framework was still very poor among these companies; most people were aware of the upcoming framework but did not know any details about it. The most recurring comment was that they will not take time to familiarize themselves with the new framework until the framework is finished and has to be applied.

We realized that we would have to take different path to investigate which requirements that are expected to be set on a profession due to a transition from a more detailed framework with many examples to a regulatory framework that is more driven by the prevailing principles. In order to find people with experience of both examples-rich and principles-based accounting and who might have experienced a transition between those two, we contacted some companies that are applying IFRS in order to find people with the right experience. Most of these companies previously applied the standards issued by the Swedish Financial Accounting Standards Council which also is principles-based in a similar way as IFRS. It was therefore important that we found people with experience from another norm-setting but who are working with a principles-based framework, like IFRS, today. We started by interviewing four people in this group who had the experience we were looking for and since we got similar answers during the interviews, we chose not to do any more interviews within this group. We chose to interview two persons on a shipping company group, the chief financial officer (CFO) and the person who was project manager when the company adopted IFRS. The shipping group implemented IFRS voluntarily in 2008 and prior to that reported under the standards issued by the Swedish Financial Accounting Standards Council which also is principles-based, but additionally they also reported under the rules-based US GAAP before implementing IFRS. Furthermore, we chose a person who works at a small listed company in Gothenburg and who possesses extensive experience in accounting in both public and private companies since 1988. The fourth person we interviewed was the CFO of a real estate group in Gothenburg, the group is

reporting under IFRS and their subsidiaries will be applying the K3 framework when it will be implemented. To cover a larger part of the accounting profession, we wanted to interview accounting experts and auditors in accounting firms to get their perspective on our problem. We chose to interview five accounting experts and auditors working on different large accounting firms in Sweden. We chose large accounting firms because these agencies have a wide range of clients, both large companies that are applying IFRS and the standards from the Swedish Financial Accounting Standards Council, and smaller companies with a more rules-based accounting approach. To find the expertise in both rules-based and principles-based accounting, we searched for individuals with long experience and knowledge in these areas.

To further strengthen our investigation, we wanted to interview experts in the field. We started by contacting the Swedish Accounting Standards Board who has developed the K3 framework and continued by contacting experts in Far, the Confederation of Swedish Enterprise and the Association of Swedish Accounting Consultants (SRF), which all have in common that they have written responses to the draft of the K3 framework and therefore are familiar with what the K3 framework will entail and how it is designed. Today there are not so many within the Swedish accounting profession that are well-versed in the new framework and have reflected on what it will mean for the accounting profession. Therefore we have identified organizations that have made comments about it and have expressed concerns about the ongoing transition, and who have an interest in how it affects the profession.

2.1.2 Interviews

In order to answer our research question, we conducted interviews with knowledgeable and informed individuals within the area. We chose to conduct personal interviews before surveys to get deeper information and a more profound study. Our research question demanded a more detailed discussion because it has not any obvious answers. The personal interviews allowed for a discussion and a more profound insight to how the respondents look upon our problem. In this study it is essential to stress that the presented material does not necessarily represent the respondents' actual experiences, but rather a reorganization of these in the form of a written statement of what has emerged during the interviews.

We conducted individual interviews to ensure that the respondents would not be influenced by peer pressure, this was important in order to make sure that the respondents expressed their own opinions and thoughts. In this way, we believe that we have got a more fair result in our study. Furthermore, we chose to have a combination of structured and unstructured interviews to increase the quality of the interviews and to create an open dialogue with the respondents. We had a template with some key questions (Appendix 1 – Interview guide), in order to not get away from the subject or the purpose of the interview. In addition to this, we wanted the respondents to speak freely on the basis of their knowledge and approach to our problem area. This interview method also gave us room to ask supplementary questions and engage in interesting discussions with the respondents. By allowing the respondents to speak freely, we also opened up for the respondents to say things that we had not thought about to ask. We believed that the likelihood was great that we as academics did not see the subject in the same way as a practitioner and therefore we wanted to leave room for a different approach to the subject than the one we had from theory.

2.2 Method for literature search

We began our literature search by searching for peer reviewed articles in various databases, including Business Source Premier, but also the database called Science Direct. The Swedish detailed regulation that we refer to, we will emulate to the standard setting that is called rules-based regulation in theory even though the Swedish standard setting we refer to is not totally rules-based but has a greater rules-based approach than the K3 framework will have. To the K3 framework we drew parallels to the kind of framework called principles-based standard setting in theory. The articles of relevance that we used, we found, by using keywords as principles-based, rules-based, accounting and IFRS. IFRS is principles-based and has recently been introduced in many countries, among them countries with a history of rules-based accounting, which was the reason why we chose it as a keyword. To not get too many search results, but instead finding what was relevant, we combined the keywords with each other. We found many interesting articles, but when we chose which of them were relevant for our study we had some criteria for the substance of the articles:

- What principles-based accounting means and to some extent even what rules-based accounting is about.
- What impact different accounting approaches have on accountants and auditors.
- How culture affects the accounting approach.

Through the most relevant articles, we found applicable theories and references that gave us more ideas for other articles related to our problem area. To find information about the K-project, we visited the Swedish Accounting Standards Board's website. We also did some searches through Google to find which organizations had made comments on the K-regulatory framework. Our Google searches gave us information about which interest organizations who has written comments on the draft to the K3 framework which made it possible for us to visit the current interest organizations' home pages and to read their comments. Furthermore, we have read previously written essays with similar problem areas to find relevant literature in the business administration area.

2.3 Compilation of the data

Our empirical data consists of interviews made with selected respondents. To compile our interviews, we listened to the recordings and registered relevant views and opinions of our respondents. Once we had compiled the interviews, we presupposed from previously mentioned groups and within those we were looking for both areas in which respondents expressed themselves in a similar way and areas in which the opinion was shattered. In the group of accounting experts in accounting firms and in the group of accountants at companies there are respondents who wanted anonymity; therefore we will not mention any respondents by name in these two groups.

2.4 Analytical method

In order to analyze our research question based on our empirical work, we made presumptions from previous research within our problem area and theories that were able to help us to draw conclusions. When we chose which theories to rely on we looked for theories involving transition, change and theories that support how the Swedish accounting looks like and why it looks the way it does. The theories we chose are Schein's change theory, Hofstede's cultural dimensions theory and Gray's theory of cultural influence on accounting. In the article *Accounting Reforms in China: Cultural Constraints on Implementation and Development* by Chow et al, the authors are using Gray's theory of cultural influence on accounting to investigate the impact that a transition from a rules-based to a principles-based regulatory framework will mean to the Chinese accounting culture. We found it

interesting to see what impact the K3 framework will have on the Swedish accounting culture, since a culture change might be necessary with a transition to a new framework and therefore might impose requirements on the Swedish accounting profession. Gray's theory is based on Hofstede's cultural dimensions theory and to be able to apply Gray's theory we were therefore obliged to also apply this theory in our analysis. We used Gray's theory to draw conclusions about how the K3 framework will affect the profession, but we were also interested in investigating how the change itself will affect the profession. In Sweden the situation is not the same as in China where the accounting is moving from a rules-based to a principles-based regulatory framework, in Sweden it's more of a hue change.

Schein's change theory is about how change must be made to get a lasting result, according to Schein a process is required that seeks to reject previous learning and replace it with new learning's in order to get people to change. We have, based on this model, analyzed what will be required by the accounting profession in order to undergo a change. With this model we analyzed the requirements that will be placed on the profession with the introduction of the new, less detailed, K3 framework. This transition means that when confronted with a new framework the profession must undergo a change. The reason why we did not choose any other theory involving change was that the theory chosen illustrates how change will be sustained and how change has to be made to avoid going back to old patterns which can be the case with a new flexible framework. Hofstede and Gray's theories are related to each other because Gray's theory is based on Hofstede's cultural dimensions theory. In Hofstede's cultural dimensions theory he has identified four societal values and to relate these with accounting Gray has developed four accounting values. The first two and the fourth of Gray's accounting values are relevant for our study, but the third that is about the issue of measurement and if there is a preference for a more cautious approach or a more optimistic risk-taking approach when it comes to measurement of assets and profits are not relevant for our study. We will present Gray's theory as a whole in chapter three, but in the analysis we will only use the values relevant for our study. By Hofstede and Gray's theories, we have been able to draw conclusions through our empirical data about whether the Swedish culture is consistent with rules-based or principles-based accounting. Depending on the results from this analysis we could by Schein's model draw further conclusions on the requirements that will be placed on the accounting profession in the occasion of a change in culture within the accounting profession. The previous research was used to give further weight to or to question our empirical work.

When analyzing the empirical material, we started by doing this for each group. Within the groups we looked after similarities and differences in what had emerged during the interviews by searching for areas where the respondents talked about the same thing. Once we had found areas where the respondents talked about the same thing we were able to compare the different groups with each other and simultaneously linking it to previous research and chosen theories. When we linked together the collected empirical data with the study's frame of reference we were looking at areas that appeared in both the empirical data and the frame of reference, to find these areas we were looking for common words such as principles-based, rules-based, examples, education et al.

2.5 The credibility of the thesis

In our study we chose to have a sample of respondents from different groups and from different companies and organizations to get a breadth in the study and to be able to see patterns and opinions not only expressed in a particular group. In order to get the answers from the respondents' interpreted correctly and to avoid a biased interpretation of the answers, we recorded the interviews to be able to listen to them several times. The fact that we recorded the interviews also meant that

we as interviewers did not have to think about taking notes, instead we could listen properly to the respondents and ask relevant attendant questions. This gave us the opportunity to actively participate in the discussions and seek clarify in areas where we were unsure of what the respondents meant by their answers.

To avoid that the respondents misunderstood our purpose, we informed the respondents about the purpose of the study before the interviews. We also sent over the general issues that the interview was based on in time before the interviews. To avoid that our empirical work would be affected by our own experience or background, we listened to the recorded interviews together and separately wrote down how we interpreted the answers we had received from our respondents. We then compared our notes and in cases when we had interpreted an answer differently, we listened to the interviews again and discussed what the respondents actually said. In our study, we have constantly reviewed the empirics and the theory during the process, so that the data collection was in line with the aim of the study.

3 Frame of Reference

In this chapter we will present the study's frame of reference. We begin the section with a brief description of the ongoing K-project. Furthermore, we report research in the area and finally we present the theories that will help us with the analysis of the collected empirical data.

3.1 The K-project

In Sweden, the Swedish Accounting Standards Board is working on a project which aims to simplify the accounting regulation. The goal is to present a complete regulatory framework for businesses of different types and sizes, called the K regulatory framework. The current standard setting is sorted on the different areas of accounting, which means that it is difficult and time consuming for companies to find the rules that are applicable to their business. The new framework will consist of four different sets of rules for four categories of companies, K1-K4. The regulatory compliance must be followed fully, the different regulatory frameworks cannot be combined or applied partly. When the new regulatory framework is finished, it will replace all former standards.¹⁸

Companies conforming under the Swedish Book-keeping Act (Bokföringslagen 1999:1078) which shall establish an annual report in the end of the fiscal year will comply the K3 framework as the main alternative choice. The K3 framework shall be a package for all types of companies and it will be based on the IASB's framework IFRS for SME, the accounting will thus have a principles-based approach. The current approach for accounting in Sweden is principles-based but with the new K3 framework this approach will become even clearer.

The K2 framework for financial statements is a voluntary framework that smaller companies will be able to choose instead of applying the K3 framework. In addition to the basic simplification that comes with an aggregated regulatory framework, the K2 framework contains further simplifications compared to the K3 framework. The K2 framework is a rules-based framework that has clear limits, standardized rules, fewer choices and fewer disclosure requirements. The K2 framework is also in line with the Swedish tax system which means a further simplification. The K2 framework will be available in different versions depending on company type. At the moment the K2 framework is only developed for limited companies, but the Swedish Accounting Standards Board will develop regulations for cooperative societies and sole proprietorship later on. To qualify as a small business the company must not qualify as a major company.¹⁹

According to the Annual Accounts Act a company that meets more than one of the following conditions during the last two years is a major company:

- 50 in average number of employees
- 40 million SEK in total assets
- 80 million SEK in net sales

A company whose shares, warrants or debt securities are admitted to trading on a regulated market or equivalent market outside the European Economic Area also qualify as a major company.²⁰

¹⁸ Bokföringsnämnden^A (the Swedish Accounting Standards Board)

¹⁹ Bokföringsnämnden^B (the Swedish Accounting Standards Board)

²⁰ Årsredovisningslagen (the Annual Accounts Act) 1:3

Companies conforming under the Book-keeping Act which may establish a simplified annual report can apply the K1 framework. This framework exists for sole proprietorship and will be developed for non-profit organizations. Listed companies that prepare consolidated accounts under IFRS shall apply the K4 framework and non-traded companies that choose to adopt IFRS in its consolidated accounts shall also apply the K4 framework. The K4 framework contains specific Swedish rules beyond what is mentioned in RFR 1 and RFR 2²¹ for companies applying IFRS in their consolidated accounts.²²

3.2 Previous studies

3.2.1 Principles-based versus rules-based systems

A rules-based framework is a framework that contains detailed rules, guidance and bright-line specifications in the standards encouraging financial engineering to meet the letter but not the intent of the framework. A principles-based framework on the other hand contains high-level standards with little operational guidance. These formats of standards require preparers and auditors to exercise judgement in accounting for transactions and events without providing a sufficient structure to frame that judgement. This accounting approach reflects the economic substance of the accounting problem and is consistent with and derived from a coherent conceptual framework, from which there are few exceptions.²³

There is no pure rules-based or principles-based standard setting, all regulations are based on principles which then are more or less rules-based.²⁴ According to Alexander and Jermakowicz both principles-based and rules-based regulation are necessary for the practical exercise.²⁵ This is also brought up by Nobes in his article *Rules-based Standards and the Lack of Principles in Accounting* in which he explains that the rules-based accounting is fundamentally based on the principles of standard-setters. Before you ask how much rules a framework shall contain you must ask whether the framework is based on the most appropriate principles. In contrast to Alexander and Jermakowicz, Nobes argues that if the most appropriate principles are used there is no need for any rules. If the standard is not consistent with the framework and its principles, it must however be more rules-based. This theory that the rules are not needed if the right principles are used is concluded by Nobes. Through a study of the US GAAP Nobes has identified six areas of accounting with detailed technical rules, in all six cases he argues that the need for these rules is due to the absence of principles or that the principles used are inappropriate and not consistent with the broad principles of the framework.²⁶

Nelson claims that adding rules to the principles affect both the precision and the complexity of the standard setting. Some accounting entries are complex in their nature but have easy character features, making it possible to in a good way design specific rules, one such entry is leasing. These entries are as said, easy to regulate, but do not really need to be regulated when they are not so difficult to manage. Other accounting areas do not have as easy character features, and therefore automatically requires certain estimations and judgements. These areas are more difficult to set

²¹ Recommendations from the Council for Financial Reporting concerning complementary accounting rules for groups and legal persons in Sweden who follow IFRS in their consolidated accounts.

²² Bokföringsnämnden^B (the Swedish Accounting Standards Board)

²³ Benston, 2006

²⁴ Nelson, 2003

²⁵ Alexander & Jermakowicz, 2006

²⁶ Nobes, 2005

thresholds for and thus become principles-based, although rules actually might be required.²⁷ Nobes believes that a focus on principles does not always lead to less complexity in accounting, but the complexity of the rules are reduced if the appropriate principles are used when the need for rules decreases in these cases.²⁸

Maines et al. have found that the rules-based norm-setting that exists in the US GAAP are demand-driven, which means that companies demand more and more guidance.²⁹ Alexander and Jermakowicz explain in their article *A True and Fair View of the Principles/Rules Debate*, that the Financial Accounting Standards Board (FASB), which is the standard setter in the U.S., has been generous when it comes to issuing standards and interpretations to the US GAAP. The US GAAP is essentially principles-based, but as both practitioners and users of the report have called for more and more detailed rules to cover all possible accounting scenarios the norm-setting has got a rules-based approach. The U.S. accounting system has today a plethora of rules and this focus on detailed rules have been criticized as it is considered to lead to accounting solutions in line with the laws literal meaning rather than the spirit of the law.³⁰

Maines et al. define the principles-based standards to have the following characteristics:

- In a principles-based standard, the economic substance, not the form, of a given transaction should guide its financial reporting.
- The standard should include a description that contains the underlying economics of the transaction that is the subject of the standard.
- The principles-based standard should include a discussion of how the economics of a transaction should be treated using the conceptual framework for classification and measurement issues.
- Implementation guidance may be presented but only in the form of examples, and should be noted as such in the discussion of the example.
- The standard setters should be careful to create names for principles because the names may already have a connotative meaning for the reader that differs from the concept that the setters has in mind.
- The standard should include disclosure requirements about the economics of the transaction being reported and the assumptions made in the reporting.³¹

3.2.2 The accounting profession under a principles-based versus rules-based system

Maines et al. highlight an example of the extremes of a rules-based versus principles-based standard to concrete the differences between a rules- and principles-based standard setting. The extreme of rules-based norm-setting Maines et al. exemplify as:

*"Annual depreciation expense for all fixed assets is to be 10 percent of the original cost of the asset until the asset is fully depreciated."*³²

To illustrate the principles-based standard setting, the following example is given:

²⁷ Nelson, 2003

²⁸ Nobes, 2005

²⁹ Maines et al, 2003

³⁰ Alexander & Jermakowicz, 2006

³¹ Maines et al, 2003

³² Maines et al, 2003, page 74

*"Depreciation expense for the reporting period should reflect the decline in the economic value of the asset over the period."*³³

With these examples, Maines et al. aim to show how the principles-based accounting provides space and also requires professional judgements and expertise of both accountants and managers to reflect the economic value of the asset. Furthermore, the example aims to show how the rules-based standard setting leaves no room for judgements regarding how much should be depreciated. During the rules-based norm-setting the comparability and the consistency between firms and over time are good, however, such a statement is not particularly relevant when the financial statements in these cases do not reflect the entity's underlying economic value. In a rules-based system, the financial reporting may be seen as an act of compliance rather than an act of communication. The principles-based statements reflect in a better sense the financial reporting, but the requirement to demonstrate the economic depreciation is often more costly. Principles-based accounting requires closer cooperation between the financial department and managers since it is often the managers who possess the information necessary to make the right judgements.³⁴ Alexander and Jermakowicz as well think that one consequence of a principles-based regulatory framework is that it requires that both practitioners and auditors must make judgements related to the accounting transactions and events without the clear context that a rules-based framework offers.³⁵

Schipper writes in the article *Principles-based Accounting Standards* that a more principles-based standard setting requires a substantial increase in professional judgements. A shift towards a standard setting with none, or very few exceptions, options and detailed guidance gives effects on education and research in accounting and on other actors that are involved in the process of producing the financial statements. Schipper believes that both the type and the amount of knowledge required by accountants changes when the regulation goes from being less rules-based to being more principles-based. If the detailed guidance which aims to illustrate how to apply the standard setting in each specific situation is taken away, it means that every company and their auditors must develop specific details and guidance applicable to the particular company in question. According to Schipper principles-based regulations are setting higher demands on the practitioners and require special education to meet these demands.³⁶

The practitioners in the U. S. often complain that too many rules give a standard-overload that allows few practitioners to embrace all the standards that the standard-setters are trying to convey. To just following rules affect the judgement of the practitioners adversely, it only encourages them to follow the rules and not think for themselves. Managing the accounting complexity has to do with how good and relevant knowledge the practitioner has, a person with much knowledge has easier to find the rules that are relevant for and applicable to a transaction. Without precise rules the demands on the practitioners to reason by analogy and find relationships between standards, practices and their own problems increases. A key for the standard setters are to strike the right balance between providing enough rules in order to communicate clearly but not so many rules that practitioners get overwhelmed.³⁷

³³ Maines et al, 2003, page 74

³⁴ Maines et al, 2003

³⁵ Alexander & Jermakowicz, 2006

³⁶ Schipper, 2003

³⁷ Nelson, 2003

In the U. S., FASB announced that the journey to a more principles-based regulatory framework will be long and difficult for the country; the transition will require a change in attitude, behavior and knowledge of the accountants. Furthermore, they consider that many practitioners of accounting have become less willing to make professional judgements in areas including estimates, uncertainties and subjectivity. The increased responsibility that a principles-based framework leads to for the accuracy of the financial statements leads to a fear that the supervisory and court trials will interpret the situation differently.³⁸

3.3 Schein's change theory ³⁹

Kurt Lewin (1947) proposed a three-stage model of change, which has become known as the *unfreeze-change-refreeze* model, this model implies that previous learning is rejected and replaced with new learnings. The model is often quoted and further developed, among others by Edgar Schein, who added another element to the model; his extension is known as cognitive redefinition.

The unfreezing phase

Unfreezing the existing situation is the most difficult but also the most important phase in the change process. This step in the change process is based on the theory that human behavior is based on previous learning and cultural influences. It is necessary to make an effort in order to remove previous learning which support conservation of habitual behavior. The unfreezing phase has three underlying processes related to the readiness and motivation for change.

- Disconfirming data are any item of information that shows the organization that some of its goals are not being achieved. Disconfirming information can be economic, political, social or personal.
- In order to create motivation for change it is necessary to create an approach that the existing situation is bad and that it would be risky if the organization continued on the same path. The aim is to create anxiety or guilt; if the old situation is preserved certain goals cannot be achieved and standards and ideals cannot be maintained. If this is accomplished members of the organization will feel uncomfortable and anxious, the feeling is titled survival anxiety and means that unless we change something bad will happen.
- There is more than survival anxiety needed in order to create motivation for change since the members of the organization can rationalize or deny the situation. The reason for this behavior is that learning new things creates anxiety, so called learning anxiety which is a feeling that learning something new cannot be done without losing identity or group membership. An important component in this phase is the creation of psychological safety, where the core is that the members can imagine a needed change without feeling a loss of integrity or identity. The learner must come to feel that the new way of being is possible and achievable.

The changing phase (cognitive redefinition)

When unfreezing has occurred, the actual implementation of the change can take place. In this phase there is a desire to change and the next step is to identify what has to change. Most changes require a change in behavior. Behavioral change can be enforced, but it will only last as long as the compulsion stands, unless cognitive redefinition has taken place. In this phase new attitudes and

³⁸ Alexander & Jermakowicz, 2006

³⁹ Schein, 2004

behaviors are created through actions such as training, communications training or a new type of leadership.

The refreezing phase

The third and final phase must be completed to prevent the organization from falling back into old patterns. The phase contains that the new behavior or way of doing things stabilizes and become routine. It is important not to make premature refreezing in order to make sure that the whole process of change has been completed.

Culture change

Before a change, it is often not clear from the beginning if it will require a culture change and whether the existing culture will help or oppose the change. If a change does not involve a culture change not so much unlearning is needed. In the cases when a culture change is not needed a change will not be as painful and will not be thwarted as much by practitioners as it will when a cultural change is at hand.

3.4 Hofstede's cultural dimensions theory

In an attempt to develop a commonly acceptable terminology for describing cultures, Hofstede identified four distinct societal value dimensions which he considered to reflect a country's cultural orientation. The dimensions were identified as: large versus small power distance, individualism versus collectivism, masculinity versus femininity and strong versus weak uncertainty avoidance.⁴⁰

Power distance

This dimension measures the extent to which less powerful members of organizations expect and accept that power is distributed unequally. In cultures with small power distance, such as Austria, Israel, Denmark and Sweden, the power relations are expected to be consultative, including and democratic. In cultures with high power distance, such as Southeast Asia, Eastern Europe and the Arab world, less powerful individuals accept power relations that are more authoritarian and paternalistic. People in those cultures agree to subordinate to the power of others simply based on where they find themselves in certain formal and hierarchical systems. Hofstede's power distance index does not show differences in the distribution of power, rather it shows how individuals perceive differences in power, however, generally it applies that countries with lower power distance are managed more democratically. In Europe, power distance tends to be lower in northern countries and higher in the southern and eastern countries.⁴¹

Individualism versus collectivism

Individualism is contrasted with collectivism, and refers to the degree to which individuals are expected to choose their own associations or to act as members of a life-long group or organization. Latin American countries are ranked as the most collectivist; while the U.S. followed by English-speaking and Western European countries have the most individualistic cultures.⁴²

Masculinity versus femininity

This dimension refers to the valuation of traditional male or female values. Masculine cultures value competitiveness, assertiveness, ambition, and the glomeration of wealth and material things, whereas feminine cultures place more value on relationships and quality of life. Japan and Slovakia

⁴⁰ Chow et al, 1995

⁴¹ www.geert-hofstede.com, Geert Hofstede Cultural Dimensions

⁴² Ibid.

are ranked as the most masculine cultures, as well as several Western European countries, Sweden on the other hand is ranked as the most feminine country, followed by the other Nordic countries. Another aspect of this dimension is that the differences in gender roles are bigger in masculine cultures than in feminine cultures.⁴³

Uncertainty avoidance

Uncertainty avoidance refers to the society's tolerance for uncertainty and ambiguity. It indicates to what extent the members of a culture feel either uncomfortable or comfortable in unstructured situations. Uncertainty avoiding cultures try to minimize the possibility of unstructured situations that are new, unknown, surprising and different from usual by laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth. People in uncertainty avoiding countries are also more emotional, and motivated by inner nervous energy. The opposite type, uncertainty accepting cultures, are more tolerant of opinions different from what they are used to, they try to have as few rules as possible, and on the philosophical and religious level they are relativist and allow different views to flow side by side.⁴⁴

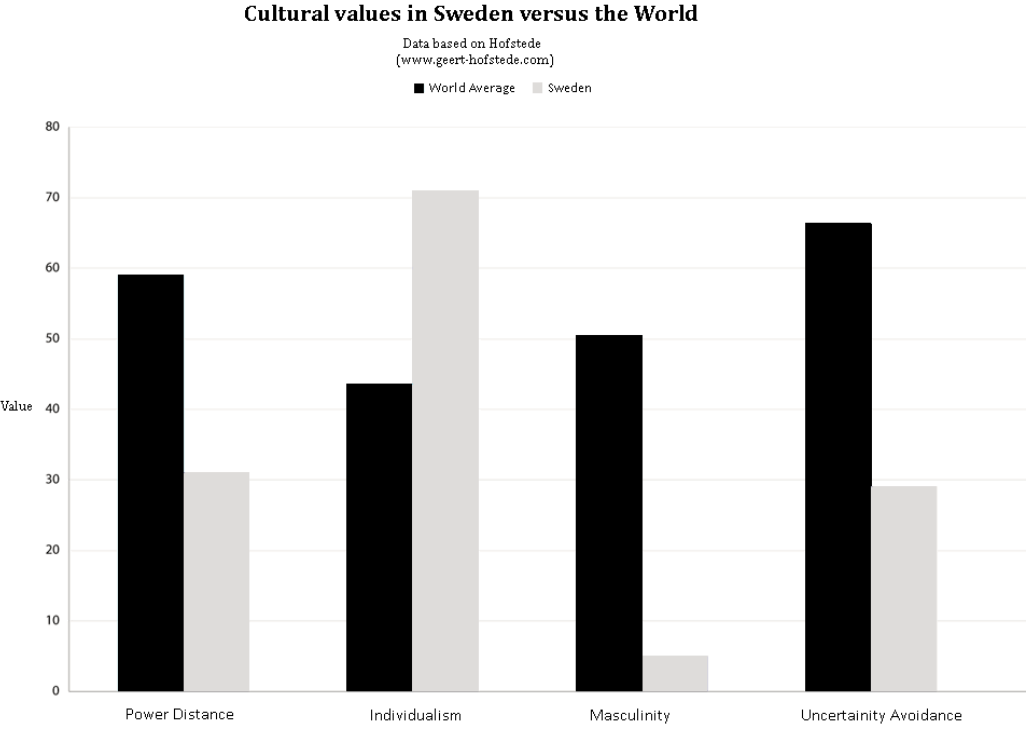


Table 4.1

3.5 Gray's theory of cultural influence on accounting

Culture has been and still is an important aspect in the development of accounting both nationally and internationally. The word culture is referring to a society as a whole, or a nation, whereas subculture is used for the level of an organization, profession or family. The degree of cultural integration varies between societies, most subcultures within a society share common characteristics with other subcultures⁴⁵. Culture is considered an essential element in the framework for understanding how social systems change. Gray has by applying Hofstede's model to accounting identified different subcultures within the accounting field that directly affects the accounting practices. The four accounting values identified by Gray as being related to societal values are

⁴³ www.geert-hofstede.com, Geert Hofstede Cultural Dimensions
⁴⁴ Ibid.
⁴⁵ Ibid.

professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency. The first two values are relevant for the authority for accounting systems and their enforcement, the third value is relevant for the issue of measurement of assets and profits and the fourth value is relevant for the issue of information disclosure.⁴⁶

Professionalism versus statutory control

This is proposed as a significant accounting value dimension because accountants are perceived to adopt independent attitudes and to exercise their individual professional judgements to a greater or lesser extent everywhere in the world.

If the accounting should be state-controlled or allow for the accounting profession's assessments, have for a long time been and still is a heavily debated subject, particularly internationally. In countries like the U.K. the concept to present *a true and fair view* of a company's financial position and results has left much room for assessments from the accounting profession, these assessments are in some cases so important that they may even go against what is required by law. This can be contrasted with the tradition that exists in countries like France and Germany, where the role of the accountant is simply to follow the standards and laws. Professionalism can be linked most closely to the individualism and uncertainty avoidance dimensions among Hofstede's societal values. A preference for independent professional assessments are consistent with a preference for a society where there is an emphasis on independence, a belief in individual decisions and respect for individual endeavor. Professionalism is also consistent with weak uncertainty avoidance where the practice is important and where there is a belief in fair play. Weak uncertainty avoidance also includes a society with few rules and where a variety of professional judgments are tolerated. It could also be a link, albeit less strong, between professionalism and power distance since it is more likely that professionalism is accepted in a society with low power distance. In a society with low power distance, there is a trust between people, equal rights are important and the establishment of laws and regulations must be justified in order to be accepted. Gray's hypothesis is that the higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance the more likely it is to rank highly in terms of professionalism.⁴⁷

Uniformity versus flexibility

Uniformity is a value that has several different interpretations. Uniformity may imply to a relatively strict inter-company and inter-temporal uniformity or the consistency within companies over time and to some concern even for comparability between companies. Flexibility refers to that the accounting practices aim to suit the circumstances of individual companies.⁴⁸

Uniformity can be linked most closely with the uncertainty-avoidance and individualism dimensions. In a community with strong uncertainty avoidance where there is a need for written rules and regulations, a preference for conformity and a search for absolute truths and values are preferred which means that the preference for uniformity is high. This value dimension is also consistent with a preference for collectivism, as opposed to individualism, with its tightly knit social framework, a belief in organization and order, and respect for group norms. Uniformity can also be linked to power distance in that uniformity is more easily facilitated in a society where the power distance is high in that the imposition of laws and codes of a uniform character are more likely to be accepted. Gray's hypothesis is that the higher a country ranks in terms of uncertainty avoidance and power distance

⁴⁶ Chow et al, 1995

⁴⁷ Gray, 1988

⁴⁸ Ibid.

and the lower it ranks in terms of individualism the more likely it is to rank highly in terms of uniformity.⁴⁹

Conservatism versus optimism

Conservatism refers to a preference for a cautious approach to measurement so as to cope with the uncertainty of future events. Optimism is the opposite of conservatism and refers to a more optimistic, laissez-faire, risk-taking approach. Conservatism in asset measurement and reporting of profits is a fundamental attitude of accountants all over the world which varies according to country. In the Continental European countries, such as France and Germany, there is a strong conservative approach, and in countries like the U.S. and U.K. the attitudes are much less conservative. The differences in attitude are supported by differences in the capital markets, the pressures of user interests, and the influence of tax laws on accountants.

Conservatism can be linked most closely with high uncertainty avoidance but also, if less strong, to high levels of individualism and masculinity. A preference for more conservative measures of profits is consistent with strong uncertainty avoidance following from a concern with security and a perceived need for a cautious approach to cope with the uncertainty of future events. The link to high levels of individualism and masculinity is that an emphasis on individual achievement and performance is likely to have a less conservative approach to measurement. Gray's hypothesis is that the higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity the more likely it is to rank highly in terms of conservatism.⁵⁰

Secrecy versus transparency

This accounting value dimension is about the level of confidentiality and the quantity of disclosure of information about the business to outsiders. This approach derives as much from the management in a company as from the accountants. The extent of secrecy varies across countries; the differences seem to be enhanced by the differential development of capital markets and the nature of share ownership which may provide incentives for a voluntary disclosure of information.

Secrecy can be linked closely with uncertainty avoidance though secrecy is consistent with strong uncertainty avoidance following from a need to restrict information disclosures in purpose to avoid conflict and competition. Secrecy can also be linked closely with the power distance dimension; high power-distance societies are likely to be characterized by the restriction of information to maintain power inequalities. Secrecy is also consistent with a preference for collectivism, the opposite of individualism, with its concern for those closely involved with the firm rather than outsiders. At last there seem to be a link, if less strong, with femininity. A more caring society where more stress is given to the quality of life, people and the environment, will tend to be more transparent. Gray's hypothesis is that the higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity the more likely it is to rank highly in terms of secrecy.⁵¹

⁴⁹ Gray, 1988

⁵⁰ Ibid.

⁵¹ Ibid.

4 Empirics

In this chapter the collected empirical data is presented. The empirical data was collected through interviews with three different groups of respondents. Below, the collected empirical data will be presented group by group.

4.1 The group of experts

This group of respondents consists of people who have specific knowledge in accounting and in the K3 framework. The first person interviewed, Claes Norberg, is a former professor at Lund University who is currently working as an accounting expert at the Confederation of Swedish Enterprise. He is also a member of both the Swedish Accounting Standards Board and the Expert Panel of the Council for Financial Reporting. In our empirical description we will refer to Claes Norberg as our respondent from the Confederation of Swedish Enterprise. The next person interviewed was accounting consultant Sven-Inge Danielsson who also holds the position as accounting expert at SRF and is a member of Far's policy group. He will be referred to as our respondent from SRF. The third and final person interviewed was Catharina Pramhäll who is working at the Swedish Accounting Standards Board. She is the project manager of the preparation of the K3 framework, and will be referred to as the project manager of the K3 framework.

4.1.1 Compilation of the interviews within the group of experts

According to the project manager of the forthcoming regulation, the Swedish Accounting Standards Board does not aim to develop any more examples for the K3 framework than what is in the draft. According to the respondents in the group of experts this will initially require that accountants need to do more assessments than required today. The respondents from the Confederation of Swedish Enterprise and SRF believe that over time more examples will be developed in order to make the regulation more operative. If the Swedish Accounting Standards Board chooses not to develop such examples, this will probably be done by other bodies such as trade associations and major accounting firms. This is the case with the IFRS regulations, where accounting firms have issued their own interpretations of the regulations. During the interview with the project manager of the K3 framework, she pointed out that the idea of the new framework is that it will be principles-based and should therefore not contain many examples but more comments with an open layout in order to reveal the purpose of the legislation instead of just explaining how to handle specific transactions. Our respondent from the Confederation of Swedish Enterprise believes that if there are many examples, there is a risk that these examples will become the standard setting. He explained that if there is an example that fit to a transaction there is a risk that this example is applied instead of the standard behind it. This, he claims, would be a step away from the principles-based approach. The respondent from SRF believes that it initially will be a great discussion about how the regulations should be interpreted. He also claims that all the court cases and practices built up during the old standard setting can be out of date and lead to conflicts with, among others, the Swedish Tax Agency on how the regulations shall be interpreted. According to our respondent from SRF, the new framework will impose a behavioral change on the accountants, because they will have to learn to argue, discuss and understand the purpose of the accounting. His opinion is that, as the situation is today, many accountants have just learned how to perform the accounting without knowing why this, however, is a problem he considers to be likely to recur after a while when the profession gets familiarized with the new upcoming framework. This opinion was also expressed by our respondent from the Confederation of Swedish Enterprise who explained that a principles-based framework often becomes interpreted as a cookbook as time goes by and people get used to the contents of the

framework – which actually makes it comparable to a more rules-based norm-setting. The project manager of the K3 framework emphasizes that it is generally difficult to combine examples with a principles-based framework without getting the standard setting rules-driven.

The Swedish standard setting has traditionally been principles-based according to all of our interviewees within this group. Before the Annual Accounts Act was implemented in 1997, the standard setting was even more principles-based than it is today. Nowadays many more accounting areas are regulated and in the current standard setting there are details and examples for many more different types of transactions than initially. Our respondent from the Confederation of Swedish Enterprise thinks, as we mentioned earlier, that the current standard setting to some extent has had the nature of a cookbook. The project manager of the K3 framework points out that many details from the current standard setting will be removed from the K3 framework, and our respondent from the Confederation of Swedish Enterprise believes that a more concise standard setting will mean that practitioners need to think in a new way when the framework gets less precise. With the K3 framework, the Swedish accounting will take a step towards a more principles-based approach. Our respondent from SRF mentioned that when the accounting is based on a principle, it is important to understand why the accounting is handled the way it is as opposed to a more rules-based approach which is more technical and does not require the same understanding. In a rules-based accounting system it is possible to just follow the detailed rules and their examples for different transactions without understanding the thoughts behind the rules.

In terms of content, our respondents in this group believe that there will only be a little difference between the K3 framework and the current framework, but they are clear to point out that it will be a new framework composed in a new way and designed with fewer examples and details which will place new demands on the profession. A change by itself imposes demands of education and it is important to get the profession to embrace the new things within the framework so that they may see in which areas they can continue as before and which areas will require a new way of working. The most common source of error even under the current standard setting is according to our respondent from SRF that the accounting is performed in the same way as last year although there have been changes in the framework or within the company – a behavior he calls *stiff accounting habit*. The project manager of the K3 framework argues that the transition to the K3 framework will not be particularly problematic for those who perform their accounting in the right way today and who are familiar with today's framework. Accountants and professionals who have not kept up with changes made during the recent years will have a harder time, though. Even if the framework will not demand any additional education in terms of knowledge, she points out that regardless of the background and experience of a practitioner, the transition by itself will require education and impose an administrative burden. New things are always tough because they require new learning. Furthermore, she thinks that the current situation is untenable and that a change is necessary. With the introduction of the K3 framework the complexity that exists today is reduced as the K3 framework will be a single framework as opposed to today's framework that is sorted on the different areas of accounting, which means that it is difficult and time consuming for companies to find rules applicable to their business. The Swedish Accounting Standards Board has got the impression that the accounting profession's approach to the K3 framework is positive; everyone seems to want a new complete regulatory framework, although there are comments on some parts of the content and the format of the draft.

According to the respondents in this group the biggest challenge with the introduction of the K3 framework is not the K3 framework itself, but the complexity that comes with the four different

frameworks for different sorts of companies – the K1-K4 frameworks. When the K project is finished there will be four sets of frameworks based in two different ways, the K1 framework and the K2 framework will be rules-based frameworks in which there will be no room for own interpretations and alternatives, while the frameworks K3 and K4 will be based on principles where judgments and interpretations are in focus. Our respondent from SRF believes that this will be a major challenge for the accounting consultants; it will be very difficult for any individual to have knowledge about all regulations and switch between the different approaches. This can lead to that instead of having an overview of the entire Swedish accounting framework, practitioners will to a further extent specialize in a particular framework.

According to the project manager of the K3 framework Sweden has a climate where people do not want exact rules. The resistance to the K2 framework, which is a rules-based framework, has been much greater than the resistance that the K3 framework has met. Many people within the profession believe that the K2 framework is very square, and wish to open up the framework in favor for more interpretations and options. On the other hand, the responses on the K3 draft that the Swedish Accounting Standards Board has received from the Far and the Confederation of Swedish Enterprise said that more guidance is needed in order to make the K3 framework operational, and that the guidance should be in the form of examples on how the standard setting should be interpreted and how different transactions should be handled. Our respondent from SRF is of the same opinion and thinks that Swedes want more guidance than provided by the draft, this is the reason why other agencies are likely to issue their own interpretations and examples on the K3 framework unless the Swedish Accounting Standards Board does it as requested. Without further guidance and examples our respondent from the Confederation of Swedish Enterprise thinks that the profession might continue with the accounting in the same way as always and will not exploit the new framework in the best way.

4.2 Accounting experts at accounting firms

Within this group, five accountants and auditors at large accounting firms in Sweden were interviewed. Out of these five people, four were auditors at accounting firms, two of those also appear as experts in accounting issues at the agencies. One of the auditors is also a lecturer at the Department of Business Administration at the School of Business, Economics and Law by the University of Gothenburg. The fifth person interviewed was an accounting consultant and accounting expert at a large accounting firm in Sweden. There were people in the group that wished to remain anonymous; therefore no one in this group is mentioned by name.

4.2.1 Compilation of the interviews within the group of accounting experts at accounting firms

All of the respondents within this group agree that the K3 framework, as the draft looks today, is very thin and will probably be difficult to apply since it will be difficult to understand what the Swedish Accounting Standards Board means with the standards in the framework. For the framework to be user friendly more examples will probably be needed. Our respondents claimed that these examples must be broad to avoid the examples becoming rules. On the other hand the respondents pointed out that with too much examples you step away from the principles-based approach in the standard setting. One of our respondents explained that when there is an example of how a rule should be applied, strong evidence is often required to deviate from the example. The respondents agree that a principles-based approach is a requirement for the K3 framework to be applicable in Sweden. On the other hand they point out that examples are needed for practical reasons: it can be overwhelming to

think by yourself in all accounting matters. It is preferable to distinguish between guidance and rules to avoid the framework from having too much of a cookery book character. One of our respondents pointed out that many accountants perceive IFRS as more and more rules-based, although another respondent claims this to be a misunderstanding originating from people not using the framework correctly and who fail to understand the principle behind the norm-setting. The respondents point out that a major issue with the introduction of the K3 framework is the importance of the professionals within the accounting profession embracing the new way of thinking. Without further guidance and examples, it can easily be the case that many accountants continue thinking like they did before and exploit the flexibility of the framework to do as they always have done. Another risk is that the old guidance will exist on the side of the K3 framework since there will not be a huge difference between the old guidance and the K3 framework, especially not between the K3 framework and the standards issued by the Swedish Financial Accounting Standards Council. According to the respondents, a disadvantage of principles-based accounting without examples is that the comparability and consistency between companies and over time might be reduced. If the framework is open for judgments and interpretations, companies can interpret situations differently and therefore similar accounting transactions might be performed in different ways.

According to our respondents, there is a risk that many practitioners become passive, stay in old patterns and exploit the flexibility of the K3 framework to do as before because many people within the profession are not very apt to changes. Changes are regarded as difficult and require an effort. It is easier to do as before than being forced to learn something new and adapting new routines. Some of our respondents highlight that many do not see the benefits of the new framework and the flexibility that it offers, while other respondents felt that accountants are generally sympathetic to the K3 framework and have high expectations for the introduction. According to our respondents, the introduction of the K3 framework will impose demands on the professionals because they have to adapt a new way of thinking since principles will become more important. The K3 framework will lead to an upshift of the principles-based approach, particularly for those companies that do not apply the standards issued by the Swedish Financial Accounting Standards Council before the transition. Even though many accountants are sympathetic to the K3 framework, the introduction of the new regulations will mean changes and an adjustment for the accounting profession in Sweden. Most of the respondents believe that a lot of education will be needed with the implementation of the K3 framework as the practitioners within profession must familiarize themselves with a completely new regulatory framework. Although the K3 framework will not mean such a big difference for some companies, they still have to make a review of the companies' accounting and accounting routines in order to find out how the K3 framework will affect them. One of our respondents believes that many differences that will be found are not necessary differences in accounting principle but that the accounting did not follow former standards correctly; this was found in many companies at the briefing made in connection with the introduction of IFRS in 2005.

All the respondents in this group agree that the Swedish accounting traditionally has been principles-based and that it is principles-based accounting that fits best in Sweden since Swedes want to think for themselves and do the right thing. However, one of the respondents said that the Swedish accounting practitioners live in a rules-based accounting world in which they use rules for practical reasons when it becomes overwhelmingly difficult to use principles in all situations. Another respondent believes that the examples found in the standard setting are followed as rules and as we have mentioned earlier, it requires a strong case to be able to deviate from these examples.

Two of the respondents pointed out that principles-based accounting is about the accountants set pointer from principles to make judgments and estimates which requires the accountants to show how they have thought and performed the accounting. Moreover, these respondents think that it is a disappointment that the Swedish Accounting Standards Board has taken away many of the disclosure requirements from IFRS for SME when issuing the K3 framework. When the accounting is principles-based, the readers of annual reports shall have the feasibility to form their own opinion about a company's position and the assessments made, hence there is a need for this information. If the K3 framework is too similar to IFRS for SME, which is a quite demanding framework, others argue that there is a significant risk that many companies, if they are able to, will choose to apply the K2 framework instead of the K3 framework which will affect the Swedish accounting culture in a negative way. It is companies that qualify as small companies that are able to adapt the K2 framework and since a very large part of the Swedish companies qualifies as small companies many can chose this path. In small companies there are usually few stakeholders, which mean that there are not many people who read the financial statements since the stakeholders often work in the companies and already have all required information. It will only be a cost for those companies to use a framework which requires detailed disclosure information. If too many Swedish companies choose to apply the K2 framework the quality of annual reporting for companies in Sweden might be reduced.

4.3 Accountants at companies

Within this group four people who work with accounting at different companies were interviewed. All the respondents within the group are working at companies using IFRS in their consolidated accounts; they are therefore familiar with principles-based accounting and its implications for practitioners. We chose to interview people at companies using IFRS because these companies have recently been through the transition to the principles-based framework IFRS, which occurred in 2005, and they will apply the K3 framework in many of their subsidiaries when the time comes to introduce the K3 framework.

4.3.1 Compilation of the interviews within the group of accountants at companies

All the respondents within the group agree that the K3 framework will not pose any major changes compared to the current norm-setting, especially not for companies applying the standards issued by the Swedish Financial Accounting Standards Council in the current situation. All the interviewees have experience of the principles-based IFRS regulations and therefore have a good understanding of what demands a principles-based regulatory framework imposes on the practitioners. All our respondents stress the importance of understanding the business that one works in when dealing with a principles-based regulatory framework. Furthermore they pointed out that principles-based accounting requires that the practitioner make interpretations and judgements based on the reality that the company is in; it requires that those working with accounting have a good understanding of the business and work as a team. When accounting allows for different interpretations and options it provides the accountants the opportunity to take advantage of this to really present what they wish to present, thus providing an accurate view of the company's position. All respondents point out, however, that a principles-based approach with more flexibility and assessments can lead to reduced comparability between companies. One of the respondents also notes that there is a risk that companies within a K3 environment will use the flexibility that the standards offer to do what is easiest and cheapest instead of doing the accounting in a way that gives the best view. A reason for this is that many companies that will apply the K3 framework do not have many stakeholders who

are interested in the financial statements; investing a lot of time and energy in the accounting is therefore only a cost for the company.

According to our respondents principles-based accounting is more demanding for the accountants since the accountants must justify their positions made. The principles-based accounting also requires more communication with management and explanations for owners and management about why transactions are handled in a particular way and not in another. According to the respondents this requires more knowledge by the accountants than under a rules-based framework. One of the respondents claims that a framework that leaves room for choices and options means more frustration. When there is a rule or a suitable example for a transaction it is easy to decide how to perform the accounting, but under a principles-based approach you have to think by yourself and decide how the transaction shall be handled.

The respondents believe that the K2 framework represents a greater change for the profession in Sweden than the K3 framework. They explain this by the fact that the K2 framework is much more detailed than accountants in Sweden are used to since the accounting in Sweden traditionally has been more or less principles-based. One of the respondents believes that Sweden consists of people who are highly educated, creative and want to do the right thing and therefore prefer a principles-based regulatory framework. Of course, there are practitioners who can utilize the flexibility of a regulatory framework for their own personal gain, but a prerequisite for the K3 framework to function is still that the framework is principles-based and not too detailed. This respondent also believes that the accounting in Sweden was more principles-based and less detailed before the Annual Accounts Act was implemented in 1997. This was also pointed out by two other respondents who felt that principles were more important before the Annual Accounts Act was introduced. Before this generally accepted accounting principles and industry practice ruled the accounting in Sweden and many accounting areas were not regulated at all. All the respondents within the group agree that it is favorable that the K3 framework will be based on principles, nonetheless, they believe that the principles-based framework will be supplemented with more examples and guidance in the future. They also argued that if this guidance is not issued by the Swedish Accounting Standards Board it will probably be issued by other agencies as the world is becoming increasingly complex.

5 Analysis

In this chapter we will analyze the findings in the empirical study. We will compare our empirical data with previous research and chosen theories in the frame of reference. The presentation is in agreement with the sequence of the frame of reference.

5.1 Extended examples and its impact on principles-based versus rules-based systems

Our empirical result shows that no pure rules-based or principles-based standard setting exists, this result is also found by Nelson in his research. Nelson believes that most of the regulatory frameworks in the world are based on principles and the standard settings are then more or less rules-driven, depending on how detailed the standard settings are. All three interview groups have suggested that Swedish accounting traditionally has been principles-based, but they also have pointed out that the standard setting has become more and more detailed since the introduction of the Annual Accounts Act in 1997. Within the group of accounting experts at accounting firms the opinion is that the existing accounting reality in Sweden currently is rules-driven and that the accounting profession for practical reasons uses examples as rules. In many cases these examples have become rules that are difficult to not apply. This view is also supported by the group of accountants at companies where the opinion is that the accounting recently has become increasingly detailed and that principles were more important before than they are in the Swedish accounting today. Even the expert group is of the opinion that the accounting framework in Sweden has increasingly become like a cookbook in nature. The group therefore has a positive attitude to the K3 framework's step back to a more principles-based approach.

Although the groups agree that it is positive that the K3 framework will be a principles-based regulatory framework and that this is a prerequisite for the regulatory framework to serve as the norm-setting, the majority of the respondents said that more examples and guidance are needed to make the framework applicable for the users. These ideas have also been highlighted in previous research issued by Alexander and Jermakowicz who believe that it is necessary with both principles and rules in a regulatory framework in order for the framework to be practical practicable to implement. Previous research issued by Nobes is of a different opinion. He believes that if the right principles exist, it is redundant with rules. This was no result we found in our empirical; the respondents all agree that in specific areas of accounting rules are needed in the form of examples in order for the users to understand the purpose of the underlying principle. Research issued by Nelson questions the responses we have received from our interviewees, Nelson's research claims that the complexity in accounting increases when adding rules and examples to the principles. Nobes' research, however, shows that it does not matter if there are rules in the form of examples or not as long as the right principles are used.

The empirical result indicates that the comparability and consistency between companies can decline if the Swedish Accounting Standards Board does not issue more examples to the K3 framework since the framework therefore might be interpreted differently. When there are few examples or little guidance showing how different transactions should be treated in the accounting, the accountants need to do their own assessments and report in the way they think will provide the best possible explanation for a specific transaction. If the accountants interpret similar transactions in different ways because they interpret the framework differently the accounting might lose the comparability between companies and maybe also over time. Furthermore, if transactions in a company will be

treated differently at different times, there is also a risk that the possibility to compare over time might be lost. Results from previous research have shown that rules-based accounting increases the comparability, which conversely shows the same result as our study which indicates that the comparability and consistency between companies might decline if no further examples are issued to the K3 framework.

All of our respondents, including the project manager of the K3 framework, agree that the Swedish Accounting Standards Board have to develop more examples and guidance to the K3 framework. According to the project manager of the K3 framework, the Swedish Accounting Standards Board at this stage has no intention to draw more examples than what is in the K3 draft since it is generally difficult to combine examples with principles-based standards without getting the standard setting rules-driven. Research done by Maines et al. shows that there is a risk that a rules-based standard setting gets demand-driven and requires more guidance, the more guidance issued. This is the case in the U.S. where they now have a very rules-based accounting approach. Even if the respondents in the group of accounting experts at accounting firms demand more examples, they were clear to point out that the examples must be broad to avoid the examples from becoming rules and hence the accounting to deviate from the principles-based approach. Our respondents also pointed out that it is important that users understand that the examples are only examples, not rules. One respondent in the group with accountants believes that IFRS is moving more and more towards a rules-based framework, but the group of accounting experts argues that this is just a misunderstanding. They argued that people of that opinion do not use the framework correctly and fail to understand the principles behind the norm-setting. Two of our respondent groups have specifically mentioned that they believe that unless the Swedish Accounting Standards Board issues further guidance and examples it is likely that other organizations will make interpretations of the K3 framework since the regulatory framework must be user-friendly and operational. If no additional guidance and examples are issued our respondent groups believe that it might be a risk that the practitioners within the accounting profession will continue in the same way as they have done before and will not use the principles-based regulatory framework like it is supposed to be used.

The project manager of the K3 framework highlighted that the idea of the K3 framework is that it shall be principles-based and not contain much examples. Instead, for explanatory reasons, comments with an open layout will be used for explaining the purpose of the framework instead of how specific transactions should be treated. Support for this opinion can be found in research by Maines et al. which can be read in their definition of how a principles-based standard should be designed to be principles-based. Maines et al. bring up six points of features for a standard to be principles-based, these points include, among other things, that the economic substance not the shape should guide the reporting and that the principles and the purposes of the framework shall be in focus. Maines et al. also outline as a requirement that the examples listed in the standards shall be known as examples in order to make it clear that these are not rules. In our empirical work we have also found evidence for this result, which indicates that it is important for the Swedish Accounting Standards Board to develop standards that is compatible with a principles-based approach in order to avoid examples from becoming rules.

5.2 Requirements imposed on the accounting profession caused by the base of the framework

If the Swedish standard setting gets a more principles-based approach, with fewer examples and details, this will, according to our respondents, require the practitioners within the profession to

think for themselves and make accounting estimates more widely. This result has also emerged in previous research, among others were Maines et al. describe the differences in accounting that is principles-based versus rules-based. Maines et al. together with Alexander and Jermakowicz emphasize that principles-based accounting leaves room for, and requires judgments and expertise to assess various transactions. Maines et al. further discuss that during a more rules-based approach the comparability between companies and over time is greater but that this type of accounting does not show the underlying economic value of a transaction. That the comparison becomes worse when there is a greater emphasis on principles is something that our empirical work has shown as several of our respondents have argued on this and shown a concern over a decreasing comparability and consistency.

The results of the empirical data show that during principles-based accounting it is important for practitioners to understand why the accounting is performed the way it is, as opposed to a more rules-based approach that is more technical and does not require the same understanding. According to the respondents it is not only how the accounting is performed that is important to understand, but also the business in which the company operates. A principles-based standard setting requires practitioners to make interpretations and judgements based on the reality in which they operate, practitioners must therefore understand the deal of the business under such a framework. Among other things, Schipper has done research that shows the same result. Schipper believes that a shift to a more principles-based standard setting will require the professionals to make more judgements. Schipper also argues that a shift towards a more principles-based framework with few exceptions, options and details will affect education and research in the field of accounting. Our study indicates that Swedish accountants have enough background education since the Swedish accounting traditionally has been principles-based. The accountants, however, need additional education in order to handle the transition since the new framework will have a clearer principles-based approach and therefore imposes a new way of thinking and working. Our results therefore indicates the same as Schipper's research, a transition to more principles-based accounting requires education even if our results do not indicate any effects on background education and research in accounting.

According to the Swedish Accounting Standards Board, additional examples will not be issued to the K3 framework although different associations and enterprises require this. Our respondents believe that the draft of the K3 framework is very difficult to interpret. In order to make the framework user friendly they think that more examples are needed – otherwise users may fail to understand the idea behind the principles. This result was also found by Nelson, he discusses how important it is to find a balance between giving out enough rules to clarify the purpose, and giving out too much rules which would actually contradict the purpose. Without clear focus on the purpose there is a risk that practitioners stop thinking for themselves and just follow the examples and the guidance. These results indicates that it is very important for the Swedish Accounting Standards Board to carefully think through any additional examples, but also that they might have to issue examples for the users to understand the framework.

5.3 How to succeed with a change

According to Schein, the unfreezing is the most important part in the process of change, but also the most difficult. In this phase, previous learning must be removed and replaced with new learning for a change to be possible. The transition to the K3 framework contains a forced change involving all old standard setting to be replaced by a new regulatory framework. Our respondents have emphasized that the major change for the practitioners is not the difference in content, but rather that the

practitioners must learn to work with a new framework. To make change happen according to Schein's unfreezing phase, there has to be a change in the practitioners' consciousness; they must see the benefits of the change and the disadvantage of retaining the old. Our empirical data shows that there are accountants who do not see the usefulness of the K3 framework and just think it is a difficult change that creates more work and additional effort. Since the transition to the K3 framework is mandatory, it may be difficult to get those practitioners who do not see the benefits of the change to detect the part of the unfreezing phase that aims to make them feel that something is wrong in the current situation. In the group of accounting experts at accounting firms, the opinion is that many people within the profession are not particularly embracing the change, since change is considered as difficult and represents an effort. Though, it has emerged in the study that the respondents think that the vast majority of the professionals has welcomed the introduction of a new framework and sees the benefits of getting a single legal framework instead of a framework that is sorted by the different areas of accounting which is very time consuming for companies. As the situation stands today, it is untenable according to the project manager of the K3 framework, different companies use or obtain guidance in different places and the current situation offers no clear rules to follow.

It takes more than just getting the practitioners to see the benefits of the new framework to achieve change; many take the easy way out and continue as before because old patterns and behavior has to do with a person's identity. Our respondent from SRF stated that the most common source of error in accounting is that accountants just do what they did last year although changes have been made; he calls this behavior stiff accounting habit. In a situation like this, when the accounting profession is facing a transition, it is important to get the practitioners to know that the new way of working is possible and achievable as Schein's theory says.

When the unfreezing phase is completed, the actual change can take place according to Schein's theory. The idea in this phase is to identify what has to be changed. The change required according to this theory is a change in behavior which can be achieved in different ways. Our empirical result indicated that the new framework will require a new way of thinking because it will contain fewer examples and fewer details. The result also shows that the principles-based approach will become more important for the users because it requires the users to understand the business they operate in, the purpose of the accounting and the principles behind the standards. To achieve this, our respondents believe that the transition will require education to get practitioners to think in new ways, embrace the new standards and see in what areas the new framework differs from the old. Just as our result has shown, Schein has raised education as an example of how a change in behavior can be achieved.

The final phase in Schein's change theory is about the new behavior or way of working has to stabilize and become routine, this phase is important to avoid falling back into old patterns. The empirical data has shown that the new framework will probably not pose any enormous changes on the practitioners, therefore there might be a risk that the accountants utilize the flexibility of the new framework to find loopholes in order to continue as before. Schein's theory also says that it is important that freezing does not occur prematurely. In such cases there is a great risk of falling back into old patterns— this risk is also indicated in our result. If freezing occurs prematurely, the process of change will not be used throughout and the change might not be as good as it could be.

The introduction of the K3 framework has not yet occurred but the accounting profession in Sweden will soon be facing this change. Schein's theory says that it is difficult to know whether a change will

require a cultural change at this stage. The result from our study shows that there are different opinions regarding the nature of the existing cultural climate in Sweden and therefore also if the K3 framework will affect the Swedish accounting culture. Both between and within the respondent groups the opinion is divided regarding this issue, some believe that the Swedish accounting profession are living in a rules-driven world, while others believe that the principles are dominant. Although all agree that the accounting has traditionally been principles-based in Sweden. According to Schein, the degree of difficulty of a change depends on whether there is a need for a cultural change or not, when a cultural change has to occur, a bigger sacrifice is demanded by practitioners for a change to take place.

5.4 Sweden's cultural dimensions

This section will present a link between Hofstede's cultural dimensions data for Sweden and our result from the collected empirical data. This association is necessary as background information to further analysis of Gray's theory of influence on accounting by which we will use Hofstede's cultural dimension values to try to clarify the accounting culture in Sweden.

Power distance

The empirical data has indicated that the practitioners within the accounting profession in Sweden want to think for themselves since they are highly educated, creative and want to do the right thing. Moreover, we have been led to believe that Sweden is a country where people do not like when legislators and standard setters come in and rule the roost. These results are supported by Hofstede's data which says that Sweden has lower power distance than the world average, which means that people do not accept the inequities in the distribution of power to a great degree. This connection between our empirical and Hofstede's data indicates that Sweden is a country with low power distance.

Individualism versus collectivism

Our empirical result indicates that the practitioners within the accounting profession in Sweden want to think for themselves, have freedom and take initiatives, which indicates that the profession is more individualistic than collectivistic. This is the same result as found in Hofstede's data; this data says that Sweden is a country where the individualism is higher than the world average which by the support of our empirical seems to be an accurate estimate. The people within the accounting profession in Sweden are likely to be independent and not act as members of a group or organization.

Masculinity versus femininity

According to Hofstede, Sweden is the most feminine country in the world. The fact that a country is feminine means that relationships and quality of life are highly valued. How this is reflected in the accounting profession is nothing we can express any opinion about based on the answers from our respondents. Since this dimension is less important in our further analysis we will leave this dimension with the certainty that Sweden is a feminine country according to Hofstede.

Uncertainty avoidance

Hofstede argues that a country with low uncertainty avoidance is comfortable in uncertain situations and wants to have as few rules as possible. A vast majority of our respondents pointed out that Sweden has a climate in which people do not want precise rules; this indicates that Sweden is a country with low uncertainty avoidance, which follows the result of Hofstede's data for Sweden regarding uncertainty avoidance. Our empirical result has indicated that the accounting profession in

Sweden is facing the future regulatory framework calmly and thus seems comfortable with the implementation which can be seen as an uncertain situation.

5.5 The K3 framework's impact on the culture of Swedish accounting

Professionalism versus statutory control

Gray's hypothesis is that the higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of professionalism. According to the previous analysis of our empirical data compared to Hofstede's data, Sweden is a country that indicates to rank high in terms of individualism and low in terms of uncertainty avoidance and power distance. Given this, it is more likely that Sweden is a country that ranks highly in terms of professionalism within this first accounting value mentioned by Gray. Professionalism means that the accountants prefer to make their own professional judgements rather than be guided by rules; this follows the results that we found during our collection of data. To have an accounting framework with a principles-based approach means that the accounting profession must make its own interpretations and assessments of business transactions in the accounting. Several respondents have suggested that a requirement for the K3 framework to work within the Swedish accounting profession is that the framework is principles-based. Our empirical result indicates that the culture within the Swedish accounting profession does not fit with precise rules regarding how the accounting should be performed. Many respondents did point out that a confirmation of this is that the rules-based K2 framework has become far more criticized than any other of the K frameworks. Many practitioners find the K2 framework as a regulation that is too square and rules-driven.

Uniformity versus flexibility

Gray's hypothesis is that the higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of uniformity. Hofstede's data and our empirical work, suggests that Sweden is a country that according to Gray's accounting values ranks highly in terms of flexibility because Sweden does not rank high in terms of uncertainty avoidance and power distance, and does not rank low in terms of individualism. With a principles-based approach in the norm-setting of accounting, the accounting gets more flexible and open to interpretations, the principles-based approach should therefore suit a country like Sweden best, which is exactly what the result of our interviews shows. The result shows that a standard that is open to interpretation and different options makes it possible for the accountant to adjust the accounting after the company's unique situation and present an accurate view of the company's position. Flexibility means, according to Gray, that the accounting practices aim to suit the circumstances of individual companies.

Secrecy versus transparency

Gray's hypothesis is that the higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism, and to some extent masculinity, then the more likely it is to rank highly in terms of secrecy. According to Hofstede's data and our empirical data Sweden does not rank high in terms of uncertainty avoidance and power distance and does not rank low in terms of individualism, which indicates that Sweden is more likely to rank highly in terms of transparency. According to Hofstede's data Sweden ranks very low in terms of masculinity but we do not take this into account since the link to masculinity is weaker and that we do not have any support on this dimension from our empirics. A principles-based framework often contains of a lot of demands on disclosure in order to make it possible for the readers of annual reports to understand

how a company has handled judgements of various transactions. The K3 framework has many disclosure requirements, but not in the same extent as IFRS for SME since the Swedish Accounting Standards Board has decided to remove many of these to make the accounting easier for the companies. Many of our respondents believe that this is a disappointment; if principles-based accounting is to be applicable the financial statements need to be transparent. This is well matched with Gray's theories that Sweden, according to the analysis of Hofstede's values, is a country that wants to have transparency in the accounting.

6 Conclusion

In this chapter we will present the result of the study with help from the discussions in the analysis. The conclusion is connected to our main research question and our subquestions mentioned in the introduction. We will begin by responding our subquestions and after that we will answer the main question of the study.

6.1 What requirements are set on the profession as the new regulatory framework will contain fewer examples and less guidance than today's framework?

During the empirical investigation it has occurred that the practitioners within the accounting profession to a greater extent will have to make judgments regarding how various transactions should be treated since the new framework will contain fewer examples and less guidance. The practitioners also have to learn to think in new ways since the K3 framework will include fewer examples and less guidance on how different situations should be reported. This result has also emerged in previous research that says that principles-based accounting requires judgements and expertise to evaluate transactions since the K3 framework will be more principles-based than the current framework, however, these demands will increase. The empirical investigation has also shown that practitioners must understand the business that the company operates in and the purpose of the accounting more widely in order to take as much advantage of the principles-based regulatory framework as possible.

6.2 Are the expectations about the implementation of the K3 framework that the existing culture within the profession must change, and in that case, what does this mean for the practitioners?

In the empirical study the result has demonstrated that the introduction of the K3 framework will not pose any major changes on the practitioners since Sweden has traditionally had a principles-based accounting and therefore is familiar with the principles-based accounting that the K3 framework will entail. The empirical study has shown that principles-based accounting is best suited in Sweden even though the study also has indicated that additional guidance and examples is demanded in order to make the framework operational. The result of the empirical study is supported by Gray's theory of cultural influence on accounting. According to this theory and Hofstede's cultural dimension values for Sweden, Sweden is a country where principles-based accounting is the accounting principle most suited to the existing culture. The Swedish accounting profession consists, according to these theories, of individuals who prefer professional judgments, want flexibility in accounting and are open to the transparency that a principles-based accounting offers. With this knowledge, there is no indication that the transition will require a cultural change for the accounting profession with the introduction of the K3 framework. Based on Schein's change theory the change and the transition to the K3 framework will not require as much unlearning since no cultural change will be needed, which will make the change easier to fulfill.

6.3 What general requirements are set on the accounting profession with the transition to the K3 framework?

The result from our empirical study indicates that the transition to the K3 framework will require the accounting profession to make more judgments and to learn to think in new ways. These assumptions are in line with the results of previous research within this area. Furthermore, our result and the selected theories show that the change will probably not require any cultural change for the accounting profession, which will facilitate the transition to the new framework.

In addition to what we mentioned earlier, the result of the collected empirical data demonstrated that it is not only the transition to the K3 framework that will place requirements on the accounting profession, but also the change itself. The result has shown that change is always difficult and requires an effort. Schein's model helps to explain the result of the empirical data within this area, the model explains that there are certain phases that a change must go through to become permanent. A review of these phases will be required by the accounting profession in order to succeed with the change. The transition to the K3 framework is mandatory and demands that a change takes place, a change like this is difficult to achieve since practitioners do not undergo the change because they see a problem by not going through with the change.

A requirement that previous research highlights is that a transition to a more principles-based regulation requires education, the result of our study differs from this previous research since our empirical work argues that the requirement for education with the transition to the K3 framework does not depend on if the regulatory framework will be more principles-based than before but that the transition itself requires education. It is important with education for the practitioners within the accounting profession to see in which standards it will be differences and in which areas they can continue as before. The empirical data also showed that education is required for the profession to realize that a change is going to happen and that the way to work must be reviewed.

Results from previous research show that the comparability between companies is better when there are a lot of rules and guidance in the standard setting. The result of our study has shown that the comparability between companies might decrease with the transition to the K3 framework. If the principles-based approach is detained and is not given more guidance in form of examples, it can lead to companies reporting transactions in different ways which might affect the comparability and consistency, and thus makes it difficult to compare companies with each other.

7 Discussion

In this chapter we will discuss the result of the study and how this can be questioned. Finally, we provide suggestions for future studies that we consider relevant and interesting to investigate further.

The aim of this paper is to provide a preview of the requirements expected to arise for the accounting profession with the introduction of the new K3 framework. The study is based on speculations made by informed individuals with extensive experience in accounting regarding the expected requirements. The result we have developed is based on these speculations, supported by relevant theories and results from previous research.

The result we reached in the study assumes that the practitioners within the profession really are undergoing a change with the introduction of the K3 framework and that they use the framework as intended. We think that it is important that the profession already at this stage will familiarize themselves with the framework and find out what the transition will mean to their company. Some of the changes will take time to implement, and to be able to use the framework as intended we believe that it is time for the practitioners to start looking at the K3 framework as soon as possible. Since the transition to the K3 framework is a mandatory transition to a new standard setting it can be difficult to motivate users to undergo the change that the transition will impose. According to Schein's change theory mandatory changes are difficult to implement, the first phase of change is about to get practitioners to see the benefits of a change and make them understand that it is wrong to continue as before. It is a risk that practitioners do not see the benefits of the new more principles-based flexible framework and just continue as they have done previous years.

The result we have concluded, that the K3 framework will not entail any cultural change, is supported by both empirical data and theory to the extent that principles-based accounting is what works best in Sweden. All of the respondents that we interviewed during the collection of empirical data said that the Swedish accounting today is principles-based, but many also argued that the accountants in Sweden live in a rules-driven world where examples are followed as rules. We think that this ambiguous message could indicate that there might be a greater change with the transition to the K3 framework than what is expected.

According to the Swedish Accounting Standards Board no further examples will be issued to the K3 framework although it is required by a lot of interest organizations and many within the accounting profession. We believe that it will not be easy for the Swedish Accounting Standards Board to decide how many examples the framework should contain since the purpose is to have a principles-based approach. The results of our study indicates that it is very important for the Swedish Accounting Standards Board to carefully think through any additional examples, but also that they might have to issue examples for the users to understand the framework.

All of the respondent groups expressed a concern that the comparability and consistency between companies might decrease with the transition to the K3 framework if there will not be more examples in the regulatory framework. A lack of examples may cause the accountants at companies to interpret the framework differently and therefore handle transaction in different ways. If the comparability and consistency decreases, it will not affect accountants and auditors most but rather investors and other stakeholders who have an interest in comparing companies. On the other hand, the K3 framework is based on IFRS for SME, which we think can lead to that the comparison between

Swedish and foreign companies will increase when the implementation of the K3 framework will mean a harmonization of the accounting in the world.

Many of the companies that will apply the new K3 framework are companies with few stakeholders. In these companies the accounting is not an important part of the business but just something that needs to be done. There is therefore a risk that the change will not occur as intended because the new way to report and to learn new procedures are costly, time consuming and adds no value to the business. It is possible that these companies will use the flexibility of the principles-based framework to perform the accounting in the easiest and cheapest way, instead of a manner that would provide the best view of the company's position.

We believe that how the transition to the K3 framework will turn out in practice depends on the users and if they will see the benefits of a possible change in the way of working and therefore choose to use the K3 framework as intended. The actual impact and the actual requirements that will be placed on the accounting profession with the introduction of the K3 framework will take time to occur because a change takes time. If the K3 framework will involve an initial change with new requirements, or changes and new requirements in the long run is something that is difficult to determine. How the Swedish Accounting Standards Board will meet the requests for additional examples and guidance demanded by several different organizations is also crucial for how the outcome will be.

7.1 Future studies

The K3 framework is still under process and how the final version will look like is not yet determined. Since the transition to the K3 framework has not occurred yet, it would in the future be interesting to investigate what the implementation will actually mean for the accounting profession. It would also be interesting to study what the K3 framework will provide for the accounting and the outcome of the financial statements. Where major changes can be identified it would be interesting to go deeper into these accounts and see what those changes occurs from and if there is a distinct rule change or if the flexibility in the new framework has been used.

During the process we have come to understand that the comparability between companies can be compromised when the accounting becomes more principles-based, it would therefore be of interest to examine if the company's method of reporting will distinguish itself more with the introduction of the K3 framework.

The K project culminates in four different sets of frameworks based on different grounds, the K4 framework and the K3 framework will be based on principles, while the K2 framework and the K1 framework will be based on rules. With this knowledge, a proposal for future study is to examine how this will affect the accounting profession.

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Appendix 1 – Interview guide

Key questions

- What do you consider to be the reason for the creation of a new principles-based regulatory framework?
- What consequences might the demands for additional examples to the K3 framework have?
- How might the accounting be affected if further examples are not issued?
- How do the practitioners work practically with the accounting within the profession today?
- What requirements does principles-based accounting impose on the practitioners?
- How shall the practitioners prepare themselves for the transition to the K3 framework?
- Will the practitioners have adequate skills to be able to apply the new regulations?