

-RESEARCH ARTICLE-

FOLLOW THE LEADER: THE IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON ACCRUAL QUALITY

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—Abstract—

The present work aims to examine the impact to leading companies (leaders) on the estimated components of financial reports of subsidiary companies (followers) within the same industry, with a particular focus on the relationship between the accrual quality of the leader company and that of the follower company. Additionally, it explores whether the adoption of International Financial Reporting Standards (IFRS) impacts this relationship. Utilizing data from Saudi companies listed on the financial market—given the delayed IFRS adoption in Saudi Arabia until 2017—the findings indicate that follower companies align their accrual quality with that of the leader companies. This alignment shows minimal change following the adoption of IFRS.

Keywords: Financial Reporting Standards, Financial Market, Leader Company, Follow Company, Accrual Quality.

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INTRODUCTION

Financial reports serve as a crucial mechanism for managers to disclose and analyse company performance, providing valuable information for decision-making by market participants (Guermazi, 2023). However, the complexity inherent in the preparation of these reports is significantly influenced by the accounting system utilized, which raises concerns regarding the accuracy and reliability of the financial reports in reflecting the true nature of events and transactions (Gardi et al., 2023). There is also apprehension about whether financial reports are shaped by managerial preferences or the choice of accounting systems (Tawiah & Gyapong, 2023). To mitigate potential criticism, managers often align their financial reporting with that of leading companies in the market (Al-Enzy et al., 2023). Accounting literature supports the notion that financial reports are substantially impacted by the accounting system in use. This study specifically examines the effect of IFRS as the applied accounting system (Viana et al., 2023). For instance, companies adopting IFRS may experience significant influence from prevailing accounting practices, even if these practices are not explicitly outlined within IFRS.

The adoption of IFRS entails substantial costs, including training accountants and auditors within the company and engaging qualified external auditors to review data prepared under IFRS. Additionally, the implementation process is time-consuming (Acar, 2023). Consequently, companies may claim adherence to these standards without actual changes, as evidenced by previous studies. This study posits that companies manage the complexities of IFRS implementation by aligning their financial reporting characteristics with those of leading companies, thereby minimizing the risk of criticism or scrutiny. Thus, it is anticipated that companies listed on the financial market that adopt IFRS are likely to mimic the reporting characteristics of leading firms to pre-empt allegations of non-compliance with IFRS in practice (Rahman et al., 2023).

This study explores the relationship between the adoption of IFRS and the emulation of financial reporting characteristics of leading companies, specifically focusing on accrual quality as a key attribute. Executives select accrual quality due to its potential for opportunistic manipulation. Executive managers often aim to enhance their personal benefits by securing their position and maximizing compensation through stocks and options, which can be achieved by optimizing the company's reported financial outcomes. In cases where actual results fall short, managers may seek to legitimize these outcomes, particularly profits, by aligning their reported earnings with those of the leader company in terms of both level and direction. This study, therefore, investigates the influence of reported earnings and accrual quality in the leader company's financial report on the earnings and accrual quality disclosed in the reports of other companies.

This study aims to investigate the impact of the performance reported by a leading company on the financial reporting characteristics of a subsidiary company operating within the same industry but of lesser significance, as determined by company size. It further examines whether this influence on the subsidiary's financial reporting behaviour is affected by the adoption of IFRS. Following the adoption of IFRS, there has been an enhanced understanding of the accounting methods used in producing financial reports. This increased transparency heightens the likelihood of subsidiaries emulating the financial reporting practices of leading companies, whether to legitimize their own reports, meet analysts' expectations, or serve opportunistic managerial interests.

To achieve this objective, data from Saudi companies listed on the financial market will be analysed for several reasons: (1) IFRS adoption became mandatory in Saudi Arabia in early 2017, providing a distinctive context to examine the impact of these standards on financial reporting behaviour; (2) Saudi Arabia's economy is one of the most significant emerging markets globally, being a major oil exporter and a member of the G20, which includes the world's largest economies. The motivation for companies to align their earnings with those of other firms, particularly leaders, is primarily to legitimize their performance. Such alignment signals the financial market and can positively influence stock prices, particularly when a company's share performance mirrors that of the leader company. Accounting literature suggests that companies manage earnings to enhance their value (Baatwah et al., 2023).

Upon reviewing the literature on the concept of "following the leader" in relation to the characteristics of financial reports, the researcher identified a notable gap, with only one relevant study conducted by (De Franco et al., 2023). This highlights a significant deficiency in empirical research on the practice of companies emulating the financial reporting attributes of leading firms. The current paucity of evidence on this phenomenon underscores the need for further investigation. The rationale for conducting this empirical analysis in a developing country like Saudi Arabia—a key emerging economy, G20 member, and prominent OPEC participant—stems from its mandatory adoption of IFRS in 2017. This context provides a unique opportunity to contribute to the literature on IFRS adoption and deepen understanding of its implications within Saudi Arabia.

LITERATURE REVIEW

Research on companies emulating the financial reporting behaviour of other firms, particularly leader companies, is limited (Alruwaili et al., 2023). Notably, Zahid and Simga-Mugan (2024) examined the association between companies' reporting behaviours. This study addresses whether one company's reporting behaviour influences another's. Relevant literature suggests that firms imitate leader companies to

gain legitimacy, as argued by (De Franco et al., 2023), facilitating favourable comparisons. Ngo and Nguyen (2024) found that follower companies adjust their discretionary reporting behaviour based on the leader's performance, with lower discretionary accruals when leaders miss expectations and higher accruals when leaders report positive news, demonstrating awareness of the market impact of the leader's disclosed financial information.

Du and Shen (2018) investigated the impact of leader companies' performance on the earnings management practices of their followers, finding that strong leader performance prompts subsidiaries to emulate this behaviour by increasing estimated accruals. This emulation is driven by capital market pressures, as meeting analysts' expectations is crucial for maintaining or enhancing market value. Although these studies offer insights into discretionary financial reporting behaviour, their findings do not fully address our research questions (Broye & Johannes, 2023; Pham & Tran, 2024). This study specifically examines the influence of following leader companies in terms of discretionary financial reporting by subsidiaries within the same industry, particularly under the adoption of IFRS in an emerging market context. By using data from emerging markets that have recently adopted IFRS, this research uniquely explores these dynamics in diverse environments with recent IFRS implementation.

Hypotheses Development

In our context, managers achieve legitimacy by aligning their accounting decisions with those of industry leaders, thereby enhancing comparability (Alsuhaibani et al., 2023). By producing financial statements that closely resemble those of established leaders, companies signal greater credibility in their accounts and safeguard their accounting choices from potential scrutiny (De Franco et al., 2023). De Franco et al. (2023) argue that this alignment serves as a protective measure for followers against criticism. Consequently, it is expected that subsidiaries within the same industry will emulate the financial reporting characteristics of their respective leaders, particularly in terms of accrual quality (Bansal, 2023). This alignment is anticipated to strengthen the association between the financial reports of followers and those of leader companies (Bekiaris & Markogiannopoulou, 2023; Hussain et al., 2024).

H1: *The quality of the follow's accrual is positively related to the performance of the leader company*

Proponents of IFRS view these standards as superior in quality compared to the local accounting standards that were previously in use (Bajra et al., 2023). They have assumed that adopting high-quality accounting standards would inherently lead to higher-quality financial reports. However, this assumption that "one standard fits all" overlooks the influence of specific business environment characteristics, as well as the unique attributes of individual companies and countries (Asyik et al., 2023; Xu, 2023).

Accounting literature supports this view, with studies demonstrating that the implementation of IFRS varies across countries due to differing national characteristics and the diverse motivations of companies adopting these standards (Islam et al., 2023; Joo et al., 2023).

Given the unpredictable outcomes of IFRS implementation, the impact on companies' adherence to leader companies' discretionary reporting behaviours remains unclear (Harymawan et al., 2023). However, such adherence may increase post-IFRS adoption as companies recognize that standardized reporting allows for easier comparison of financial figures by market participants (Synn & Williams, 2024). Accounting literature confirms that the ability to compare financial reports has indeed improved following IFRS adoption. Dutta et al. (2024) observed that companies tend to transfer information more frequently following the adoption of IFRS. Specifically, the stock prices of companies that have not yet disclosed their earnings are influenced by the disclosures made by other companies within the same sector and of similar size. This phenomenon, known as earnings information transfer, occurs as users gain a better understanding of financial reports due to increased familiarity with the measurement and disclosure practices established by IFRS, a finding supported by numerous empirical studies (Bilal et al., 2023). However, Assad et al. (2023) reported that the impact of IFRS on information transfer can be limited, attributing this to inadequate compliance with IFRS standards. Consequently, when IFRS is not fully adhered to, it hampers comparability between the financial reports of both follower and leader companies in the financial market.

H2: *The follow company's adherence to the leader company's earnings increases after adopting IFRS.*

METHODOLOGY

Table 1: Sample Selection

	Number of Firm-Years
Tadwal Firm-Years for 2002–2022	2930
Less Observations in the Financial Industry	(410)
Missing Data	(738)
Final Sample	1782

The study sample comprises companies listed on the Saudi Stock Exchange, with data collected manually over a 20-year period from 2002 to 2022. The sampling criteria exclude financial institutions such as banks and insurance companies due to their distinct regulatory frameworks, as well as companies that were listed after the adoption of IFRS. To test the first hypothesis, which examines the impact of financial reporting standards on the discretionary reporting behaviour of subsidiaries, a subset of data

covering 12 years (2011 to 2022) was analysed, focusing specifically on accrual quality. Since IFRS adoption was mandatory for Saudi companies starting in 2017, the data was divided into two periods: 2011-2016 (pre-IFRS) and 2017-2022 (post-IFRS). This division ensures a balanced sample for evaluating the effects of IFRS adoption. [Table 1](#) details the sample selection criteria.

Study Variables

Industry leaders are defined as companies with the highest market value within their sector. A company is identified as an industry leader if its market value ranks within the top decile of its industry for a given year. These high-value companies attract significant investor attention and are closely analysed by many financial analysts. Consequently, they serve as benchmarks for comparing the performance of other companies within the same industry. Previous research indicates that firms often utilize the discretionary aspects of financial reporting to align with analysts' expectations and to enhance managerial benefits ([Filip et al., 2024](#); [Hussain et al., 2024](#)). The selection of market value as a criterion is supported by empirical evidence demonstrating its influence on the decision-making of other companies. For instance, firms frequently mimic the tax strategies of market leaders ([Snider, 2024](#); [Wiafe et al., 2024](#)).

A follow company is defined as any firm within the sector that does not rank within the top decile of companies in a given industry and year. These companies recognize that industry leaders set the direction for the sector and that market expectations regarding industry performance are influenced by the financial reports of these leading companies. Consequently, follow companies tend to emulate the earnings signals and levels reported by the industry leaders. Thus, the financial reporting behaviour of follow companies is influenced by the performance of the leading firms. The accrual concept in accounting dates back to the origins of the field, reflecting the principle that financial reports accurately depict a company's performance by recognizing transactions and economic events at the time they occur, regardless of whether they involve immediate cash receipt or payment. This approach creates a divergence between the timing of cash flows and the recognition of financial events or transactions. Given the inherent uncertainties surrounding cash flows, accruals are employed to assess company performance more effectively. In essence, accruals address the challenges of matching and timing cash flows by organizing them over time, thereby providing a more accurate measure of performance, specifically earnings ([Tawiah & Soobaroyen, 2024](#); [Wang et al., 2024](#)).

The reported profit is a critical performance indicator, influenced by accounting accruals, which are estimates of future cash flows. However, these accruals are subject to management's discretion, including the formation of accounting provisions, estimates, and adjustments in accounting methods. This discretion allows management to manipulate accrual estimates to achieve specific objectives, such as aligning reported

earnings with those of a comparable company within the same industry. Essentially, management may adjust the estimated portion of accruals without altering the total accruals. Total accruals arise from the routine application of accounting procedures, while the estimated portion is subject to managerial intervention to meet either immediate or strategic goals. This manipulation of accruals can adversely impact future accounting earnings; for example, inflating current earnings through accrual manipulation often results in reduced earnings in subsequent periods. Consequently, such adjustments impose limitations on future accrual manipulations to maintain consistent earnings trends.

To assess accrual quality, this study focuses on the estimated portion of total accruals, which reflects a decrease in accrual quality. To achieve this, we employ the [Dechow et al. \(1995\)](#) model, which offers a refined approach following criticisms of the ([Ibnouf et al., 2024](#); [Jones, 1991](#)) model, commonly referred to as the "Modified Jones Model." The Dechow et al. model is grounded in the premise that estimated accruals are associated with a segment of forward sales, as detailed in the following description.

$$TA_{it}/At_{it-1} = \alpha i(1/At_{it-1}) + \beta 1 (\Delta REV_{it} - \Delta REC_{it})/At_{it-1} + \beta 2 (PPE_{it}/At_{it-1}) + \varepsilon_{it} \dots\dots\dots (1)$$

Where, ΔREC_{it} : The change in net customer balances of company i in year t .

TA_{it}/At_{it-1} : Total accruals scaled by legged total assets. Wherein, the total accruals calculated as the difference between earnings before extraordinary and operating cash flow.

ΔREV_{it} : The change in revenue.

ΔREC_{it} : The change in net accounts receivable

PPE_{it} : Gross property, plant, and equipment scaled by legged total assets.

In addition to the primary variables under investigation, the study incorporates several additional variables that may influence companies' adoption of accrual practices, particularly in relation to the quality of the leader company's accruals. Accounting literature suggests that company size affects accrual quality. While larger companies often attract financial analysts and may manipulate accruals to align with analysts' expectations, their size and robust governance systems can restrict such manipulations. Another variable is financial leverage, included as a control variable due to its impact on accrual manipulation. Companies with significant debt may adjust accruals to enhance their image to creditors while adhering to debt covenants. The growth variable is also considered to control for periods of declining earnings, where companies might manipulate accruals to artificially boost earnings in response to reduced sales. Finally, the loss variable addresses how companies experiencing losses might engage in accrual manipulation to alter perceptions and present a more favourable financial image.

RESEARCH DESIGN

Building on previous research on IFRS, the current study designed the following models to test the research hypotheses:

Model Of Testing The Impact Of The Accrual Quality Of The Leader Company On The Accrual Quality Of The Follow Company

To evaluate the first hypothesis of this study concerning the influence of a leader company's accrual quality on the accrual quality of the following company, the researchers utilized the measure specified in Equation (1):

$$ACCQ_FOLLOW_{it} = \alpha_0 + \alpha_1 ACCQ_LEADER_{it} + \alpha_2 SIZE_{it} + \alpha_4 LEV_{it} + \alpha_5 Growth_{it} + \alpha_6 Turn_{it} + \alpha_7 LOSS_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

Where,

$ACCQ_FOLLOW_{it}$ (1995) = Accrual quality of the follow company measured by the modified Jones model presented in 1995

$ACCQ_LEADER_{it}$ (1995) = Accrual quality of the leader company measured by the modified Jones model presented in 1995

$Size_{it}$ = The natural algorithm of total assets.

LEV_{it} = The ratio of total liabilities to total assets.

$Growth_{it}$ = The percentage change in sales

$Turn_{it}$ = The ratio of sales to total assets.

$Loss_{it}$ = A dummy variable that takes the value of *one* if the net profit result is negative, and *zero* otherwise.

Model Of Testing The Impact Of IFRS On The Adoption Of The Accrual Quality Of The Leader Company By The Follow Company

$$ACCQ_FOLLOW_{it} = \alpha_0 + \alpha_1 ACCQ_LEADER_{it} + \alpha_2 POST + \alpha_3 POST * ACCQ_{LEADER_{it}} + \alpha_4 SIZE_{it} + \alpha_5 LEV_{it} + \alpha_6 Growth_{it} + \alpha_7 Turn_{it} + \alpha_8 LOSS_{it} + \varepsilon_{it}$$

Where all variables are as previously defined. The variable POST is a dummy variable that equals one if the observation period is post-IFRS adoption (from 2017 onwards) and zero otherwise (González, 2022; Ruelas, 2022).

FINDINGS

Descriptive Statistics

Table 2 presents a comprehensive overview of the study variables, including their arithmetic mean, standard deviation, and the maximum and minimum values, based on the sample period covering companies listed on the Saudi Stock Exchange (Tadawul). The data indicate that the average accrual quality for leader companies is -0.04334, whereas the average accrual quality for follower companies is -0.28256. This table provides a detailed snapshot of the accrual quality across different categories, facilitating a nuanced understanding of how leader and follower companies compare in terms of accrual performance over the study period.

Table 2: Panel B Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
ACCQ LEADER	1782	-0.04334	0.200941	-0.89276	0.457
ACCQ FOLLOW	1782	-0.28256	0.368871	-0.99481	0.415
POST	1782	0.369128	0.482704	0	1
SIZE	1782	6.728429	1.351474	4.280669	12.53148
LEV	1782	0.999417	1.172977	0	9.166667
GROWTH	1762	2.059635	3.915885	-0.99999	8.991208
Turn	1782	0.539948	0.561508	0	8.484848
Loss	1782	0.200783	0.400698	0	1

The sample comprises a maximum of 1782 firm-year observations from financial market of Saudi countries 2002-2022. $ACCQ_FOLLOW_{it}$ = Accrual quality of the follow company measured by the modified Jones model presented in 1995. $ACCQ_LEADER_{it}$ = Accrual quality of the leader company measured by the modified Jones model presented in 1995. $Size_{it}$ = the natural algorithm of total assets. LEV_{it} = the ratio of total liabilities to total assets. $Growth_{it}$ = the percentage change in sales. $Turn_{it}$ = the ratio of sales to total assets. $Loss_{it}$ = a dummy variable that takes the value of *one* if the net profit result is negative, and *zero* otherwise.

Table 3 displays the Spearman and Pearson correlation matrices to confirm the presence of significant associations among the variables under investigation. The objective of these matrices is to examine possible autocorrelation patterns among the variables, which had not been previously considered. The results demonstrate a notable and favourable association between the accrual quality of leading firms and that of following enterprises. The obtained conclusion is consistent with the observations made by Perera et al. (2023), who identified a relationship between the financial reports of follower and leader firms, the size of the company, and its financial leverage. Specifically, they found a negative association in connection to earnings quality.

Table 3: Pearson (Upper Diagonal) and Spearman (Lower Diagonal) Correlation of Variables

	ACCQ_LEADER	ACCQ_FOLLOWER	POST	Size	lev	growth	turn	Loss
ACCQ_LEADER	1	0.065	0.0005	-0.0063	0.0673	-0.0226	0.0835	-0.0431
ACCQ_FOLLOWER	0.0643	1	0.1762	0.5028	0.101	0.3494	-0.0725	-0.2092
POST	-0.0002	0.1758	1	0.5448	0.0834	0.3681	-0.0621	0.1663
SIZE	0	0.5003	0.5484	1	0.0138	0.7053	-0.1035	0.007
LEV	0.051	0.1034	0.0648	0.0071	1	-0.0147	0.0104	0.2144
GROWTH	-0.0188	0.3494	0.3685	0.7063	-0.0138	1	-0.07	0.0275
Turn	0.0861	-0.0727	-0.065	-0.1038	0.0334	-0.0697	1	-0.1945
Loss	-0.0504	-0.2129	0.1718	0.0077	0.1851	0.0284	-0.1832	1

Empirical Analysis

The findings of the regression analysis investigating the impact of leader company accrual quality on the accrual quality of follower firms are shown in [Table 4](#). Both models exhibit a positive and statistically significant coefficient α_1 , regardless of the inclusion of control variables. The statistical significance of α_1 increases when the model is assessed using the absolute values of accrual quality for both the leader and the follower companies, as evidenced by the results in Models 3 and 4. The coefficient for ACCQ_LEADER is 0.3, indicating that the accrual quality of follower companies adjusts in response to changes in the accrual quality of leader companies. This finding implies that manipulation of accrual quality by leader companies prompts similar adjustments by follower companies within the same industry. Overall, the results in [Table 4](#) support the hypothesis that follower companies emulate the accrual quality practices of industry leaders. Specifically, when leader companies engage in accrual quality manipulation, follower companies are likely to adopt similar practices.

Table 4: The Effect of the Accrual Quality of the Leader Company on the Accrual Quality of the Follow Company

	Model 1		Model 2		Model 3		Model 4	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
ACCQ_LEADER	0.120**	2.75	0.0931*	2.57				
ACCQ_LEADERABS					0.731**	20.69	1.034**	31.99
SIZE			0.132**	17.43			-	(-
LEV			0.0498**	7.36			-	(-8.31)
GROWTH			0.00111	0.43			-	(-1.01)
Turn			-	(-3.86)			0.0240*	2.13
Loss			-	(-			0.130**	8.02
Intercept	-	(-	-	(-	0.257**	30.25	1.034**	23.9
N	1783		1762		1782		1761	
R-squared	0.0042		0.3253		0.1939		0.4381	

The sample comprises a maximum of 1782 firm-year observations from financial market of Saudi countries 2002-2022. ACCQ_LEADER = Accrual quality of the leader company measured by the modified Jones model presented in 1995. ACCQ_LEADERABS= absolute value of accrual quality of the leader company measured by the modified Jones model presented in 1995. Size_{it} = the natural logarithm of total assets. LEV_{it} = the ratio of total liabilities to total assets. Growth_{it} = the percentage change in sales. Turn_{it} = the ratio of sales to total assets. Loss_{it} = a dummy variable that takes the value of *one* if the net profit result is negative, and *zero* otherwise.

Table 5 displays the regression coefficients for equation (2), which examines the influence of leader companies on follower companies' accrual quality both before and after the adoption of IFRS. The regression coefficient for the interaction term POST*ACCQ_LEADER is not statistically significant, suggesting that follower companies did not alter their accrual quality in response to the leader company's accrual quality post-IFRS adoption. However, when the directional aspect of accrual quality is removed by using the absolute values of both leader and follower companies' accrual quality, a statistically significant negative effect emerges. This indicates that the

performance of leader companies negatively impacts the accrual quality of follower companies.

Table 5: The Effect of International Financial Reporting Standards on the Adoption of the Accrual Quality of the Leader Company by the Follow Firm

	Model 1		Model 2		Model 3		Model 4	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
ACCQ_LEADER	0.0472	(1.00)	0.0493	(1.22)				
ACCQ_LEADERABS					0.890**	(23.62)	1.142**	(33.66)
POST	-0.0766***	(-3.79)	0.0782***	(3.92)	0.134**	(7.22)	0.0337*	(2.01)
POST*ACCQ_LEADER	0.193	(1.23)	0.155	(1.16)				
POST*ACCQ_LEADERABS					-0.600**	(-5.06)	-0.934**	(-9.29)
SIZE			0.121**	(13.48)			-0.110**	(-15.10)
LEV			0.0392***	(5.23)			-0.0417***	(-7.09)
GROWTH			0.000250	(0.09)			-0.00285	(-1.26)
TURN			-0.0565***	(-3.79)			0.0235*	(2.01)
Loss			-0.233**	(-10.82)			0.121**	(7.14)
Intercept	-0.196**	(-13.86)	-1.079**	(-16.39)	0.151**	(11.22)	0.958**	(18.34)
N	1301		1290		1301		1290	
R2	0.0149		0.2949		0.3048		0.5131	

The sample comprises a maximum of 1782 firm-year observations from financial market of Saudi countries 2002-2022. $ACCQ_FOLLOW_{it}$ = Accrual quality of the follow company measured by the modified Jones model presented in 1995. $ACCQ_LEADER_{it}$ = Accrual quality of the leader company measured by the modified Jones model presented in 1995. $ACCQ_LEADER_{it}$ = Accrual quality of the leader

company measured by the modified Jones model presented in 1995. $ACCQ_LEADERABS_{it}$ = absolute value of accrual quality of the leader company measured by the modified Jones model presented in 1995. $POST*ACCQ_LEADER$ = interaction between POST and ACCQ_LEADER. $POST*ACCQ_LEADERABS$ = interaction between POST and absolute value of ACCQ_LEADER. $Size_{it}$ = the natural logarithm of total assets. LEV_{it} = the ratio of total liabilities to total assets. $Growth_{it}$ = the percentage change in sales. $Turn_{it}$ = the ratio of sales to total assets. $Loss_{it}$ = a dummy variable that takes the value of *one* if the net profit result is negative, and *zero* otherwise.

CONCLUSION

This study delves into how leading companies impact the discretionary behaviours of follower companies, specifically focusing on how changes in the accrual quality of industry leaders affect the accrual quality of other companies within the same sector. Using a sample of 1,782 observations from non-financial companies listed on the Saudi Stock Exchange (Tadawul) between 2002 and 2022, the research confirms previous findings that companies often mimic the financial reporting traits of industry leaders. Additionally, the study explores how the adoption of IFRS influences this mimicry. It finds that even after IFRS adoption, follower companies continue to replicate the accrual quality of industry leaders without any significant change. This research offers new insights by examining the impact of IFRS adoption on accrual quality emulation in Saudi Arabia, an area that has not been previously explored. The results enrich the understanding of how financial reporting practices are shaped by leader companies and highlight that such adherence remains unchanged with mandatory IFRS adoption. However, the study notes that these findings are specific to the Saudi context and may differ in environments where IFRS adoption is voluntary rather than compulsory.

IMPLICATIONS

This study addresses the call for research on IFRS in emerging economies, as highlighted in leading accounting journals, and examines how IFRS adoption influences the financial reporting characteristics of companies within the same industry. By investigating the relationship between discretionary financial reporting behaviours and the effects of IFRS adoption, this study enhances the understanding of how companies manipulate discretionary financial reporting, particularly accrual quality, both before and after adopting IFRS. The findings contribute to the body of knowledge by demonstrating that follower companies are influenced by the financial reports of industry leaders, specifically in their manipulation of discretionary reporting elements. This research extends existing literature by showing that companies aim to emulate the financial reporting practices of industry leaders. Ultimately, the study underscores the importance of proper IFRS implementation to ensure that companies achieve improved financial reporting outcomes.

FUTURE DIRECTIONS

This study contributes significantly to the existing body of knowledge, highlighting areas that warrant further scholarly attention due to identified gaps. Notably, the study relied on secondary data; therefore, future research should consider using primary data obtained directly from financial managers to better assess the impact of IFRS on financial reporting performance. Additionally, it is recommended that future studies conduct a comparative analysis between leading and following companies regarding IFRS implementation. Such a comprehensive analysis would enhance the understanding of IFRS and extend the body of knowledge, providing more actionable insights for financial managers across different countries on the effective use of IFRS.

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