

Determinants of *de jure* adoption of international financial reporting standards: a review

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Abstract

Purpose – The purpose of this paper is to systematically review extant studies on what makes a country fully, partially or not adopt international financial reporting standards (IFRS) and categorize these factors into meaningful categories. In so doing, this study facilitates policy-making for accounting and economic standard setters and also points out conflicting viewpoints in the current literature, thus, opportunities for future research.

Design/methodology/approach – This paper is a literature review on academic studies that examine factors influencing national adoption of IFRS. The reviewed articles are limited to published, peer-reviewed papers only.

Findings – Overall, the review suggests that although a wide range of determinants on national adoption of IFRS has been identified, prior literature consists of conflicting viewpoints on what influence national accounting policies toward IFRS, thus, highlighting areas in which there are needs for future research.

Research limitations/implications – First, this study focuses only on the *de jure* adoption of IFRS. Second, the study focuses mainly on research findings, not theory use in the extant literature.

Originality/value – To the best of the author's knowledge, this is the first study, which provides a comprehensive review of studies on *de jure* IFRS adoption.

Keywords IFRS adoption, Determinants, *De jure*, Accounting policy, International accounting, Financial reporting

Paper type Literature review

1. Introduction

The field of international accounting has recently witnessed a tremendous trend of national adoptions of international financial reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB). In 2002, the European Union (EU) decided to require listed companies within the EU, including banks and insurance companies, to prepare their consolidated accounts in accordance with IFRS, as adopted by the EU, from 2005 onwards (EU, 2002). IFRS adoption at the national and supranational level was soon followed by adoption by the majority of accounting jurisdictions around the world. According to a recent report by the IFRS Foundation, as of 2018, 144 or 87% of jurisdictions around the world require IFRS for all or most companies (IASB, 2019). It is



important to note here that although most of these countries mandatorily require their companies to follow IFRS, this adoption is generally a voluntary decision at the national level, which represents a fundamental form of discretion by the adopting nations (Keune *et al.*, 2017). The flexibility embedded in voluntary choice has resulted in a wide array of approaches toward IFRS by nations around the world, ranging from full adoption and partial adoption to non-adoption.

Accounting has long been argued to be an inseparable part of a country's unique institutional structure, history and culture (Richardson, 1987; Walker, 2016). The academic community has, therefore, taken great interest in research on international accounting harmonization and on how national accounting standard-setters balance the pressure of IFRS adoption with their country's specific characteristics, which may or may not be compatible with IFRS. A large body of studies has examined topics such as the impact of IFRS adoption on investors (Nnadi, 2015), regulatory and audit compliance (Chen and Zhang, 2010; Joshi *et al.*, 2016) and cultural and institutional implications (Cieslewicz, 2014). Accounting scholars have also identified a variety of country-specific factors that impact a national approach to IFRS adoption (Chand and Patel, 2008; Mir and Rahaman, 2005; Hassan *et al.*, 2014).

Some studies have provided reviews on accounting literature that examine the effects and consequences of IFRS adoption at the *de facto* or firm level (Brüggemann *et al.*, 2013; De George *et al.*, 2016; Soderstrom and Sun, 2007). However, international accounting harmonization occurs not only at the firm level (*de facto*) but also at the jurisdictional level (*de jure*). While governments are likely to consider the expected firm-level consequences in their decisions to adopt IFRS, domestically accountable firms adopt the standards only after their government allows or requires them to do so (Ramanna and Sletten, 2014). Therefore, it is important to separately examine IFRS adoption at the country level as opposed to the firm level. In the past two decades, a significant body of literature has examined IFRS adoption at the national level (Becker *et al.*, 2018; Hassan, 2008; Judge *et al.*, 2010; Nobes and Zeff, 2016; Ramanna and Sletten, 2014; Hope *et al.*, 2006). Yet there has been no broad review of studies that examine what factors impact a nation's decision to fully adopt, partially adopt or not adopt IFRS, as well as their collective implication for accounting research and public policies. This study seeks to fill this void by providing a synthetic review of prior research of determinants of national (*de jure*) adoption of IFRS.

This paper contributes to accounting literature in several ways. First, it helps the accounting community to gain knowledge by providing a systematic overview of the rapidly increasing studies on the national adoption of IFRS. This paper is the first to attempt to synthesize the research in IFRS adoption at the national level. Furthermore, this study provides a means of classifying the findings in the literature. This paper identifies three categories of determinants. The first stream of literature relates to the social and legal traditions of countries adopting IFRS; the second examines economic and financing factors and the third investigates the intra-organizational dynamics. Several dimensions of determinants are identified within each of these streams of literature and a discussion is provided on where these studies agree and/or disagree with each other. Second, this paper helps national accounting policymakers to gain knowledge about other nations' approaches to IFRS adoption. A concise and descriptive analysis of the academic research to date can provide valuable insights into the relevant attributes specific to a nation's unique characteristics.

Through this analysis, this paper also informs the IASB on its ongoing efforts to harmonize international accounting standards (IAS). Furthermore, given the lack of a systematic review in this area, this paper assists researchers and policymakers who plan to study international accounting by identifying opportunities for research on accounting

changes in the IFRS era, thus motivating future research in both theoretical and empirical evidence. By providing comparisons of and comments on the different factors in extant studies, this review facilitates efforts to adequately choose relevant attributes for future studies on international accounting comparative research.

The remainder of the paper is organized as follows. Section 2 comprises the content-related contribution, with a classification of financial accounting studies that involve IFRS adoption at the national level. Section 3 identifies implications for policymakers and Section 4 draws conclusions and indicates opportunities for future research.

2. Determinants of national international financial reporting standards adoption

A systematic literature review of empirical articles that examine determinants of national IFRS adoption was conducted. The selection process was performed in three steps. First, the keywords “IFRS,” “adoption,” “determinants,” “factors,” “nation,” “country,” “*de jure*,” “IAS,” “international accounting” and “financial reporting” were used in different combinations to maximize coverage. The hit list of each search round was assessed and relevant articles were selected based on whether the titles appeared relevant to the research purpose. Two major databases, EBSCO and Google Scholar were used. Only articles written in English were considered. In the second step, editorials, book reviews, comments and replies, book chapters, working papers and studies that were not peer-reviewed were excluded. Non-empirical papers were also excluded. To use reliable sources and attain academic excellence (Tranfield *et al.*, 2003), only articles published in journals according to the Academic Journal Guide (2018) by the Chartered Association of Business Schools were selected for initial screening, with no limit on publication year. The third step was to scan the contents of the abstracts and exclude those whose empirical focuses did not fit the research scope. For example, although some papers appeared to examine national adoption, the empirical data were at the *de facto* level, which was out of the scope of this review. In addition, this paper focuses on IFRS adoption, not implementation or compliance. These steps resulted in a final selection of 24 papers. The selection process has also revealed that comparing with the firm-level studies, research on national level IFRS adoption remains limited.

Given that the purpose of this paper is to review determinants of national IFRS adoption in the literature, a particular focus was given to synthesizing and categorizing the results of the examined articles. Most of the papers examined multiple determinants, so these factors were then carefully categorized into meaningful groups based on their nature. After the initial grouping, the results of each paper’s findings were grouped further into whether the studied factors positively, negatively or do not affect national IFRS adoption. Researchers’ opinions were further compared with illustrated agreements and inconsistencies and are reported herein. Discussions on conflicting findings are also provided where possible.

This review identified three main categories of determinants examined in the literature:

- (1) *Socio-legal traditions* – governance, legal system, education and culture;
- (2) *Economic and financing needs* – access to foreign capital and economic openness, economic growth and existence of financial market; and
- (3) *Intra-organizational dynamics* – lender/donor relations and a membership network of national accounting standard-setters in the international arena (Figure 1).

2.1 Socio-legal traditions

The foundation of a nation’s societal value and legal system has been recognized as an important aspect that influences its accounting standard-setters’ responses to the IFRS

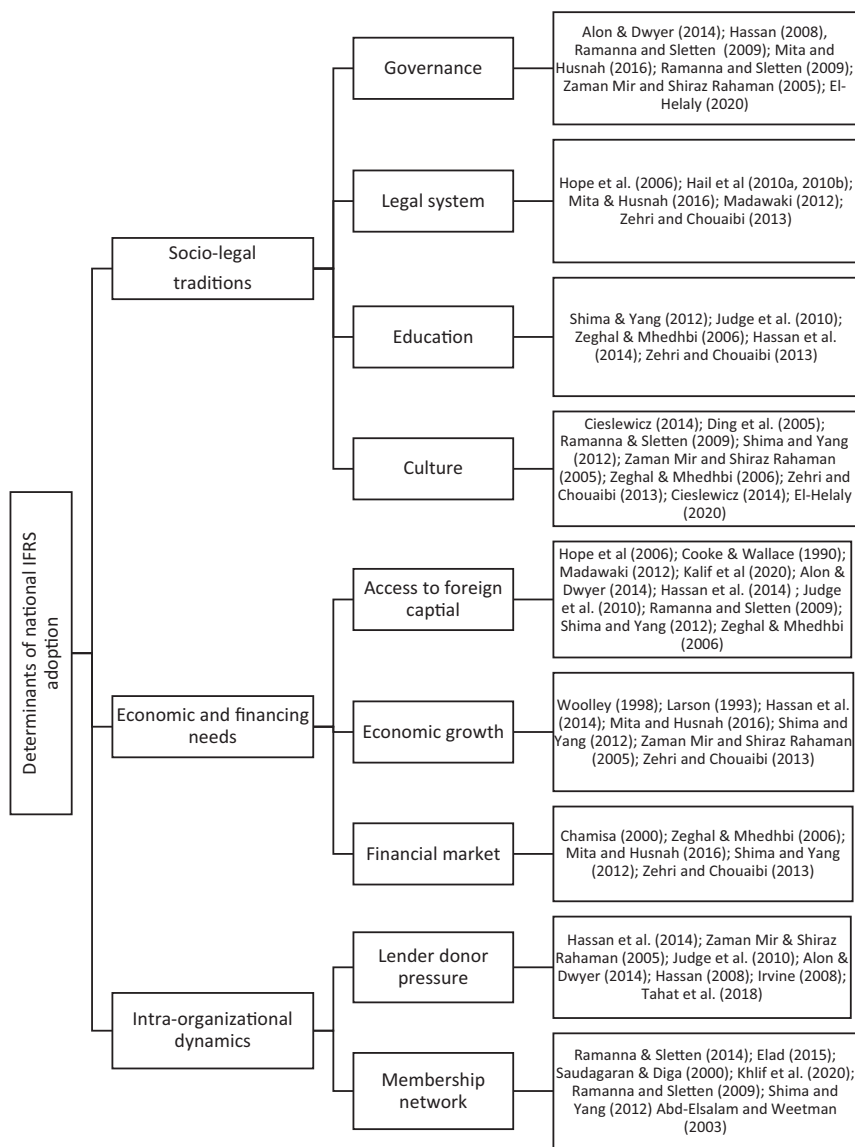


Figure 1.
Influential
determinants of IFRS
adoptions at country
level

(Alon and Dwyer, 2014). More specifically, previous accounting research has identified the following socio-legal influences: *governance*, *legal system* and *education and culture*.

2.1.1 Governance. The quality of governance over local accounting standards has been identified as important in national-level IFRS adoption. According to Alon and Dwyer (2014), governance refers to the relative quality of the ability of extant governance institutions to facilitate the efficient allocation of capital in an economy. A country's national

accounting standards are part of a complex system of its governance institutions. For many countries, one reason to adopt IAS is to serve social and political objectives that are deemed important by the regulators. [Globerman and Shapiro \(2003\)](#) argue that a country's governance infrastructure is based on its political and legal institutions. Adopting IFRS can be costly if these institutions are collectively incompatible with international standards.

Using a sample set of 71 countries, [Alon and Dwyer \(2014\)](#) examined early voluntary IFRS adoption by countries. Relying on the Worldwide Governance Indicators (WGI) as the proxy for governance quality, they reported that countries with the lowest governance quality are the most likely to adopt IFRS. This result can also be understood as more powerful countries being less willing to surrender their standard-setting governance authority to an international body ([Alon and Dwyer, 2014](#)). Research within the context of developing countries shows that the roles of government and governance quality on IFRS adoption are more apparent in the developing countries studied.

[Mir and Rahaman \(2005\)](#) conducted a case study on the Bangladesh government's decision to adopt IFRS. They reported that the government of Bangladesh plays a key role in ensuring accountability and transparency within the country. However, the government was "not sincere" about establishing a governing board over IFRS adoption and simply wanted to maintain bureaucratic control over the accounting standards determination and monitoring process in the country ([Mir and Rahaman, 2005](#), p. 829). Similarly, another case study by [Hassan \(2008\)](#) on Egypt's adoption of IFRS showed that Egypt adopted IFRS not entirely to improve financial reporting and disclosure but also to serve the government's other social and political objectives; thus, the determinant, in this case, reflected on the country's governance quality. A somewhat extreme conclusion was drawn by [Mita and Husnah \(2016\)](#), who examined the likelihood of IFRS adoption in a sample of 54 developing countries. Governance quality was proxied by the average score of regulatory quality per year during the period of 5 years prior to adoption, as retrieved from the catalog data of the World Bank. The researchers claim that governance quality is the only variable that consistently affected the likelihood of IFRS adoption in developing nations. Interestingly, this study's result contrasts with that of [Alon and Dwyer \(2014\)](#), which claim that better-governed countries are less likely to adopt IFRS. This contradiction can, perhaps, be explained by noting that the samples in [Mita and Husnah \(2016\)](#)'s study only included developing countries while [Alon and Dwyer \(2014\)](#)'s study included both developed and developing countries.

With a data set of 102 developed and developing countries, [Ramanna and Sletten \(2009\)](#) examined, among other determinants, countries' governance quality in relation to their decision to adopt IFRS. The researchers used a combination of process-based measures (credit rights, property rights and government corruption) and output-based measures (per capita gross domestic product, GDP) as the proxy to measure the quality of a country's governance. The study documents a non-linear relationship between the quality of local governance institutions and the possibility of IFRS adoption. It shows that the low quality of local governance institutions has a positive effect on IFRS adoption, due to the high level of benefits received from IFRS adoption. These effects become negative when the quality of governance improves because the expected benefits gained from IFRS adoption decrease. The result of [Ramanna and Sletten \(2009\)](#)'s study on governance quality is consistent with both the most poorly governed countries being more accepting of international standards and all other countries conditioning their IFRS adoption decisions on the opportunity and switching costs of domestic governance standards ([Alon and Dwyer, 2014](#)). Recently, [El-Helaly et al. \(2020a\)](#) applied the WGI to 89 non-EU countries to examine how country-level corruption affects the extent of IFRS adoption. They show that a country's governance

corruption level is significantly linked to both the speed and extent of the IFRS adoption. In sum, according to these researchers, the IFRS is, by definition, the result of an international political economy equilibrium, and thus cannot be expected to provide reporting standards that are uniquely suited to any given country's circumstances.

Thus, the quality of a country's governance affects that country's IFRS adoption. However, the literature shows that the impact of governance on countries' IFRS adoption is not uniform. For countries where local governance institutions are not well developed, the prediction of IFRS adoption is more nuanced. On the one hand, opportunity and switching costs in these countries are lower, so the chance to adopt an externally developed body of accounting standards presents an advantage. On the other hand, such countries are likely to suffer from corrupt, slow-moving or ineffectual governance that is resistant to or incapable of change.

2.1.2 Legal system. A country's legal system has been regarded as essential in influencing accounting system changes and quality (Freedman and Power, 1991). Chand and Patel (2008) state that an accounting regulatory framework is a country-specific attribute that influences IFRS adoption. IFRS adoption may translate into market benefits only where there are greater protection and incentives for better disclosure (Daske *et al.*, 2008; Hope *et al.*, 2006).

Hope *et al.* (2006) provided one of the earliest studies on national-level IFRS adoption. Based on a sample of 38 countries that adopted IFRS to different degrees, this study examined, among other determinants, securities laws on security offerings and anti-director rights that might influence a country's decision to adopt IFRS. The findings show that countries with weak shareholder protection (i.e. poor disclosure rules and anti-director rights) are more likely to adopt IFRS than countries with strong shareholder protection. Hail *et al.* (2010a, 2010b) produced a two-part series of research on the potential institutional ramifications of adopting or not adopting IFRS in the USA. They argue that, in developed countries, the legal enforcement system is complemented by strong private enforcement, threatening litigation and potentially substantial monetary penalties for managers, directors and corporations that engage in reporting misdeeds. Thus, the setting of accounting standards and the decision to adopt IFRS in developed countries are not limited to a single authoritative body such as the Financial Accounting Standards Board but are influenced by various bodies in a complex legal system (Hail *et al.*, 2010a).

Among other factors, Shima and Yang (2012) tested legal systems that might impact a country's IFRS adoption using sample data of 73 developed and developing nations. Legal systems were measured by whether a country is based on a common-law system, according to the World Factbook. Consistent with the results from Hope *et al.* (2006) and Hail *et al.* (2010b), Shima and Yang (2012) confirmed that countries with common-law legal systems have a higher likelihood of adopting IFRS than code-law countries. In a similar vein, Zehri and Chouaibi (2013) conducted research among 74 developing countries. In line with the above studies' construct, the legal system was used as a dummy variable with a value of 1 for countries with a common-law type of legal system and 0 otherwise. They found that a country's legal system matters significantly in its decision to adopt IFRS. More specifically, they showed that common-law countries are more likely to adopt IFRS than code-law countries.

However, other scholars disagree with this emphasis on the importance of the legal system in a country's decision to adopt IFRS at the national level. In direct contrast to the finding by Hope *et al.* (2006), Mita and Husnah (2016) claim that the legal system surrounding the level of investor protection, as proxied by the average score of investor protection obtained from surveys by the International Financial Corporation (a member of

the World Bank), is irrelevant in the possibility of IFRS adoption among developing countries. One possible explanation for these differences in the role of the legal system could be that the sample data in the study by [Mita and Husnah \(2016\)](#) only contained developing countries, whereas other studies such as that by [Hope et al. \(2006\)](#), included both developing and developed countries. Another explanation could be that the studies used different constructs. The existing literature has not yet provided clarifications for the conflicting findings. Nonetheless, most scholars seem to agree that standard-setters should evaluate the benefits of uniform reporting standards against the country's existing legal system when assessing whether to adopt IFRS and to what extent.

2.1.3 Education. Education is the pillar that supports modern accounting systems ([Choi and Meek, 2008](#)). It has been shown that educational level positively affects the competence of professional accountants and the quality of the accounting system ([Mueller et al., 1987](#)). As accounting standards and practices become more complex, the ability to apply and interpret those standards and practices depends on the educational level of the population in general and of the accounting profession in particular. Accordingly, a more highly educated public requires more sophisticated accounting systems to meet its information needs.

[Judge et al. \(2010\)](#) have produced the most ambitious empirical study to date, on 132 countries' IFRS adoption. These researchers measured the relative education level within a nation by obtaining enrolment in a secondary school as a percentage of the total population in the age group for secondary education in 2004. They found that education level is positively correlated with the possibility and degree of national IFRS adoption. The results obtained by [Zehri and Chouaibi \(2013\)](#), with their sample of 74 developing countries, support those of [Judge et al. \(2010\)](#): that a country with a more highly educated population, as measured by the general literacy rate in that country, is more likely to adopt IFRS. Similarly, [Shima and Yang \(2012\)](#) found that accounting education is a strong predictor of the adoption of IFRS at the country level. These scholars conclude that the adoption and implementation of sophisticated accounting standards such as the IFRS require adequate technical capacity and demand high competence among accounting professionals, including preparers, users, auditors and regulators of financial information. Countries with less sophisticated educational systems may find the transition to IFRS more costly to implement than countries with a better education level. Therefore, countries facing the IFRS adoption decision must also address accounting education competence issues. These issues can be particularly challenging for many developing countries.

[Hassan et al. \(2014\)](#) provided a case study of the Iraqi government's decision to adopt IFRS. They reported that accounting education in Iraq falls short in comparison with more developed countries. The low level of education has resulted in a lack of qualified accountants to allow the smooth adoption of IFRS in Iraq. In the same vein, [Madawaki \(2012\)](#) studied how the IFRS adoption decision was made in Nigeria. The result confirmed that one of the principal challenges Nigeria encountered in its IFRS adoption process was the shortage of accountants and auditors who were technically competent in implementing IFRS. Similarly, in a sampling of 64 developing countries, [Zeghal and Mhedhbi \(2006\)](#) reported that in countries where the education level, as measured by the general literacy rate, is low and accounting expertise is weak, there is a real barrier to the adoption of IFRS.

So far, these studies have consistently provided evidence that IFRS adoption requires significant investment in training and education for accountants, auditors and financial statement users in general to provide the necessary knowledge base and infrastructure for a smooth transition. Policymakers must carefully consider to what extent IFRS should be adopted, based on a nation's supply of accounting professionals and the

education level of its general population. For example, gradually adopting IFRS may be suitable for countries with a shortage of qualified accounting professionals.

2.1.4 Culture. A country's environment influences its societal cultural values and norms, which are then internalized to shape that society's various institutions such as accounting standard-setting organizations (Hofstede, 1980). Scholarly opinions on how culture influences accounting changes, especially IFRS adoption, have been mixed. For example, AlHashim (1994) holds the view that culture is one of the most important forces influencing accounting changes. In contrast, Wallace and Gernon (1991) argue that accounting is both universal and essentially culture-free.

Among studies on IFRS adoption, researchers that advocate the importance of culture generally hold the view that countries with a certain culture adopt the accounting system inspired by countries with similar cultures (Nobes, 1998). This line of research also argues that culture is a major factor in the choice of IFRS adoption. By measuring whether a country has some association with Anglo-American culture, Zeghal and Mhedhbi (2006) provided evidence that cultural closeness with an Anglo-American culture is positively and significantly associated with IFRS adoption. Cieslewicz (2014) hypothesized the variables of uncertainty avoidance, power distance, performance orientation and future orientation and provided evidence of a relationship between a country's economic culture and its IFRS adoption. That study reached the same conclusion as the aforementioned scholars: that aspects of culture have direct effects on national accounting changes during IFRS adoption. Similarly, Mir and Rahaman (2005) showed how the culture of corruption in Bangladesh negatively affected its IFRS adoption.

A comprehensive investigation by Ding *et al.* (2005) focused only on cultural influence on national IFRS adoption. The research examined 52 countries to test the role of culture in differences in the national adoption of IFRS using four of the five original scoring systems proposed by Hofstede (1980): power distance index, masculinity, individualism and uncertainty avoidance. They showed that national culture is predictive of IFRS adoption. That is, opposition to IFRS adoption is partially driven by diversity in cultural factors. In a similar vein, El-Helaly *et al.* (2020b) also examined the relationship between the five cultural dimensions and 84 non-EU countries' decisions to adopt IFRS during the period 2003-2014. They found that countries with higher levels of uncertainty avoidance are more likely to adopt IFRS. Furthermore, Shima and Yang (2012) support the importance of culture in national IFRS adoption. Overall, these studies show that culture is a significant factor in whether a nation's generally accepted accounting principles (GAAP) are the same as or similar to IFRS or whether they do not cover the same standards, indicating a divergent approach on whether and how much a country will adopt IFRS.

In contrast, other studies show opposite results and find no systemic relationship between national culture and IFRS adoption. For example, Ramanna and Sletten (2009) did not find evidence of cultural differences between adopters and non-adopters. They reported no empirical indication that countries' cultural closeness to the EU influences their IFRS adoption decisions. In their investigation of 74 developing countries, Zehri and Chouaibi (2013) confirmed the findings of Ramanna and Sletten (2009), that culture is not related to a country's decision on whether to adopt IFRS. Thus far, no newer evidence has been presented to explain why empirical studies provide contradictory empirical results on cultural influence over IFRS adoption. However, the contradicting results may be attributed to the different proxies used to measure culture in these studies. For example, while Ding *et al.* (2005), El-Helaly *et al.* (2020b) and Shima and Yang (2012) mostly used Hofstede (1983, 1980)'s cultural dimensions, in Ramanna and Sletten (2009), culture is proxied by the proportion of a country's population that is Christian. Another potential explanation could

be that these results reflect the trend of the marketplace and economic variables surpassing culture in explaining accounting practice (Shima and Yang, 2012). In the case of many emerging countries, Zehri and Chouaibi (2013) state that the marginal effect of culture on IFRS adoption can potentially be explained by the absence of traditions or even an accounting culture.

2.2 Economic and financing needs

Economic and financing needs have been identified by accounting scholars as one of the main reasons prompting many countries' accounting policymakers to converge with IFRS. More specifically, these factors can be categorized as *access to foreign capital/economic openness, economic growth and the existence of a financial market*.

2.2.1 Access to foreign capital and economic openness. Foreign capital can increase efficiency in the domestic financial system in a country, which enhances the competitiveness of the economy in the global market (Hope *et al.*, 2006). In countries where equity financing is dominant, accounting takes on a more capital-market orientation and higher levels of disclosure patterns are observed (Salter, 1998). It has been suggested that benefits can arise from the anticipated effect of common standards on foreign direct investment (FDI) or foreign equity portfolio investment (Ramanna and Sletten, 2014). The net economic value of IFRS is intended to capture direct international economic benefits, as they are usually connected with economic openness to FDI (Salter, 1998). For a country to improve its financial reporting quality and gain trust from foreign capital providers, the adoption of IFRS is an important step.

One of the earliest pieces of empirical evidence on the relationship between obtaining foreign capital and a country's IFRS adoption was provided by Hope *et al.* (2006). The researchers found that countries that are more eager to access foreign capital are more likely to adopt IFRS. A study by Shima and Yang (2012) confirmed Hope *et al.* (2006)'s finding and showed that the need for foreign investment and financing creates "signaling" incentives for countries to adopt IFRS. Opening up its capital market allows a country to better appeal to a foreign capital base by providing more opportunities and liquidity for investors who seek portfolio diversification and thereby lowering firms' cost of capital. A country already committed to opening up its capital markets is more likely to use IFRS to increase access and attract additional investors. In contrast, a relatively closed capital market provides few opportunities and a low return on investment for foreign investors.

Cooke and Wallace (1990) argue that countries with economies that are open to other countries are more exposed to international pressures from foreign investors. These pressures could lead some developing countries to partially or fully adopt IAS. Alon and Dwyer (2014) found that countries with a greater need for international economic resources are more susceptible to transnational influences and are more likely to adopt IFRS early and fully. Hassan *et al.* (2014)'s study of IFRS adoption in Iraq has similar findings. The Iraqi government wishes to attract foreign investment through direct investment and joint ventures with local companies. To ensure continued economic development, pressures from international investors result in the need for continuing change to the accounting system and a move toward IFRS adoption for all entities in Iraq. Furthermore, Madawaki (2012) confirms that the Nigerian government is eager to attract FDI through greater transparency, economic openness and a lower cost of capital for potential investors. Cross-border listing is greatly facilitated by the use of IFRS through easier access to external capital and reduction of the cost of doing business across borders by eliminating the need for supplementary information from Nigerian companies. A more recent study by Khlif *et al.* (2020) similarly showed that access to FDI has resulted in further IFRS convergence in

Algeria. These scholars tend to agree that the need to access foreign capital is a strong factor pushing countries toward IFRS adoption. Depending on the degree of such need, the level of adoption can range from partial to full adoption.

However, in contrast to the above findings, some researchers have found no relationship between access to foreign capital and a country's decision to adopt IFRS. For example, [Ramanna and Sletten \(2009\)](#) found no evidence that the level of expected changes in foreign investment and trade affect the likelihood of IFRS adoption. [Judge et al. \(2010\)](#) also disagreed that economic incentive brought out by FDI is a driving factor in a nation's decision to adopt IFRS. Furthermore, [Zeghal and Mhedhbi \(2006\)](#) showed that although the variable of external economic openness to accessing foreign capital is positively associated with IAS adoption, it is statistically insignificant in relation to a country's IFRS adoption decision. These mixed results may reflect the underlying constructs selected by the researchers. For example, [Judge et al. \(2010\)](#) used the variable Import Penetration from the World Bank's World Development Indicators 2008. This variable is calculated as the value of the imported goods and services sold as a proportion of the GDP to represent foreign direct investment. In contrast, [Zeghal and Mhedhbi \(2006\)](#) measure FDI as the average rate of gross FDI divided by the GDP, for the five years that preceded the date of adoption.

2.2.2 Economic growth. As business activities become more international and competition more complex, the need for national economic growth becomes more urgent. Higher quality accounting may help lower the cost of capital and is, thus, conducive to economic growth ([Mueller, 2011](#)). Financial statements prepared using standards inconsistent with or of lower quality than, those that the financial statement users are familiar with can cause inefficiency, uncertainty and an increased cost of capital. Thus, a country may choose to adopt IFRS to facilitate low-cost improvement of its financial reporting ([Mita and Husnah, 2016](#)).

The literature yields a variety of empirical evidence on the relation between IFRS adoption and economic development. [Shima and Yang \(2012\)](#) measured the effect of economic growth on the likelihood of IFRS adoption and found a moderate relation: Countries whose economies are expanding with increasing capital are more willing to adopt IFRS. In line with these findings, [Hassan et al. \(2014\)](#) demonstrated that economic development positively impacts IFRS adoption in Iraq. Similarly, [Zehri and Chouaibi \(2013\)](#) found a positive relationship between economic growth and IFRS adoption among the 74 developing nations they examined.

However, other researchers disagree. In their sample of 64 developing countries, [Zeghal and Mhedhbi \(2006\)](#) found no significant connection between economic growth and IFRS adoption in developing countries. In addition, [Hail et al. \(2010a\)](#) suggested that IFRS adoption by the US is unlikely to have a major macroeconomic impact such as GDP growth effects because the US GAAP are already high-quality reporting standards and the US already possesses strong institutions. Therefore, the capital-market benefits of adopting IFRS are likely to be limited in the case of the USA. Similarly, [Mita and Husnah \(2016\)](#) demonstrated that the variable of economic growth did not significantly affect the likelihood and extent of IFRS adoption in their study of 54 developing countries. In summary, the research shows mixed results regarding the impact of economic growth on the extent of IFRS adoption. It may not be surprising for different results to be obtained by studies that focus on developed countries [Hail et al. \(2010a\)](#) and those focusing on developing countries ([Hassan et al., 2014](#)). However, the results are still inconsistent among studies with the same focus such as developing countries ([Zeghal and Mhedhbi, 2006](#); [Zehri and Chouaibi, 2013](#)). Although both measured economic growth by the annual average growth rate of GDP per

person, [Zehri and Chouaibi \(2013\)](#) and [Zeghal and Mhedhbi \(2006\)](#) drew different conclusions. Future research is called for to investigate these contradictory results.

2.2.3 Existence of a financial market. The existence of a financial market is important for a country's economic development due to its role in the optimal allocation of resources among different segments of society ([Adhikari and Tondkar, 1992](#)). According to [Gray et al. \(1981\)](#), the pressures exerted by a capital market are critical. Quality accounting information is a major ingredient in the development of an efficient and functional capital market. In countries with a capital market, standard-setting bodies tend to establish sophisticated accounting systems to guarantee the production and disclosure of quality financial information that will be potentially useful for investors in making their decisions. In developing countries, accounting information and, in particular, financial statements remain a major resource for capital-market investors due to their scarcity and the absence of other reliable sources of information in many cases ([Zeghal and Mhedhbi, 2006](#)). Capital-market investors require quality financial information to make optimal choices when they analyze investment opportunities. In some cases, investors can lead a country's accounting policymakers to reform its accounting system and eventually adopt IAS ([Adhikari and Tondkar, 1992](#)).

In comparison with the number of studies on the factors of access to capital and economic growth, fewer studies have examined how the current existence of a financial market affects IFRS adoption. Nevertheless, similar to the empirical findings regarding access to capital and the variable of economic growth, the results from existing studies on capital market existence are contradictory. Some studies on the national adoption of IFRS find that the existence of a capital market and development are positively related to IAS adoption. [Zeghal and Mhedhbi \(2006\)](#) found that the existence of a capital market in developing countries increased the likelihood of IFRS adoption. Similarly, [Shima and Yang \(2012, p. 292\)](#) found that when its existing capital market is relatively small, a country is more likely to adopt IFRS. They attributed this result to smaller countries possibly using the adoption of IFRS as "a signal to global markets" (p. 292) that their financial information is of good quality. In contrast, countries with a larger existing capital market are less inclined to adopt IFRS because they are able to satisfy their investment needs domestically.

Despite the above findings, other research presents contrasting evidence on the relationship between the existence of a capital market and a country's IFRS adoption. [Zehri and Chouaibi \(2013\)](#) showed in their 74-country study that the existence of a capital market is not related to a country's IFRS adoption decision. In one of the most recent studies in this field, [Mita and Husnah \(2016\)](#) examination of 54 countries produced similar findings: that the existence of a capital market does not affect the possibility of IFRS adoption in developing countries.

2.3 Intra-organizational dynamics

Another dimension affecting public policies in the arena of international accounting is intra-organizational relationships. These include *lender/donor pressure* exerted on the country and *membership networks* through which accounting standard-setters are connected with each other.

2.3.1 Lender and donor pressure. International agencies such as the International Monetary Fund (IMF) and the World Bank, provide loans to many developing countries and are active in assisting their economic development ([Mir and Rahaman, 2005](#)). Countries seeking financial aid from these agencies are often required to meet specific demands regarding the capital market and macroeconomic development ([Hassan et al., 2014](#)). Therefore, the borrowing economy is subject to contractual agreement from these

nongovernmental lending/donating organizations that are seeking to bring about change through foreign aid (Hassan *et al.*, 2014). Consequently, countries requiring foreign aid to develop infrastructure normally have little choice but to adopt IFRS, as it is often a condition of funding (Mir and Rahaman, 2005; Tahat *et al.*, 2018). Encouraging the adoption of IAS is evidence of how international lenders, through their lending activities, are influencing accounting practices globally (Mir and Rahaman, 2005).

Prior research has found evidence that the relative level of foreign aid and lending is positively related to IFRS adoption. Hassan (2008) confirmed that the main variable behind the adoption of IFRS in Egypt was the regulators' desire to access international aid to meet basic needs. Hassan *et al.* (2014) also concluded that the Iraqi government's decision to adopt IFRS for listed firms resulted from pressures from international aid agencies, particularly the World Bank and the IMF. In a similar vein, Alon and Dwyer (2014) showed that countries heavily reliant on external financial aid are more likely to accept IFRS in its entirety. Judge *et al.* (2010) provided further evidence that foreign aid is a significant predictor of IFRS adoption among countries. In the United Arab Emirates, Irvine (2008) observed that pressure from the World Bank affected the decision to adopt IFRS at the national level. Furthermore, Mir and Rahaman (2005)'s research on Bangladesh found that the pressure exerted by key international donor/lending institutions on the Bangladeshi government was a major factor driving the decision to adopt IAS. Tahat *et al.* (2018) recently showed that pressure from international donors has pushed Jordan to adopt IFRS.

Previous research has also shown that IFRS adoption due to pressure from international lending agencies is not without problems. For example, in its effort to satisfy Western lending/donor institutions, the Bangladeshi government is pursuing IFRS adoption in a rather hurried and undemocratic fashion. There appears to be very little consultation with various interested domestic parties on accounting standards and how they should be developed in Bangladesh, reflecting the dependency between the Bangladeshi government and these agencies (Mir and Rahaman, 2005). In Egypt, with the absence of any substantial private capital participation in the economy or government budget surplus, the government rushed into IFRS adoption to guarantee the supply of required economic resources, even though the supporting institutional structures were not yet ready. The Egyptian government has signed multiple agreements with both the IMF and the World Bank. As part of the contractual agreements, Egypt must adopt IFRS even though the country is not yet ready to implement it (Hassan, 2008).

2.3.2 Membership network. A membership network is another dimension identified in the literature as influential on national IFRS adoption. Investing across borders involves financial analysis, which is more easily done if economic rules are similar (Craig and Diga, 1996). The nature of a country's economy is likely to temper or intensify the perceived value of the IFRS network to that country (Ramanna and Sletten, 2014). Therefore, members in certain trade groups create incentives to minimize differences between members and facilitate cross-border contracting such as those in financial reporting (Ramanna and Sletten, 2014). Consequently, international organizations whose principal objectives are to create greater economic gains through mutual trade and investment have increased the formation of groups such as the EU, Group of Twenty and others (Saudagaran and Diga, 2000). It has been shown that regional trade organization membership fosters compliance with international standards (Ramanna and Sletten, 2009). In fact, through such networks, some difficulties can be easily resolved because of similar rules or even the use of a common language (Zeghal and Mhedhbi, 2006).

The literature contains evidence consistent with the likelihood of IFRS adoption for a given country increases with the number of IFRS adopters in its membership network.

Nobes (1998) argues that membership networks can result from a country's relations with former colonizers. Elad (2015) applied this idea to Africa and found more adoption of IFRS in UK-influenced countries but not in French-influenced countries. Zeghal and Mhedhbi (2006) also concluded that a membership network pushes developing countries to adopt IFRS. They showed that IAS adoption is easier in developing countries within the Anglo-American group. Abd-Elsalam and Weetman (2003) demonstrated that familiarity and language seem to favor countries in the Anglo-American network group, mainly because of the predominant Anglo-American influence in the development of IAS and because English is the language of communication within the IASB. Similarly, Shima and Yang (2012) indicated that IFRS adoption is significantly increased if a country has a social or political network with the UK, whose accounting practices have been influential in IFRS development.

Membership networks can also arise from geographic proximity. As countries located in a certain geographic region adopt IFRS, the remaining countries in that region may also choose to adopt IFRS. For example, Ramanna and Sletten (2009) showed how a country is more likely to adopt IFRS if its trade partners or countries within its geographical region are IFRS adopters. Similarly, Shima and Yang (2012) observed that a country with at least one top import or export partner that has adopted IFRS is more likely to adopt IFRS. In the same vein, Khelif *et al.* (2020) confirmed that Algeria has stronger trade relations with the EU than Morocco and Tunisia, which resulted in higher IFRS convergence in Algeria. In a later study, Ramanna and Sletten (2014) argued that the perceived network benefits are a determinant of IFRS adoption over time. That is, the adoption of IFRS becomes more appealing as more countries choose to adopt and the perceived network benefits of the adoption become more apparent.

3. Implications for accounting policymakers

This paper shows that accounting scholars have identified many determinants that affect IFRS adoption decisions by accounting policymakers. Researchers have generally concluded that national decisions on whether and how to adopt IFRS are influenced by multi-faceted environmental forces. However, it appears that conclusions regarding these findings and their effects on countries' decisions to adopt IFRS are mixed and often contradictory. The question, thus, remains: Why do the same or similar factors have different or even opposite effects on the national acceptance of IFRS. That is, in what direction do the identified variables push: toward full adoption, toward non-adoption or are they irrelevant? This problem area implies that to understand nations' different approaches, policymakers and practitioners must carefully interpret the results from the existing accounting literature.

At the international level, researchers, policymakers and practitioners alike active in this area must be careful when interpreting the magnitude and effects of international accounting harmonization. First, as a nation's accounting system traditionally develops over time to serve domestic needs, certain attributes are likely to be incompatible with a set of exogenously developed accounting standards (Mir and Rahaman, 2005). This potential incompatibility, combined with voluntary decisions by nations on whether and how to adopt IFRS, result in uneven IFRS adoption around the world. To the extent that the IASB would like nations to fully adopt IFRS, not just converge with them (Hoogervorst, 2016), there may be an unintended effect: International accounting harmonization may become a veneer over the continued differences in accounting systems around the world (Ball, 2006). As a result, the intended benefits of international comparability may actually harm potential investors

who believe that the accounting standards are the same when in fact they are still different, now with the differences buried deeper and more difficult to decipher (Nobes and Zeff, 2016).

At the national level, the issue is also that national accounting policymakers evaluate what benefits IFRS could bring to them. Given the *de jure* adoption is mostly a voluntary decision, it is a choice made by national accounting policymakers. This choice involves balancing between external pressure and internal self-interests (Oliver, 1991). Prior literature on IFRS adoption by country tends to agree that social and economic attributes combined with institutional pressure are useful in understanding the national approach to IFRS adoption (Judge *et al.*, 2010; Khlif *et al.*, 2020). To this extent, the current adoption status by countries is not static, the approach evolves constantly. Policymakers may continue to evaluate their domestic needs and monitor the international development of IFRS and adjust their approach accordingly.

4. Conclusion and opportunities for future research

This paper categorized and compared the determinants of national IFRS adoption in empirical financial accounting research. Three main insights arise from the analysis. First, three categories of determinants are bound to influence the decision of accounting policymakers on whether and how to adapt the IFRS: socio-legal traditions, economic and financing factors and intra-organizational dynamics. Second, despite the wide range of studies on national IFRS adoption, significant variation remains among the influential determinants identified by accounting researchers. These contradictory results suggest that specific national attributes have a significant effect on decision-making by national accounting policymakers. Particular attention should be paid to the differences between developing countries and developed countries, as the same factors may result in different reactions by accounting standard setters (Hope *et al.*, 2006; Mita and Husnah, 2015). Thus, public policymakers must exercise caution when interpreting the results for their own country. Finally, while the number of studies on this matter is increasing, opportunities remain to explore the determinants and continued development of a national approach to international accounting harmonization, both theoretically and empirically.

This paper is relevant to accounting standard-setting and regulating bodies including the IASB and national accounting policymakers. These standard-setters, as well as enforcement bodies, may be interested in how to adequately promote or adopt the IFRS and how to interpret studies with these aims. Academic findings on what influences national decisions on IFRS adoption can help accounting policymakers proactively design policies in the era of international accounting harmonization. Accounting changes at the national level are often developed over a long period of history (Mueller, 1967). Nevertheless, given the relatively fast development in economic globalization, which lays a foundation for the need for accounting communication across borders, countries looking to compete or survive economically must react quickly. To attract foreign capital, these countries may expect that adopting IFRS will help bring greater inflows of FDI and international loans. However, adopting and implementing IFRS require substantial resources. This paper provides evidence for policymakers on the benefits IFRS adoption brings to a country and what to look out for in their approach to IFRS adoption. Better understanding of these factors may facilitate policymakers' efforts on IFRS adoption or promotion and help avoid potentially costly failures.

For IFRS studies, this paper shows that the academic accounting literature on national IFRS adoption has expanded, as international accounting harmonization has become a key development in recent decades. Still, IFRS adoption is a relatively new field in accounting research and is expected to continue to grow in popularity, mirroring the development of

IFRS in practice. Future research on IFRS adoption should continue to examine the development of the current adoption status as it can possibly move backward, instead of moving forward as it has been so far. Thus, the question remains on where the IFRS adoption around the world is heading.

Three suggested research questions can be formed for future studies. First, why does the IFRS literature contains conflicting empirical results for certain determinants of national IFRS adoption? This paper suggests that future research should attempt to reconcile existing empirical results by providing specific national evidence on what determinants matter in national IFRS adoption using a coherent and flexible theoretical framework. Second, how are the different determinants linked to each other and how do they jointly impact the national adoption of IFRS? This paper shows that a balance between domestic accounting traditions and international accounting harmonization remains challenging for accounting policymakers which may restrict a nation's capacity to fully adopt IFRS. Future research can examine how accounting policymakers balance multiple factors that may impact the capacity on how far a nation can adopt IFRS, that is, to fully, partially or not adopt IFRS. Third, how much of the national-level determinants impact the firm-level adoption? It is important to recognize that firm-level IFRS adoption is conditional on countries' decisions to allow or mandate IFRS (Ramanna and Sletten, 2009). However, different challenges and characteristics between the adoption at the country (*de jure*) level and those at the firm (*de facto*) level must be acknowledged (Albu *et al.*, 2014; Richardson and Eberlein, 2011). The findings in this paper show that differences in countries' IFRS adoptions already exist at the national level. As most domestically listed firms must comply with the national GAAP or with other regulations at an equivalent level, rather than directly complying with IFRS, they may have no choice but to deviate – to a certain degree – from the IFRS as issued by the IASB (Brandau *et al.*, 2013; Byard *et al.*, 2011; Daske *et al.*, 2008; Holthausen, 2009). Thus, extending the research to the firm-level IFRS adoption can further clarify what factors are firm-level only and what factors are attributed to the country-level trickle-down effects.

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