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Accounting, FRQ, Emerging Countries Transition: How can a Country Implement an IFRS Standard Change Successfully?

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Abstract

This study examines the variables affecting the decision to adopt IFRS standard by seventy-eight emerging market economy (43 adopting IFRS and 35 non-adopting) over the period 2006-2014. The results of the study are primarily an exploratory process framework for the implementation of IFRS standard changes and secondarily a set of variables seen as affecting the IFRS standard change implementation process in emerging countries. Key variables include the following twelve variables:culture (Anglo-Saxon), political system, educational system, legal environment, economic growth,privatisation, foreign direct investment, firm size, liquidity, and cost of equity capital, audit quality (Big 4) and transparency. Finally the main limitations of this study are outlined and opportunities for future research are discussed, particularly in relation to this study?s findings about the requirement to reconsider the usefulness of the relationship between accounting practices and framework adoption of IFRS by emerging countries.

Index terms— international financial reporting standards (IFRS), financial reporting quality (FRQ), adopted/ nonadopted, implementation framework, emerging countri

1 I. Introduction a) Background

n last decades the world became a more global arena with eliminating boundaries of countries and financial markets by the international moves of goods and capital. The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) have proposed, as part of their joint project to harmonise accounting standards. The standard IASB and FASB provided in their common conceptual framework that "the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" (IASB and FASB, 2010). In the common conceptual framework of the IASB and FASB comparability is regarded as a qualitative characteristic that enhances the helpfulness of information. It helps users of financial information to decide between investment alternatives. Comparability implies that similar economic events are reflected similarly in accounting outcomes and different economic events are reflected dissimilar.

Accounting Standards Board (IASB) issued international financial reporting standards (IFRS) that would be adopted worldwide and establish harmonisation of accounting standards. The European Commission required mandatory adoption of IFRS in the European Union (EU) from 2005 onwards. This is a big step towards global harmonisation in financial reporting as 27 member states of EU adopted a single set accounting rules. The movement towards adoption of IAS referred to IFRS as financial reporting standards accounting model is widely accelerated emerging countries in recent years, especially after EU adoption. It is essential to have high-quality standards and reporting practices to provide users of financial information with what they need (Biobele et al., 2013). There is growing evidence that, in various different user-groups, adopting IFRS does improve the comparability and quality of the financial information reported by firms (e.g., Daske et al., 2008;Bissessur and

Hodgson, 2012). As Jenkins (2002) stated that, 'high-quality' financial reporting is essential to maintaining an efficient capital market system. In this way, Barth et al. (2008) examined the accounting quality of the IFRS in 21 countries and found that less earnings management, more timely loss recognition, and more value relevance as compared to a control group of firms following non-US national accounting standards. These findings help support the idea that accounts prepared under IFRS conventions present users with useful information to increased disclosure are related to less uncertainty for investors and thus, a reduction in the information asymmetry between managers and shareholders, a key goal of the IASB (IASB, 1989, paragraphs **??**5-18;Diamond and Verrecchia, 1991). Choi and Levich (1991) illustrate that the single set of accounting standards allow for comparison of financial statements between countries. Thus, potential investors are able to compare financial reports that are prepared under the same standards (Larson, 1993). Given the evidence that IFRS has improved the quality of financial reporting information, it is significant to identify conceptual framework that could explain the choice of applying IFRS standard adopted by number 78 emerging countries during 2006 to 2014 period.

under IFRS has led to great interest in the impact of these standards changes after the largest project for the firm has already been undertaken from both academics and practitioners. The two main purported benefits of instituting a single set of global accounting standards are potential improvements in the quality of reported information as well as convergence benefits, such as greater ease of comparing financial statements of companies across countries and consistency in auditing practices. However, despite this wide-spread movement toward IFRS, study on the actual materialisation of convergence benefits is sparse.

Following World War II, each country had its own Generally Accepted Accounting Principles (GAAP), or proper accounting practice. Existing study has concentrated largely on the initial adoption of IFRS standards as a whole, including cost-benefit analysis and research on how companies can convert from local GAAP (Deloitte-IFRS, 2011). Today many countries around the world have begun to adopt these standards or are questioning adoption. It is important to understand the effects of these standards as they have been becoming the sole language for financial reporting.

Standard setters, researchers and practitioners emphasise that the mandated adoption of IFRS will have a significant impact on accounting quality. In the wake of the huge changes facing IFRS adoption, research on IFRS standard change implementation and its effectiveness is in high demand (Jermakowicz, 2006).

The idea of a conceptual framework is to "provide a set of reliable principles and guidelines" to achieve a present objective **??**Christensen, 2010: 287), which in the case of IFRS standards adoption in emerging countries. The key idea in this study, however, is to develop the factors that could explain the implement an IFRS standard change successfully by seventy eight emerging countries over the years ranging between 2006 and 2014. Thus, within the conceptual framework model of a country's the following factors have been selected, seven determinants of macroeconomic including: culture feature, political system, educational system, legal environment, economic growth, privatisation, foreign direct investment. In addition, the study uses three individual firms Leverage including: firm size, profitability, liquidity; and two corporate governance factors such as; audit quality, transparency. Most of the selected variables were used in previous studies.

The aim of this research is to determine the most appropriate model for the continued viability behind the decision' adoption of IFRS standard by the emerging countries and to consider an appropriate strategy for the local GAAP of emerging countries to undertake change successfully continuation of the implement an IFRS standard. To achieve this aim, the following study objectives were formulated.

2 1.

accounting information; 2. To contribute to recent literature and the enactment of the accounting standards and FRQ for IFRS. 3. To identify factors that affects the success of the implementation IFRSs process. 4. To investigate if does the adoption of IFRSs have an effect on these countries' economies?. 5. To determine whether the new implementation an IFRSs effects on the emerging countries accounting. 6. To provide particular solution regarding the problems of the IFRSs adoption in the context of emerging countries. 7. To present some policy recommendations for adoption and implementation of IFRSs for ensuring good financial report quality.

The key research question incorporating both of these objectives is: How can emerging countries implement an IFRS standard change successfully?. To answer the study question, the theoretical framework and variables are then empirically modified based on policy implications for emerging countries and other countries with likely accounting structure. Providing evidence of causality will influence the degree of urgency attached to policy reforms designed to promote financial market development. In their turn, Ashraf and Ghani (2005) have stressed that the adopting of IFRS in the developing countries will improve the quality of standards and would reduce the expense and time of preparing the financial statements. They also argue that adopting the international standards will increase the efficiency of financial statements in the stock markets which would become more understandable. The current study may be beneficial for international institutions and regulatory bodies as IASC, IASB, developed and emerging countries in understanding the effect of these standards in different country contexts.

3 II. Theoretical Considerations a) Overview of Adoption of IFRS

In the 21st century, IFRS have been adopted as mandatory standards for an increasing amount of countries worldwide. IFRS are accounting rules ”standards” issued by the IASB, an independent accounting standard-setting body based in London, UK, in 2001 (IFRS, 2013). It is timely to provide some historical perspective that might shine a useful light on the IFRS of today. In order to establish global accounting standards, the International Accounting Standards (IAS) was founded in 1975, refers to standards issued by the International Accounting Standards Committee (lASC) since the IASC was the international standard setting body was changed to the IASB. The new board (IASB) reports to IASC foundation and assumed its duties in April 2001. The IASB describes its rules under the new label of the IFRS, though it continues to recognise (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC).

However, by 2001 the IASB stated to issue the IFRSs which are mandatory to be adopted at most international stock exchanges except the US which announced its desire to consider the IFRS and there is possibility that the US is going to adopt it as early as 2014 (Kinkela et al., 2010) ??ebruary 27, 2006, the lASB with the FASB have jointly issued documentation to confirming the shared objective of both boards to develop high quality accounting standards to be applied by the international stock markets. Moreover, a number of countries, such as Mexico, Canada, Japan and India, have declared that they are powerfully going to adopt or converge with IFRS during the period from 2009 to 2011 (Kinkela et al., 2010). Recently, more than 100 jurisdictions in both developed and emerging countries around the world authorise the implementation of IFRSs is impressive (Guggiola, 2010). And with the passage of time, those that are recalcitrant will become accustomed to the idea that financial reporting, unlike law, should be the same the world over, because the securities markets today are one.

4 b) Costs and Benefits of IFRS Adoption in the Emerging

Countries Today, IFRSs are the most widely used set of accounting principles across the around the worldwide. Over 120 countries worldwide have been adopted IFRSs in some grade, and more countries are continuing to adopt the standards each year with the hope of increased comparability of financial statements reports (AICPA, 2014). Thus results, would allow investors from all over the world nations' to invest in the best stocks, bonds, and other financial instruments anywhere across the globe economy and not just in their own country or region. According to Lander and Auger (2008), all costs and benefits must be weighed carefully before imposing stricter requirements on companies.

Most of the previous studies have been entirely concerned with costs and problems associated with the adoption of IFRS standard in the developed countries (Bradshaw et al., 2004 Another way that existing literatures document improvements in accounting quality following voluntary IFRS adoption (Barth et al., 2006;Hung and Subramanyam, 2007;Barth et al., 2008) to reduce information asymmetry between managers and shareholders and it can be evidenced by proper assets and earnings management, lower cost of capital, and high forecasting capability by the investors about firm's future earnings. To date there is no direct empirical investigate of this argument. A number of countries are early pioneers in this accounting globalisation process, while others are still hesitating or even have reservations of using it. For instance, Ramanna and Sletten (2010) find that countries with less power, low opportunity cost of domestic standards, close proximity to IFRS standards setters are more willing to adopt IFRSs. IFRS adoption therefore could make it less costly for investors to compare firms across markets and countries ??Armstrong et al., 2007;Covrig et al., 2007). Thus, a common set of accounting standards would reduce information asymmetries among investors and/or lower estimation risk by increasing comparability between lower and higher quality firms. Barth et al. (2006) suggest that accounting quality could be improved with elimination of alternative accounting methods that are less reflective of firms' performance and are used by This raised an interesting possible role for IFRSs adoption. If emerging countries financial accounting is not well adapted to the countries context, perhaps the new IFRSs could fill any gap between financial accounting and the users' needs which, the adoption of IFRS would have many benefits to the emerging countries investors for it would improve standardise the reporting formats, financial reporting quality, and provide more accurate, comprehensive and timely financial statement information. By far, many countries have already adopted IFRS, so the emerging countries would benefit greatly by conforming to global IFRS network and would like to happen in the future. Furthermore, adoption of IFRS could increase comparability between emerging countries and foreign firms immediately compered to gradual convergence between local GAAP and IFRS standard.

5 III. Empirical Methodology and Institutional Framework a) Hypotheses development and Variables' Definition

In this section, we discuss several hypotheses about the effects of IFRS reporting. We then review the empirical evidence on voluntary and mandatory IFRS adoption in various emerging countries around the world and discuss the extent to which it supports the hypothesised IFRS effects. In much of the IFRS debate, the arguments are presented in general terms and not tailored to a particular country. We therefore revisit these arguments and the evidence in the following null hypotheses are formulated in order to scrutinise the views of different effect of the emerging countries' on the decision of adopting of IFRS standards.

6 The dependent variable: IFRS adoption in 2006-2014

Most studies including Hope et al. (2006) and Zeghal and Mhedhbi (2006) measured the adoption of IFRS as a dichotomous variable that value I if country adopts IFRS and o otherwise. In our research, we will assign the value 1 for countries adoption IFRS in 2006 to 2014 and 0 otherwise.

7 The Explanatory Variables

In this study, we use two alternative measures of adoption IFRS standards as dependent variables, including emerging countries have recognised their need to participate in the opportunities offered by globalisation (UNGA, 2004), and in consequence, have led the way in adoption IFRS (IAS Plus, 2006). Consequently, the following null hypotheses are formulated.

8 a. The Macro-economic Variables

9 Culture (CULT)

Since the 1980s Geert Hofstede published his Culture's Consequences: International Differences in Work Related Values, based on the topic of culture and its relationship to four major cultural dimensions: the power extent distance, individualism, masculinity and uncertainty avoidance (Hofstede, 1980). Culture is also another factor that explaining the choice of relevant accounting systems of appropriate to each nation, wherein Hofstede's Model was the main cultural framework used to discuss the effect of culture on accounting system (Chow et al., 2002). They found that adopting accounting standards of a country might not be suitable to another country due to the cultural differences. Gray (1988) argues that the culture of developing countries is socialist which has a low level of accounting professionalism. Similarly, Zeghal and Mhedhbi (2006) argue that developing countries which are affected by Anglo-American culture are more likely to be successful tin adopting IFRS. Joshi et al. (2008) conclude that nationalism may continue to be a major weakness to global adoption of IFRSs.

However, the Arab countries are different in their accounting systems, for example while Saudi Arabia has its own accounting standards, other Gulf countries including the UAE use US GAAP (Abd-Elsalam and Weetman, 2003), Libya use Uk or US GAAP (Masoud, 2014). Kantor et al. (1995) point out that Arab countries have similar characteristics such as religion, culture and legal systems. Irvine and Lucas (2006) consider language challenges a factor which questions the capability of developing countries of adopting IFRSs. Nobes (1998) notes that countries affected by the same cultural values are likely to adopt the same accounting criteria. Hove (1986) and Chamisa (2000) have suggested that the adoption of IFRS will be easier for the developing countries with an Anglo-Saxon culture. This can be justified by the predominance of members with Anglo-Saxon origins in the work of the IASB. In their turn, Zeghal and Mhedhbi (2006) have showed that the developed countries with an Anglo-Saxon culture are the most simply to adopt IAS. Using the conceptual theoretical framework of Culture by Hofstede (1980), Gray (1988) IFRSs were issued originally to be applied in developed countries, where the cultural factors are different from those in developing countries. Hove (1986) and Chamisa (2000) have suggested that the adoption of IFRS will be easier for the developing countries with an Anglo-Saxon culture.

From this perspective, it is possible to anticipate that the adoption of IFRS criteria will be more appropriate for countries with an Anglo-Saxon culture.

H1. Emerging countries with Anglo-Saxon culture are more interested to adopt IFRS than other countries.

10 Political System (POLS)

A key objective of the literature is to describe and understand the determination of national accounting standards, a process that is "political" power, where such "power" can be understood as "the ability of furthering one's interests by imposing sanctions on another (entity) when the converse is not also true" **??**Bowles and Gintis, 1993: 88). Therefore, one interpretation of political "power" is the ability of an entity to further its preferences in a considered allocation through authorisations on another practice (e.g., Bowles and **??**intis, 1993, Borooah andPaldam, 2007). In Jordan, Al-Akra et al. **??**2009) have analysed the impact of economic, political, legal and cultural factors on promoting the accounting practices. They conclude that the political and economic factors are the elements which most contribute to this development. Along the same lines, Alsharairi and Al-Abdullah (2009) claim that international harmonisation can be considered a politically unacceptable challenge to national sovereignty. This description is significant to this study since it helps establish the existing political power base at the jurisdictions' IFRS adoption and of states in the governing most of the emerging countries; the following hypothesis appears to be worth advancing: H2. Emerging countries with more a democratic system power, the more it tends to adopt IFRS.

11 Educational System (EDUS)

The availability of a high quality education, in general, and of accounting education, in particular, plays a significant role in the adoption of IFRSs (Irvine and Lucas, 2006; Abd-Elsalam and Weetman, 2007). A lack of adequate education, knowledge, training and skills especially in firs few years, often giving rise to improper application of the IFRS standards (Jermakowicz, 2006;Samaha and Stapleton, 2008). While, adopting IFRSs is considered as an advantage over the local accounting standards where in it would it reducing the cost of training staff (McLeay et al., 2000). However, Perera (1989) argues that the information produced by developed countries' accounting standards will not provide useful information to make decisions in developing countries. For instance Al-Akra et al. ??2009) contend that the accounting and auditing education in Jordan acts as a deterrent to the successful implementation of IFRSs. Zeghal and Mhedhbi (2006) indicate that the need to create an active education system is one of the significant factors that affect the accounting standards. They indicate that various developing countries base their accounting education system on one of the developed countries such as UK and US GAAP. Hence, the following hypothesis could be put forward: H3. Emerging countries with a higher level of the education system, the higher the country will adopt IFRS.

12 Legal Environment (LEGE)

The key legal system environment in the emerging countries is another factor that influences accounting systems, where in some developing countries are affected by the legal systems of developed countries. Ball et al. (2000) argue that much accounting practice is not covered by rules, for reasons that include: practice is more detailed than rules; rules lag innovations in practice; and companies do not invariably follow the rules. According to Zeff (2007), in countries where the regulator is stronger and more powerful, companies are less willing to depart from IFRSs. He adds that regulation bodies must be supported with authority and large budgets to ensure a rigorous enforcement mechanism.

However, the legal system in most of the accounting standards in emerging countries is influenced by the Islamic religion, which is not always easily compatible with IFRSs. Lewis (2001) H4. Emerging countries with a legal environment are more likely to adopt IFRS than other ones.

13 Economic Growth (GROW)

Another factor that affects accounting standards in emerging countries, based on the assumption that "economic growth promises a better world" ??Cooper et al., 2003: 361). It has been observed that in emerging countries with higher economic growth, accounting standards becomes "homogenisation and standardisation", including the imposition of westerncentric accounting standards and regulations ??Cooper et al., 2003: 359). Consistent with this view, Cooke (1993) indicate that accounting standards has a strong relationship with the environmental factors including economic growth. Indeed, while the study of Sedaghat et al. (1994) find that IFRS adoption has positive relationship between economic growth and accounting information in developing countries.

It is assumed that the adoption of IFRSs will be "very important" or "important" for economic growth in their emerging countries in order to establish a high-H5. Emerging countries with a higher economic growth rates are more inclined to adopt IFRS than other countries.

14 Privatisation (PRIV)

Though, privatisation became one of the primary policies adopted by the IMF and the World Bank as part of its economic reform and structural adjustment programme to remedy deteriorating economic conditions, especially in developing nations (Masoud, 2009). Privatisation, however, is defined as the deliberate sale by a government of state-owned enterprises (SOEs) ??Megginson and Netter, 2001: 321), or ownership structure (Ball and Shivakumar, 2005;Burgstahler et al., 2006). There are, according to King (2003), three reforms to be considered, price liberalisation, stabilisation and privatisation, as preconditions for a successful transition to a market economy. These reforms should all be completed at the same time or in the short-term and, provided that positive adoption of IFRS would be successfully implementation in emerging economy. For instance, China in opening the door to harmonisation with IFRS, which will face challenge its necessity of privatisation its state owned enterprises including traditional regulatory and legal system (Bhagat and Bolton, 2006; ??ASB, 2006). Omran et al. (2008) indicate that a majority of Arab companies are either government or familyowned. H6. Emerging countries with higher privatised firms are more inclined to adopt IFRS than other state-owned.

15 Foreign Direct Investment (FDI)

More countries are following the practice of adopting IFRS or have already adopted it, is also found to be associated with increases in foreign institutional investments (Yu, 2009 H7. Emerging countries with more open to foreign investments, the higher it will adopt IFRS.

16 b. Individual Firm Leverage Variables

The adoption of IFRS which restricts the possibilities of income smoothing increases the quality of financial statement information. As leverage is positively associated with the need for monitoring between shareholders and creditors, it can be argued that high leveraged firms are more eager to adopt IFRS in order to reduce borrowing costs compared to low leveraged firms. In this study, the concept of business environment refers to the characteristics of firms, the readiness of companies to apply IFRSs and to bear the associated cost, the capital market development and the type of financing system. These factors are namely most commonly used in the empirical studies: firm size, liquidity, and cost of equity capital.

17 Firm Size (SIZE)

Firm size is measured by the natural log of assets. The features of firms in terms of ownership dispersion, management form, leverage, and level of organisational decentralisation are influential factors in the application of IFRSs. This argument is confirmed by various studies (e.g. **??**all H8. Firms listed in the emerging stock markets with a large market capitalisation the more it will adopt IFRS than firms with small market capitalisation.

18 Liquidity (LIQ)

Liquidity is defined as the ratio of current assets to current liabilities. This ratio shows the ability of the firm to cover its short-term financial commitments and it measures the liquidity of the firm. It is important to mention here that both the World Bank and the IMF adoption are not consistently present throughout the EU. Providing empirical evidence, Bekaert et al. (2007) find that improvements in local market liquidity are a significant driver of expected returns and liquidity levels in foreign markets where is high. More directly, prior studies tend to focus on the relation between IFRS adoption and average level of liquidity (Daske et al., 2008;Platikanova and Perramon, 2009), generally finding an increase in market liquidity immediately following IFRS adoption. Hence, we posit the following hypothesis.

H9. Firms listed in the emerging stock markets with a higher liquidity the more it will adopt IFRS than firms with low liquidity.

19 Cost of equity capital (CEC)

The literature in accounting, finance and economics has suggested a wide range of estimation procedures for the measurement of a firm's cost of equity capital. The cost of equity is measured by the price-earnings (P/E) ratio. As increase in the P/E ratio indicates a lower cost of equity finance for the firm. Bekaert and Harvey (2003) argue that the cost of equity capital is a difficult concept to define and measure. As a result it is measured in a variety of ways by different firms. While the estimates the expected cost of equity capital and the long-term growth rate in a portfolio, but can only be applied to a set of firms (Easton 2004). Hence, with reference to the common conceptual framework Scott (2012: 92) states that "the primary decision addressed in the Framework is the investment decision in firms' shares or debt". However, Saudagaran and Diga (2000), point that developing countries adopt IFRSs for the purpose of becoming acceptable in the international market. Hence, we hypothesise: H10. Firms listed in the emerging stock markets with a higher return on equity the more it will adopt IFRS than firms with lower return on equity.

20 c. Corporate Governance Variables

A key objective of corporate governance is to ensure financial statements are prepared fairly in accordance with accounting standard (Dechow et al., 1995;Davidson et al., 2005;Kent et al., 2010). Firms with good corporate governance have higher accruals quality, which indicates higher earnings quality.

21 Audit Quality (AUDIT)

In 1960 a paper published in Fortune uses for the first time the term (Big 8) to refer to the then existing biggest audit firms. As a result of several mergers in the 1990s, they turned into the Big 5, and after Enron and the fall of Arthur Andersen, they finally turned to "Big 4" (Deloitte Touche Tohmatsu, Ernst and Young, KPMG, and Price Water House Coopers). Prior investigation documents that, on average, auditor size is directly linked to audit quality (DeAngelo, 1981 Barth et al. (2008) declare that developing countries lack the infrastructure to enforce the application of international standards. Following the above arguments, it can be hypothesised that: H11. Emerging countries with more the choice of a Big 4 audit firm quality, the more it existence to adopt IFRS.

22 Transparency (TRANY)

The effect of IFRS adoption on information quality is questionable if firms' reporting incentives do not change to align with transparency. The application of IFRS is an instrument to increase the transparency and credibility of the firm (Francis et al., 2008); this in turn increases the attractiveness of the firm for foreign investors (Covrig et al., 2007). Consequently, Gray (1988) indicates that the developing countries possess a strong degree of uncertainty avoidance and power distance significance. This might influence the level of quality information and discloser in these countries (Kantor et al., 1995). Therefore, any country requires to increase the external stakeholders would be useful to increase the level of disclosure (Kwok and Sharp, 2005). It can be argued that the adoption of IFRS, the new global reporting standards, would be improve comparability, clarity, transparency and credibility of financial statements and in emerging countries, would lead to better economic efficiencies. The following hypotheses are formulated: H12. Emerging countries with improve the transparency of financial reporting are more likely to adopt IFRS than other ones.

23 b) Variables' Econometric Model Dependent Variable

The dependent variable, which represents the level of adoption of IFRS, is derived from the Deloitte -IASPlus (2014) report surveying current status of the adoption in a wide variety of jurisdictions as of Jan 05, 2013.

Consistent with Hope et al. (2006), Karamanou and Nishiotis (2009), and Judge et al. (2010), a country is codified "1" dummy variable if it fully adopts IFRS, where all listed domestic and international firms are required to use the standards; otherwise it is codified "0". Consequently, a country that partially adopts IFRS, either by not requiring all listed firms to use IFRS or by

24 Global Journal of Management and Business Research

Volume XIV Issue II Version I Year ( ) adopting a modified IFRS, is codified "0". We can formalise this by the subsequent regression equation as follows:

i.

(1)

where it Y , is the probability of early adoption IFRS for the i country in the year of time t . There are seventy-eight emerging countries for which data are available on variables in the study covering the period from 2006 through 2014. it n , number of country that were relevant for the ith country adoption IFRS in the yeart . it X , 1 if the ith relevant entry is adoption IFRS by the country i in the year of time t ; 0 if the ith relevant entry is not adoption IFRS; therefore, 0 ?Y it ? 1.

25 Independent Variables

Given the Eq.1 adoption of IFRS in emerging countries can be written in a mathematical manner as follows:

(2)

Given the Eq.2 study variables, we apply an ordinary least square (OLS) model, which is defended as:

(3)

To anticipate the possibility of non-linear relationships between dependent and independent variables, a logistic regression is employed. Logistic regression is an appropriate approach where disproportionate sampling from two populations occurs (Maddala, 1991). In logistic regression, the coefficients of the explanatory variables are unaffected by the unequal sampling rates from the two groups (Palepu, 1986). Logistic regression has been generally applied to investigations of IFRS adoption successfully by emerging countries. Independent variables being measured in our logistic regression are summarised in Table **??**. Based on the proposed hypotheses, these variables aim to measure internationality, relationship of firm characteristics and IFRS adoption in emerging countries. The model used in the study is as follows:

Where it Y it is the probability of early adoption IFRS i country in the year of time t , where t is 2006-2014, ? 0 refers to the intercept, and ? 1? 12 refers to the slopes/regression weights that represent the relationships between dependent variable and independent variables. CULT it countries coulter is a dummy variable that takes the value (1) if the country has an Anglo-Saxon culture and (0) otherwise. POLS it countries political system measured by the Gisted index. EDUS it countries education level, measured by the general literacy rate in the country. LEGE it , countries legal system environment is a dummy variable that takes the value (1) if the country has a common law type of legal system and (0) otherwise. GROW it , is measured by the annual real growth rate of per capita GDP at purchasing power parity in 2005 constant. PRIV it , countries privatisation is a dummy variable that takes the value (1) when the firm is privatised onward, (0) before. FDI it , is measured by foreign direct investment divided by the gross domestic product. SIZE it , is measured by Firms listed in the stock markets is a dummy variable that takes the value 1 if the country has listed firms on stock markets and (0) otherwise. LIQ it is measured by ratio of current assets to current liabilities of firm i in year of time t. CEC it is measured by return on equity of firm i in year of time t. it AUDIT countries audit quality is a dummy variable that takes the value (1) if an audit quality is Big 4 firm i in year of time t, (0) otherwise. TRANY it is a dummy variable that takes the value (1) if the country has transparency of financial reporting and (0) otherwise. ? it is the time-varying error term ? it ? iidN (0,? 2 ?). To test the adoption of IFRS by emerging countries, we are able to retrieve complete data of 78 emerging countries classified into two groups (see Table **??**). The first group includes 43 emerging countries that have adopted IFRS (with or without modification) and the second group includes 35 emerging countries, that countries did not adopt IFRS from 2006 until 2014. IV. Empirical Results

26 a) Descriptive Statistics Analysis

Table **??** illustrates that descriptive statistics for the study variables were measured in this research, followed by the mean as a measure of central tendency, standard deviation as a measure of distribution spread, minimum and maximum values of all variables for IFRS adoption group and nonIFRS adoption group to check for each variable's normality. 1 In order to generalise the findings from regression analysis, some assumptions have to be met. One of the initial assumptions is the variable type. All variables must be metric or categorical with two categories. As can be seen from Table **??**, all the variables are metric, except for adoption IFRS and joint venture which are categorical.

27 Table 3 : Descriptive Statistics

Notes: (1) Adoption of IFRS = 1: group of countries that has adopted IFRS; (2) Adoption of IFRS = 0: group of countries that not adopted IFRS; (3) the variables are as defined earlier in the Table **??**. Source: Data and Summary Statistical Analysis 2014.

Another important issue that needs paying attention to when using multiple regressions is multicollinearity, which refers to the correlation among the independent variables. This exists when there is a strong correlation between two or more predictors in a regression model. One simple way of identifying multicollinearity is to scan a correlation matrix of all the independent variables in order to find out if there is any very high correlation among them (e.g. > .90) (Hair et al., 1998;Field, 2006).

There are two common tests to assess the existence of the multicollinearity; they are the Variance Inflation Factor (VIF) and its inverse; the Tolerance value. The VIF values range from 1.18 to 2.19, all well below 10, the value suggested by Myers (1990). Tolerance values range from 0.45 to 0.83 (see Table **??**). None should be below 0.1, since tolerance = 1/VIF, also, Menard (1995) suggests that values below 0.2 are cause for concern. Therefore, this is indicating that multicollinearity problems may occur in this backward elimination model. As Table 4 shows, there is no high correlation between any of the independent variables and also from Table **??** it can be seen that the values of VIF do not exceed the acceptable level of 10, with no values of tolerance below the recommended level of 0.1. Accordingly, there is no evidence to be found for the existence of multicollinearity. Such coefficient does not matter since it is less than 0.5 and not significant at conventional levels. corresponds to a normal distribution, where normal distribution is a theoretical probability distribution in which the horizontal axis represents possible values of variables and the vertical axis represents the probability of those values occurring. Scores on the variables are clustered around the mean in a symmetrical, abnormal pattern known as the symmetrical bell-shaped or frequency curve **??**Hair et al., 2005: 38).

28 Global Journal of Management and Business Research

Volume XIV Issue II Version I Year ( )

29 b) Regression Results

The aim of this subsection is to present the overall results of running the ordinary least square (OLS) regression with log transformation analysis with all variables and hypotheses, that is, to explain whether there is a relationship between the emerging countries adoption IFRS (independent/predictor variables) and the probability of early adoption IFRS (dependent/outcome variable). The output of the SPSS test, as depicted in Table **??**, reveals the hypotheses of the independent variables associated with IFRS adoption. These results offer very significant information about the models fits under study with those accepted and rejected hypotheses. The first step in examining the overall regression models is to assess the statistical significance of the overall regression models, which could be done using the model F-value for the regression models. Table **??** contains two statistical models for hypothesis testing. Model 1 is a linear regression using ordinary least squares estimation, in which we found that all hypotheses are strongly supported. Model 2 is a logistic regression model. Similar to model 1, this model strongly supports the hypotheses. In both models, the F-value is 5.59 and 4.95, which is significant at the 0.05 level (Sig = 0.000) respectively. This means that the models have significantly improved our ability to predict the dependent variable. Thus, the regression model overall predicts the diffusion of adoption IFRSs significantly well.

30 Table 5 : Regression Results Analysis

The results of the majority of hypotheses are similar for using statistical methods. Confirm or rejection of each hypothesis is based upon the result being statistically significant for at least two of the methods. Therefore, if one method is statistically significant at 1 per cent (P<0.01) or 5 per cent (P< 0.05) level, the hypothesis will be accepted. In this context, the contribution of each explanatory variable to estimate the Note: (1) The variables are as defined earlier in the Table **??**. Source: Data and Summary Statistical Analysis 2014.

Notes: (1) Significance level: *10%, **5%, ***1%; (2); Adopt. IFRS = 1: group of countries that has adopted IFRS; (2) Adopt. IFRS = 0: group of countries that not adopted IFRS; (4) the variables are as defined earlier in the Table **??**. Source: Data and Summary Statistical Analysis 2014.

early probability of IFRS adoption by emerging countries hypotheses is tested and justification that might explain reported outcomes is discussed. The hypothesised in both models resulted that macro-economic variables (POLS, CULT and FDI) do not have a significant impact on the decision to adopt IFRS. The non-significance of these variables means that emerging countries do not base their decisions to adopt IFRS on the political system, country culture or the existence of foreign direct investment. Therefore, the regression path is significantly different from zero when t > 1.645 (P< 0.05), t > 1.96 (P< 0.01) for null hypothesis, (i.e. research questionnaire) beta estimate is considered significantly different from zero when t > 1.96 (P<0.05), t > 2.576 (P<0.01).

The EDUC variable reflecting the level of education has a positive strongest pressure for emerging countries to adopt IFRS and significant at the 0.01 level (Sig = 0.000). This result is consistent with Doupnik and Salter (1995), Street (2002), and Zeghal and Mhedhbi (2006), higher the educational level of a developing country, the higher the country will tend to adopt IFRS. Followed by legal environment system (LEGE) and privatisation (PRIV) are strong positively and significantly at the 0.01 level (Sig = 0.000) related to the decision to adopt IFRS by emerging countries. Both FDI inflows and GDP growth are not significant predictive factors to adopt IFRS. Thus, the results show that the economic benefits associated with IFRS adoption is found to be significantly related to emerging countries decision to adopt IFRS, whereas a higher level of real GDP per-capita means better education, better business environment and wealthier citizens. The results shown from Table ??, it appears that the variables (Size and CEC) did not significantly affect the decision to adopt IFRS in emerging countries. However, hypothesis of the variables (LIQ, AUDIT and TRANY) which is accepted the results of the overall models with a significantly impact the decision to adopt IFRS by emerging countries.

Table ?? also shows that the R value (multiple correlation between the dependent variable and all the independent variables combined together) for this models are (0.671 and 0.563) respectively, which is an indication that the model provides a reasonably good explanation of the observed values of the outcome between the dependent and all the independent variables. The value of R^2 is 0.415, which indicates that all the independent variables that are included in the multiple regression model account for 41.5% of the variance in the adoption of IFRSs by emerging countries. This means that our model, which includes demand factors only (attribute of adopters factors), can explain only 41.5% of the variance in the adoption of IFRSs by emerging countries. Therefore, 58.5% of the variation in the adoption of IFRS cannot be explained by the demand side factors alone and there must be other variables that have an influence also and will be able to explain part of variation. The output of the change in the F-test, resulting from constructing the multiple regression models, is demonstrated in Table ??. The Ftest is a measure of how much the model has improved the prediction of the outcome compared to the model's level of inaccuracy. In this context, a good model should have a large F-test greater than one at least (Field, 2006). As such, the model causes R^2 to alter from zero to 0.415 and this change in the amount of variance explained gives rise to an F-test of 5.592, which is significant at the 0.01 level (Sig = 0.000) related to the decision to adopt IFRS by emerging countries. At this point, the changed statistics exemplify variance incurred by adding new predictors to the model.

In summary, the research hypotheses H1, H3, H4, H5, H6, H9, H11 and H12 are confirmed for the adaption of IFRS sample, while the study hypotheses H2,H7, H8 and H10 are rejected for not significant predictive factors to adopt IFRS. As, however, adoption of IFRS has crafted by developed countries, might not able to create the same relationship in emerging countries since of different socio-economic and politicaleconomic environments.

31 V. Conclusion

The main aim of this study was to provide a better understanding of the theoretical framework which has been developed from three theories (agency, signalling and legitimacy) that could provide a scientific base for possible causes of impairment application, and presents a conceptual framework showing the relationship between impairment application and the quality of accounting information. It employs these theories as the essential bases for its argument because these theories provide adequate information about the interpretation of impairment application.

The key study question stated in the beginning was, "what factors could significantly influence countries decisions to adopt IFRS? This investigates the relationship between the decisions of emerging countries to adopt IFRS and how can emerging countries implement an IFRS standard change successfully?" This question has been answered through the development of the exploratory framework and the variables affecting the outcome or "success" of the implementation process through using regression results analysis models with a clear process framework for implementation in the relationship between environmental and firms potential factors and the decision to adopt IFRS standard by emerging countries.

Empirically, regression analysis results show that the early likelihood to adopt IFRS is consistent with all must independent variables related to macroeconomic and institutional factors have different effects on the adopt IFRS in emerging countries. The (EDUC,

32 Global Journal of Management and Business Research

Volume XIV Issue II Version I Year ( ) LEGE) and (PRIV) variables are strong positively and significantly at the 0.01 level (Sig = 0.000) related to the decision to adopt IFRS by emerging countries. Both FDI inflows and GDP growth are not significant predictive factors to adopt IFRS. Thus, the results show that the economic benefits associated with IFRS adoption is found to be significantly related to emerging countries decision to adopt IFRS. The results shown from Table ??, it appears that the variables (Size and CEC) did not significantly affect the decision to adopt IFRS in emerging countries. However, hypothesis of the variables (LIQ, AUDIT and TRANY) which is accepted the results of the overall models with a significantly impact the decision to adopt IFRS by emerging countries. All of these factors seems' to account for between 39% and 42% of the variance in the adoption of IFRSs (see R^2 in Table ??). There is no statistically significant relationship between the study hypotheses H2, H7, H8 and H10 and the effect decision to the adoption of IFRS by emerging countries. Therefore, the factor analysis test adds support to the theoretical framework of this study, as the factors that emerged from it are consistent to a large extent with the introduction of an exploratory models framework for the implementation process of IFRS standard changes and the identification of variables that affect it. However, the practice of implementing IFRSs in emerging countries will face several obstacles including lack of technical skills, training and inadequate knowledge of Libyan professional accounting, the difficulty to develop it existing high-quality accounting systems, amongst disclosure reports, and a regulatory framework to cope with culture, political system, economic growth and social development, and training of effective accounting.

33 VI. Contribution to Knowledge

This study seeks to make an original contribution to knowledge by provides an important introduction to this area and has attempted to explore its significance for the high-quality accounting practices. A critical review of this study has added to the existing body of literature and assists the researcher in obtaining new ideas and perspectives, exploring the significant adoption of IFRS in emerging countries framework related to high-quality accounting practices and economic growth in the following areas. of IFRSs in emerging and transitional economies, it is hoped that the findings of this study will not only make a theoretical contribution but also make researchers and managers aware of the current state and development of IFRSs in emerging and transitional economies business companies and thus contribute to a better understanding of these techniques in the emerging and transitional countries and reduce the lag in the diffusion of IFRSs adoption among countries. It also provides significant insights into the role of institutions (e.g. academic institutions) and foreign companies, in the diffusion of IFRSs adoption in emerging countries.

VII.

34 Limitations and Future Research

This study however, as any other study of this kind of research, it is subject to a number of limitations. Keeping in mind the following limitations, this study should merely be perceived as a contribution to continue the adoption of IFRSs in emerging economy and not as an end in itself. The limitation of this study can be achieved and discussed below:

1. The major complexity with this study is that heavily depend on archival data. Capturing countries motives is certainly needed to reveal specific reasons regarding the implementation of adoption of IFRSs or not influencing the accounting practicing in the emerging countries context. This would add to the originality and value of this study, as this study will not have the added benefit of learning from others' mistakes.

2. Considering that the decision to adopt of IFRSs in emerging economy are changing over time, investigating the diffusion of IFRSs in different groups of emerging market economies with a longer observation period and bringing more variables into the model may yield interesting results. 3. There was a scarcity of empirical work previously conducted in the study area. This meant a lack of scales and measurements that could be used in order to establish a cause and influence study to examine the relationship between accounting practices and adoption of IFRSs in emerging countries. Additionally, most of the available studies revealed contentious findings that do not encourage future research, as hitherto mentioned.

35 VIII. Outline for Further Research

The limitations mentioned above, and other thoughts discussions of this study, which would need much empirical work to be done. The following are suggested areas for future research: 1. To the best of the researcher's knowledge, this study is one of the first studies discussed the issue of the conceptual framework to adopt IFRSs by emerging and transitional economies. To validate the conclusions of this study, further comprehensive research is required into the foreign companies has a significant impact on the diffusion of improvement.

In addition, a joint undertaking with foreign partner offers an opportunity to copy the foreign partners' techniques (fad factor) or to work under a foreign partner pressure (involuntary factor) or a mixture of these factors. Thus, the area that seems to be promising for feature research is the examination in detail of the nature of the role of foreign companies and other stakeholders on the diffusion of adoption of IFRSs in emerging countries. 2. Future research could expand the technical framework of this study, as more data becomes available in future, such material can be used for testing and identifying additional variables that could have influence on adoption of IFRSs successfully and, therefore, more long-term research is needed in order to investigate the determinants of IFRS standards over an extended period of time. Furthermore, study of the proposed model in other emerging countries is not included in this study could be performed in order to raise further explanation of the empirical model and to reveal more generalised findings.

It would be particularly interesting to discover what are the new IFRSs variables can they be effects on the emerging countries accounting practice? Does the adoption of IFRSs have an effect on these countries' economies statistically significant? What is their correlation to the quality of financial statements or to earnings quality? Finally, how much do IFRS standard changes actually affect business processes to improve high-quality accounting information and disclosure? The analysis in the study has implications for these questions, but more research in the adoption process of the IFRS standard is needed.

36 Global Journal of Management and Business Research

Volume XIV Issue II Version I Year ( ) [1]

Figure 1:

$$Y_{it} = \frac{\sum_{i=1}^{n_{it}} X_{it}}{n_{it}}$$

1

Figure 2: Table 1 :

$$Y_{it} = f\,(CULT_{it}, POLS_{it}, EDUS_{it}, LEGE_{it}, GROW_{it}, PRIV_{it}, FDI_{it}, SIZE_{it}, LIQ_{it}, CEC_{it}, AUDIT_{it}, TRANY_{it})$$

Figure 3:

$$Y_{it} = \alpha_0 + \beta_1 CULT_{it} + \beta_2 POLS_{it} + \beta_3 EDUS_{it} + \beta_4 LEGE_{it} + \beta_5 GROW_{it} + \beta_6 PRIV_{it} + \beta_7 FDI_{it} + \beta_8 SIZE_{it} + \beta_9 LIQ_{it} + \beta_{10} CEC_{it} + \beta_{11} AUDIT_{it} + \beta_{12} TRANY_{it} + \varepsilon_{it}$$

Figure 4:

$$\log\left(\frac{Y_{it}}{1-Y_{it}}\right)=\alpha_0+\beta_1 CULT_{it}+\beta_2 POLS_{it}+\beta_3 EDUS_{it}+\beta_4 LEGE_{it}+\beta_5 GROW_{it}+\beta_6 PRIV_{it}+$$
$$\beta_7 FDI_{it}+\beta_8 SIZE_{it}+\beta_9 LIQ_{it}+\beta_{10} CEC_{it}+\beta_{11} AUDIT_{it}+\beta_{12} TRANY_{it}+\varepsilon_{it} \quad (4)$$

Figure 5:

Figure 6:

Lopes and Viana (2007) find that the adoption of IFRSs does not achieve the desired improvement of the quality of accounting information. Clarkson et al. (2011) find that IFRS adoption has failed to enhance financial reporting quality, examine 1,722 firms from nine European countries in which early IFRS adoption. Hope et al. (2006) find that, consistent with bonding theory, countries with weaker investor protection mechanisms are more likely to adopt IFRS. It also shows that countries that provide better access to their domestic capital markets are more likely to adopt IFRS. However, they have still remained limited as compared to the studies pertaining to the IFRS adoption by the emerging countries, while a number of studies were undertaken (Joshi and Al-Modhahki, 2003; Al-Htaybat and Napier, 2006; Momany and Al-Shorman, 2006; Desoky, 2009; Al-Hayale, 2010; Aly et al., 2010). Therefore, Zeghal and Mhedhbi (2006) examined a sample of 32 developing countries having adopted IAS/IFRS and 32 other non-adopting countries. Omneya et al. (2003) have examined the language effect on the first introduction of IFRS in Egypt. Through a sample of 72 locally listed companies, the results show that Egyptian companies continue to encounter difficulties in implementing IFRS, given the disparities between the IFRS spirit and philosophy in respect of the local accounting traditions and cultures.

Figure 7:

Figure 8:

Figure 9:

Figure 10:

[Note: ; Datar et al., 1991; DeFond and Jiambalvo 1994; Craswell et al., 1995; Jamal et al., 2010).]

Figure 11:

2

Figure 12: Table 2 :

4

Figure 13: Table 4 :

actual relationships with their accounting practices in emerging countries.

2.

1. Most of the studies on the adoption of IFRSs have been conducted in developed countries; while studies considering IFRSs in emerging and transitional economies are still scarce. It is hoped that such contributions will be beneficial, both academically and professionally. Academically, this research aims to focus attention upon a neglected area in the context of the adoption of IFRSs. Professionally, managers will further seek out the practical implications offered by this study in their

Figure 14:

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