

FACTORS AFFECTING THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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Abstract

The purpose of this paper was to examine the factors which influence the adoption of International Financial Reporting Standards (IFRS). There were initial debates on the suitability of IFRS for developing economies. However, in the last few years, many developed and developing countries have begun to adopt IFRS as their basis of financial reporting. From extant literature various factors have been responsible for the development of accounting system and practice of given countries as well as the recent adoption of IFRS by countries. While a lot of factors such as culture, legislation, politics, capital market have influenced the adoption of IFRS as global accounting standards by over 120 countries at present, the paper documents that IFRS adoption has been explained mainly by institutional theory, isomorphic pressures and the net worth economic effects.

Key words: IFRS adoption, accounting development institutions theory, net worth economic theory

Introduction

There are disagreements among researchers on the relevance of IFRS to developing countries. While some argued it would be beneficial for developing countries to adopt these standards, others vehemently argued that IFRS is not relevant to them. For instance, Nobes (1998) argues IFRS may not be appropriate for developing countries because it is investor-oriented and involves reliable accounting information as well as lots of judgments. Besides, it is argued that IFRS was developed for capital markets in developed countries. Hove (1986) suggests that IASs may not be suitable for developing

countries as their accounting aims differ from those of developed economies. On the other hand, adoption of IFRS would lead to a better quality of accounting in developing countries (Turner, 1983) and thus their increased competitiveness in the international capital market (Saudagaran & Diga, 2003). IFRS has also been linked to developing countries' economic development (Olowo-Okero, 2009), greater transparency and disclosures (Ball, 1995 & 2006, Epstein, 2009, Adam, 2009), greater financial statements comparability (Covrig, Defond & Hung, 2007) and saves time

and effort required to set their national standards (Fry & Chandler, 2007).

The objective of this paper is to examine the factors which influence the IFRS adoption by developed and developing countries based on the review of extant literature. The rest of the paper is divided into four sections. Section two examines some of the factors that influenced accounting development and practices. Section three considers the factors which affect IFRS adoption. Section four examines the neo-institutional theories and the economic theory of networks which are used to explain IFRS adoption. Section five is the conclusion.

Accounting practices and development

Edwards (1994) traced the four stages of accounting development from the pre-capitalist period (4000BC-1000AD), commercial period (1000-1760AD), industrial capitalism (1760-1830AD) to financial capitalism (1830 to date). The accounting system and practices have been influenced by the various stages. Basically the accounting system and practices in a country is a complex process which is influenced and being influenced by a number of internal and external factors such as ecological or environmental, and institutional (political, economic, legal tax, educational and financial systems) factors. Also, the culture of a country is a moderating influence that either reinforces or reduces the influences of other factors. Other factors which influence accounting practices include past trading and colonial links, pattern of foreign investment, the accounting profession (Radebaugh, 1975, Cooke & Wallace, 1990, Dougnik & Salter, 1995, Roberts et al 2002), accident of history like the various financial crises and the great depression of the 1930s influence the US accounting practices and reporting; exporting

and imposition of accounting such as the international trade of accountants and accounting firms (Parker, 1989) and importing of accounting as seen recently in the Eastern Europe seeking links with the European Union (Roberts et al 2002). Puxty et al (1987) argue that the institutional factors have influenced to a greater extent the voluntary accounting system in most developed western countries. In fact, the accounting system is a complementary component of the country's overall institutional system (Ball, 2001) and other elements in the institutional framework like stock exchange requirements (Obazee, 2007). It has been found that the institutional framework impacts on the form and content of financial reporting (Zeff, 1972) and the use of international standards (Nobes & Parker, 2006, Zarzeski, 1996).

From earlier times, it is argued, accounting developed from the rule of thumb practice and not from consistent, coherent laws or theories but from perfect state of nature (Odia, 2005). In fact, Canning (1929) pointed out the "great lack of uniformity, a sort of patchwork and tinkering, diverse rules, meanings and aggressive accounting practice" in the development of accounting. The bodies of professional accountants like the Institute of Chartered Accountants of England and Wales (ICAEW), America Accounting Association (AAA) and American Institute of Certified Public Accountants (AICPA) helped to codify the diverse accounting practices into a uniform system of accounting prevalent today. The conflicting interests of managers and shareholders has also resulted in varied accounting practices (Watt, 1977). The professions and the accounting standards boards such as the British Accounting Standard Board (ASB), United States Financial Accounting Standards Board (US FASB) and the International Accounting Standards Board

(IASB) through the development of conceptual frameworks-accounting principles and conventions underlying the treatment of transactions, preparation and presentation of accounting reports and the setting of accounting standards have helped in the standardization of accounting practices globally (Lewis & Pendrill, 1996). The government has intervened through vital legislation where the accounting professions were handicapped like during the times of the great depression in the 1930s and the recent corporate scandals in the United States in 2001.

Factors influencing Adoption of International Financial Reporting Standards (IFRS)

Recently, scholars have begun to investigate what determines IFRS adoptions across countries (Ramanna & Sletten, 2009). This is because understanding what affects the IFRS adoption process is vitally important for international investors, government officials, accounting professionals and multi-national managers (Judge, Li & Pinker, 2010). Touron (2005) argued that various national institutional factors may affect domestic standard setters and play a role in the standards adoption process. For example, political and economic environments are found to directly drive the ties among nations in shaping their accounting development (Mueller, Gernon & Meek, 1994). The institutional environment has also influenced adoption of ISO 9000 standards (Guler et al, 2002). Other academics have argued that accounting standards evolve in the context of domestic cultural, legal and other institutional features including auditing (Ball et al., 2000, Ball et al., 2003, Ball, 2006). Historically, legal systems combined with other political and economic differences created a vast diversity of accounting systems which

makes meaningful comparison of financial reports across borders difficult. Similarly, enforcement mechanism, capital structure, market and legal forces and cost/benefit trade-off equally influence the adoption of IFRS (Ball, 2001, La Porta et al. 2004, Ball et al 2003, Leuz, Nanda & Wysocki 2003, Leuz & Wysocki 2008).

Armstrong et al (2009) and Soderstrom & Sun (2007) argued that cultural, political and business differences may impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. Government regulation has played a vital role in IFRS adoption. For instance, the European Union (EU) Parliament passed a regulation in 2002 that required consolidated and other accounts of all listed companies in the EU to use IFRS for fiscal years starting after January 1, 2005. Similarly, Nigeria passed the Financial reporting Act of 2011 which sets the stage for IFRS adoption in January 1, 2012. Moreover, the need for comparability of financial statements of different accounting standards in countries spurs the EU to adopt the IFRS wholesale. Globalization has also played significant influence on countries to adopt IFRS (Al-Omari, 2010). Other arguments for IFRS adoption include: the possibility of reducing information asymmetry between managers and shareholders, higher value relevant of IFRS over most local or national standards, less earnings management and higher accounting quality, greater market liquidity, lower cost of capital and a better allocation of capital (Barth, 2007 & 2008).

Culture

According to Hofstede (1984), culture is the collective programming of the mind which distinguishes the members of one human group from another. Culture is collective, not directly observable and of interest only to the extent that it helps to differentiate between groups (Hofstede, 1991). It exists at four levels as: symbols, heroes, ritual and virtues. It has been found to influence business in how a society organizes itself, leadership styles, employees' participation and motivation, and organization structure. Also, culture has direct impact on financial accounting system since it is made up of groups of people like auditors, management accountants and preparers. The cultural dimensions and values such as individualism, power distance uncertainty avoidance, masculinity and femininity affect the classification of countries into accounting groups by Hofstede (1984 & 1991), application of accounting rules and regulations, motivation. Gray (1988) extends Hofstede (1984) by classifying the accounting values into four types as: professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency.

Ding, Jeanjean and Stolwy (2005) demonstrated that national culture is predictive of adoption of IFRS. Cultural sensitivities can also affect the net political value of IFRS to a country. For instance, if the IASB is perceived as a European institution, countries that are culturally more distant from Europe are less likely to accept IFRS. Moreover, the perception of IFRS as a European institution is likely to affect the international standards' acceptance in a country (Ding et al, 2005; Ciesielski, 2007; Norris, 2007). In countries that are culturally more accepting of European institutions, international accounting standards

can be more politically feasible. In countries where European institutions are non-native, adoption of IFRS could be viewed as abrogating authority to a European standard-setter. In fact, the difficulty of the US giving up their highly cherished and envied US GAAP for the IASB or European lead IFRS is a case in point. However, Hope et al (2006) recently examines IFRS adoption at the macro-level using bonding theory using 38 countries and find no systematic relationship between national culture and IFRS adoption.

Law and Regulations

The legal system in a country based on the code or common law system could influence IFRS adoption. Specifically in the code law countries such as the Continental Europe, Latin America and much of Asia, the governments have generally regulated accounting practices to ensure orderly business conduct. Whereas in the common law countries like England, USA and Commonwealth countries, the reason for accounting regulation is the need to protect the owners of companies. Till date, some countries have adopted IFRS either mandatorily or voluntarily. While some countries have permitted IFRS used by all public listed companies like the EU, others require companies with foreign listings to report using IFRS. Nigeria mandatorily adopted IFRS in a three-year phase starting 2012 with all the public listed companies. The highest adoption of the IFRS has been attributed to government's law and regulation which require listed companies in the various countries to mandatorily adopt IFRS. Researchers have investigated the effects of mandatory and voluntary IFRS adoption. For Instance, Daske et al (2008) show that capital market benefits around mandatory adoption of IFRS are unlikely to

exist primarily because of IFRS adoption. Beneish et al (2010) and Yu (2010) show that mandatory IFRS adoption increases cross-border debt but not equity investments. Tan et al (2010) provide evidence that foreign analysts are more likely to cover a firm that adopts IFRS and that forecast accuracy for these analysts improves after mandatory IFRS adoption. Beuselinck et al (2010) show that stock price synchronicity decreases after mandatory IFRS adoption but the effect is temporary. Christensen et al (2009) find that incentives dominate standards in determining accounting quality around mandatory IFRS adoption. Moreover, various studies fail to find strong evidence that IFRS improves the information set of investors and find limited or no capital market benefits for mandatory adopters. Ashbaugh and Pincus (2001) find that voluntarily switching to IAS typically increases a firm's level of disclosure and reduces the absolute forecast errors. Barth et al (2008) find that firms' reporting quality increases following IFRS compliance for voluntary adopters. Lang et al (2010) find that earnings comparability does not improve for IFRS adopters relative to a control group of non-adopters.

Politics and political system

IFRS is the result of international political economy equilibrium and thus cannot be expected to provide reporting standards that are uniquely suited to any country's circumstances (Leuz & Wysocki, 2008). The EU endorsement of IFRS turns out to be the beginning of exposing the International Accounting Standards Board (IASB) to political pressures (Epstein & Mirza, 2006). Generally, the accounting setting process is a "product of political action" (Horngren, 1973) and can "no longer be thought to be non-political" (Solomon, 1978). In fact, IFRS adoption by a country involves trading off

the potential gain from being able to influence international standard setting against the value lost from surrendering local authority over accounting standards. The trade-offs between these benefits and costs constitute the net political value of IFRS to a country.

The net political value arises from two factors which are: international power politics and culture politics. International power politics can be the influence of powerful countries such as the EU through explicit lobbying and pressure tactics or the result of the IASB implicitly catering to powerful interests when developing standards. Culture politics could be due to the perception of IFRS as a European institution which is likely to affect the international standards' acceptance in a country (Ding et al, 2005, Ciesielski, 2007, Norris, 2007). The net political value of IFRS is the benefits arising from the potential political nature of international accounting standard setting: if IFRS standard setting can be influenced by political lobbying, more powerful countries are more likely to be able to shape IFRS.

The prevailing position of the EU in IFRS standard setting, however, can override this argument. If countries expect the EU to have a dominant role in IASB affairs (Brackney & Witmer, 2005), they are likely to have to cede some authority over standard setting to EU interests. Ceding authority over local standards is, in turn likely to be less palatable to more powerful countries and the reluctance by the more powerful countries to embrace IFRS. A country's decision to adopt IFRS is also influenced by the internal politics of the various interests groups ranging from the regulators, standard setters, political lobbyists, business community etc. Hove (1990) finds that the

USA and UK exerted very significant level of influence on IASC standards because both countries had devoted time and effort to develop extensive and well-codified sets of standards and would lose most if the resulting IFRS was significantly different from their own. The EU realized that having IAS as its standards would bring more benefits to her than other countries and she decided to actively support IASC and became the main pushing power of the globalization progress of IAS. It endorsed IASs in 1995 by requesting foreign companies in European market to prepare financial reporting using IASs. EU negotiated with IASC and therefore her interest was given great concession and recognition by IASC.

Capital Market

Presently, the capital market is one of the driving forces of IFRS adoption and countries that wish to retain their share of global market and foreign capital flow are adopting the IFRS. Over 10,000 public listed companies in the world are currently reporting using IFRS due to advantage of comparability of financial statements and cross-border investment. Countries with prominent capital markets such as Australia, European Union constituents, Hong Kong, Philippines, South Africa etc increasingly required publicly traded companies (with certain exceptions) to present consolidated financial statements in conformity with IFRS. Hope et al (2006) find that countries with weaker investor protection and more easily accessible financial markets are more likely to adopt IFRS. They also found that access to equity capital was positively associated with IFRS adoption. Salter & Niswander (1995) find that the size of a nation's capital market is positively related to the adoption of IAS.

However, it has been argued that international harmonization of accounting standards is not accompanied with changes related to capital market institutions which can be costly (Ball et al 2000, Ball et al, 2003, Ball, 2006). The US is losing its capital market and global influence because of its reluctance to adopt the IFRS. According to the Standard & Poor report of September 2009, the US market is now less than 41% of global capital markets, a substantial decline from January 2004 when it was nearly 53% (Standard & Poor, 2009 & 2004). More specifically, the New York Stock Exchange (NYSE) market capitalization at the end of 2003 was 41 times that of Bombay Stock Exchange (BSE) and 31 times that of Shanghai exchange. In July 2009, NYSE was 9 times that of BSE and only 3.6 times that of Shanghai (Chakravarty, 2009, Gornik-Tomaszewski & Showerman, 2010).

Neo-institutional and Network Economic Theories and IFRS adoption

Neo-Institutional Theory

Institutional theory assumes that all social actors are seeking legitimacy and/or reinventing legitimacy norms within the institutional environment. This converges to create isomorphism or similarity of structure, thought, and action within institutional environments. Since accounting information can be viewed as legitimate to be trusted by its users, Ball et al (2003) reveal it is possible that institutional theory will be a useful framework for predicting the adoption of new accounting standards. According to Scott (2001), institutional theory utilizes three levels of analysis-societal or global, governance structures and actors in the institutional settings. At the highest level, there are societal

(and global) institutions, where models and menus are both formally proposed and informally enacted. These provide the institutional context of what is deemed possible, acceptable and legitimate. Such institutions shape, constrain and facilitate structures and actions at lower levels. At the next level within Scott's (2001) model, there are the governance structures consisting of organizational fields and organizations themselves. An organization field is defined as those organizations operating in the same domain (as indicated by the similarity of their services), such as the accounting professions, along with other organizations that critically influence their performance (e.g. lenders, contractors and partners).

Organizations vary by function, size, structure, culture, and capacity for change and they all influence and are influenced by their organizational fields and institutional environments. Finally, the actors in institutional settings may be individuals or groups. Each of these levels influences and it is influenced by the forces of diffusion and imposition of institutional norms, while inventing new ways of operating and negotiating the establishment of institutional norms.

There are economic and sociological perspectives to the neo-institutional theory. The economic perspective of the neo-institutional theory argues that institutions are "the rules of the game" that define the incentives for the members of the society – individuals or organizations – to engage in economic activities that are either growth-enhancing or redistributive (North, 1990). The sociological perspective examines how the macro-social institutions influence and shape the lower level social activities and organizational behavior. The open systems theory posits organizations are more than a means to produce goods and services; they

are also symbolic social and cultural entities (Meyer & Rowan, 1977). As such, the sociological approach to institutional theory argues that organizations and organizational actors do not only seek to compete for resources but also they ultimately seek legitimacy and social acceptance. Judge, Li & Pinker (2010) consider at the national level a neo-institutional perspective of international accounting standards and found after controlling for market capitalization and GDP growth that foreign aid, import penetration and level of education achieved within a national economy are all predictive of the degree to which IFRS standards are adopted in developing, transitional and developed economies. Their findings reveal that IFRS adoption process is driven more by social legitimization pressures than economic logic. However, Chua & Taylor (2008) argue that IFRS adoptions are predominantly economic in nature due to the expected benefits of enhanced transparency, quality and comparability. Other institutional factors that have facilitated IFRS adoption process include: the national standard setter board whose leadership are pro-IFRS like in Indonesia and Japan; change of the governance structure in the accounting standard board and the creation of a new oversight body like Financial Reporting Council (FRC) around the decision of adopting IFRS e.g. Nigeria established the FRC in 2011 which sets the stage for IFRS adoption in Nigeria.

Isomorphism

Isomorphism refers to the similarity of structure, thought and action within the institution's environment. DiMaggio & Powell (1991) identified three types of isomorphism within neo-institutional theory as: coercive, mimetic and normative isomorphism.

Institutional pressures operate as a force for isomorphism.

Judges et al (2010) have found that all three forms of isomorphic pressures are predicted of IFRS adoption. Their result suggested that the IFRS adoption process is driven more by social legitimization pressure than by economic logic.

Coercive isomorphism

This stems from resource dependence and legitimacy concerns. Following this logic, one of the major influencers of the adoption of international accounting standards is the presence or absence of institutions that can force and/or influence economic actors (nations or organizations) to conform to international accounting standards. When an economy is relatively small and poor, it is more dependent on international norms and standards than when the economy is relatively large and wealthy. Arguably, the mechanism mostly used by international non-governmental organizations to coercively bring about change within a national economy is foreign aid. For example, the International Monetary Fund (IMF) routinely provides foreign aid to developing countries or countries in financial trouble with the demand that reform be enacted in the public and private sectors. Quite often, IMF aid is often tied to demands to be met by the recipient such as the adoption of IFRS. Ashraf & Ghani (2005) recently demonstrated that IMF played a key role in shaping accounting and reporting practices in Pakistan. International non-governmental organizations may directly or indirectly put pressure on nations to adopt international accounting standards. For instance, Touron (2005) argues that coercive isomorphism was predictive of adoption of US GAAP by French firms in the 1970s far before IAS become mandatory in Europe

due to domination of the global economy by the USA at that time. Furthermore, Hassan (2008) finds that external coercive pressures from foreign aid provided by the IMF were influential in Egypt's moving towards the adoption of IFRS standards. Moreover, companies in the EU faced a strong coercive pressure in adopting IFRS in 2003 when European Commission approved the proposal to adopt IFRS in 2005 (Whittington, 2005)

Mimetic isomorphism

This refers to the tendency of social actors to imitate those other social actors – individuals or organizations and nations which are viewed as successful and legitimate. Thus, successful multinationals that come from foreign locations are likely to conform to IFRS, and domestic competitors may imitate these successful multinational firms (El-Gazzar, Finn & Jacob, 1999). Previous research has shown that network cohesiveness is predictive of national adoption of international standards. For example, Guler et al. (2002) found that the degree of inward foreign direct investment (FDI) was positively associated with the adoption of international quality standards within a nation. They reasoned that the greater extent of inward FDI led to greater economic cohesiveness for those nations; and that same cohesiveness enabled domestic officials and citizens to imitate what they perceived to be the price of being a member of the global marketplace. Mimetic pressures can influence IFRS adoption through social systems and professionalism. Rodrigues & Craig (2006) argue that social systems often emulate the success of others, and that this could influence the accounting harmonization process.

Normative isomorphism

This refers to collective values that bring about conformity of thought and deed within institutional environments (DiMaggio & Powell, 1991). Educational attainment is fundamental to the development of all professions (Turner, 1993). As such, the educational attainment of a nation may be predictive of normative pressures brought about through professionalization. Guler et al. (2002) found that the degree of professional technical knowledge emanating from a nation was predictive of adoption of international quality standards due to professional norms. Also, Dow & Karunaratna (2006) reported that the higher the levels of education within a nation, the higher the trade flows that national economy experienced as a result of the adoption of international norms and standards. Parboteeah, Cullen, Victor & Tomoaki (2002) found that the professional norms of the accounting profession had a greater impact on accounting practices than the national cultures of Japan and the United States did where the accountants operated. Furthermore, House & McGrath (2004) argued that the relatively strong vocation and educational training programs within Ireland were a key determinant of the “Irish miracle” in general, and the move toward international accounting standards. In particular, Hassan (2008) documents how normative pressures arising from generally rising educational levels in general and from the international accounting professions influence stimulated Egypt to move away from domestic standards towards international accounting standards

The economic theory of networks

The decision to adopt IFRS is a product with network effects because a standard like IFRS is likely to be more appealing to a country if other countries choose to adopt it as well. In

other words, countries do not adopt IFRS all at once, and the observed inter-temporal increase in IFRS adoption across countries can be due to the growing value of the IFRS network. Network theory suggests that there are generally two factors to consider in adopting network-dependent products: the intrinsic value of the product and the value of the product's network (Katz & Shapiro, 1985). Therefore, a country is more likely to implement IFRS if other countries in her geographical region are IFRS adopters and if its trade partners are IFRS adopters (Ramanna & Sletten, 2009). Economic network theory predicts that in addition to network benefits (synchronization value), a product with network effects can be adopted due to its direct benefits (autarky value) (Katz & Shapiro, 1985, Liebowitz & Margolis, 1994). The autarky value of IFRS is the direct value to the adopting country from using the IASB-developed accounting standards. The synchronization value is the value derived from adopting a body of accounting standards that is widely used by other countries. The existence of the synchronization value of a product suggests that the product can be adopted even if its autarky value is inferior to that of a substitute product. The synchronization value of a product is also known as the value from network effects.

The economics literature on networks also makes the distinction between direct and indirect network effects (Katz & Shapiro, 1985). Direct network effects are what we will refer to as synchronization value in this paper. It refers to network effects that are endogenous to the product. Indirect network effects refer to the value derived from having lower prices on complementary goods as the number of adopters of a network-dependent product increases. Liebowitz & Margolis (1994) argue

that indirect network effects are truly pecuniary in nature and so should not be internalized in the consideration of synchronization value.

Given the network framework, a country's decision to adopt IFRS can be expressed as follows.

Adopt IFRS if and only if :

Autarky Value of IFRS + Synchronization Value of IFRS > Value of Local GAAP
..... (1)

Similarly, Adopt IFRS when:

Net Economic Value of IFRS + Net Political Value of IFRS + Synchronization Value of IFRS > 0 ... (2)

The economic value of local GAAP refers explicitly to the ability of extant accounting standards to facilitate the efficient allocation of capital in an economy while the political value of local GAAP refers to political benefits from having local authority over standard setting. The net political value of IFRS is the benefit arising from the potential political nature of international accounting standard setting: if IFRS standard setting can be influenced by political lobbying, more powerful countries are more likely to be able to shape IFRS. The net economic value of IFRS is intended to capture direct pecuniary benefits as they are usually conceived in economic models of networks. The net economic value of IFRS to a country as arises from two factors:

- (1) the value from having a shared body of accounting standards; and
- (2) the relative quality of local governance institutions

The value from having a shared body of accounting standards

Proponents of IFRS argue that by adopting a common body of international standards, countries can expect to lower the cost of information processing and auditing to capital market participants (Barth, 2007 & 2008). If adopting IFRS is expected to lower such costs, then we can expect countries that are dependent on foreign capital to do so. Similarly, countries where foreign trade is an important part of the economy can be expected to adopt IFRS. Also, it can be argued that countries choose to adopt IFRS when they expect to increase the share of foreign capital and trade in their economy: expected foreign involvement in an economy can make current adoption of international standards more attractive. In this sense, even countries with low levels of foreign capital and trade can choose to adopt IFRS if they are expecting growth in those factors.

The relative quality of local governance institutions

The relative quality of local accounting standards is an important determinant in the decision to adopt IFRS. Local accounting standards are part of a complex system of governance institutions that include: auditor training, auditing standards, enforcement (regulatory and judicial), precedent for the protection of property rights, government level of corruption and the role of the press among others (Ball et al, 2000, Leuz et al., 2003, Watts, 2003, Ball, 2006). Adopting IFRS can be costly if these institutions are collectively not compatible with the international standards. The relative quality of extant governance institutions refers to the ability of these institutions to facilitate the efficient allocation of capital in an

economy. In countries where the quality of extant governance institutions is relatively high like the US, IFRS is considered less attractive than the national standard and hence the reluctance for its adoption. High quality institutions represent high opportunity and switching costs to adopting international accounting standards. Countries with very weak institutions are failed states where the adoption of IFRS is unlikely to be of any interest or consequence (e.g. Taliban-ruled Afghanistan and Somalia). Thus among countries with less developed institutions, the decision to adopt IFRS is likely to be driven by lower opportunity and switching costs only if such countries are capable and willing to make cost-benefit trade-offs.

Conclusion

The paper examines the factors which influence the adoption of International Financial Reporting Standards (IFRS). There were initial debates over the suitability of IFRS for developing economies. However, in the last few years, many developed and developing countries have begun to adopt IFRS as their

basis of financial reporting standards. The accounting system and practices in a country is a complex process which is influenced and being influenced by a number of internal and external factors such as: ecological or environmental, institutional (political, economic, legal, tax, educational and financial systems) and the cultural factors. Although accounting developed from the rule of thumb practice and not from consistent, coherent laws or theories but from perfect state of nature from earlier times the major accounting professions, accounting standards boards and the government at various times brought accounting to where it is today. IFRS adoption assumes a significant dimension after the European Union request all listed companies to start reporting using the IFRS in 2005. However, a lot of factors such as culture, legislation, politics, capital market have influenced the adoption of IFRS as a global accounting by over 120 countries at present based on the theoretical underpinnings of institutional theory, isomorphism and the net worth economic effects.

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