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## Adoption determinants of the International Accounting Standards IAS/IFRS by the developing countries

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ABSTRACT

This paper's main objective is to identify certain explanatory factors that likely clarify the choice of applying IAS/IFRS adopted by developing countries (DCs) up until the year 2008. Based on a sample consisting of 74 DCs, the empirical results have indicated that the DCs most likely to adopt IAS/IFRS have a high level of economic growth, along with a legal system of common law and an advanced educational level.

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### Determinantes de la adopción de las Normas Internacionales de Contabilidad IAS/IFRS por los países en desarrollo

RESUMEN

El principal objetivo de este documento es identificar ciertos factores que probablemente esclarezcan la opción de aplicar IAS/IFRS adoptadas por los países en desarrollo hasta el año 2008. Basados en una muestra de 74 países en desarrollo, los resultados empíricos han demostrado que la mayoría de ellos probablemente tienen un alto nivel de crecimiento económico, junto con un sistema jurídico de derecho consuetudinario y un nivel de educación avanzado.

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### 1. Introduction

Currently, more than 100 countries have adopted or expressed their intention to adopt or even to converge towards, the international accounting standards. On July 19, 2002, the European Parliament adopted the regulation imposing, starting for 2005, the IFRS to the consolidated accounts of listed companies, including banks and insurance companies. On February 27, 2006, the International Accounting Standards Board (IASB) with the Financial Accounting Standards Board (FASB) have jointly issued a memorandum confirming the shared objective of both boards to develop high quality common accounting standards to be applied by the international stock markets.

Although in its first version, the IAS/IFRS have mainly targeted and focused on the developed countries, above all, large corporations, a strong diffusion of these standards has been interested among the DCs.

The development of a country is measured with statistical indexes such as income per capita (GDP), life expectancy, the rate of literacy, et cetera. The UN has developed the HDI, a compound indicator of the above statistics, to gauge the level of human development for countries where data is available.

In this article, we focus in the voluntary not mandatory decision adoption of IFRS by the DCs.

Noteworthy, Tunisia has been a pioneering world country, to join the international accounting harmonization movement. Actually, the Tunisian experience dates back to 1996 following the adoption of the new business accounting system founded upon a quasi total compliance with the international standards. As for Algeria it has adopted an accounting scheme predominantly inspired

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by the IFRS. This scheme is abiding to the major IFRS principles and key concepts, while the more complex and inappropriate standards to the local economy have been modified.

On the academic level, however, most of the previous studies have been entirely concerned with costs and problems associated with the adoption of IFRS in the developed countries (Bradshaw & Miller, 2003; Delvaile, Ebbers & Saccon, 2005; Epstein & Mirza, 2006; Larson & Street, 2004; Nobes & Parker, 2004). Scarce are those studies dealing with the IFRS adoption by the developing countries, they have still remained limited as compared to the studies pertaining to the DCs. In this respect, Zeghal and Mhedhbi (2006) have conducted and focused their study on the IAS/IFRS adoption determinants by the developing countries. In fact, their study has examined a sample made up of 32 developing countries having adopted IAS and 32 other non adopting countries. Actually, they conclude that those developing countries having a capital market, advanced educational levels and high economic growth are more inclined to adopt IFRS.

This research constitutes an extension of the study conducted by Zeghal and Mhedhbi (2006) whose subject matter deals with the major factors that influence the adoption of IAS by the developing countries. Yet, the present paper's contribution consists in testing the relevance of the findings achieved by Zeghal and Mhedhbi (2006) after five years of study while taking into account the passage from the IAS to the IFRS as well as other variables related to the type of legal system and political environment.

Seeing the considerable rising number of emerging countries having already applied or intending to apply the IFRS and with the accelerated processes over the years ranging between 2008 and 2011, we propose, through this study, to identify the determinants for adoption the IAS/IFRS via a panel of 74 developing countries. Thus, within a single logistic model of a country's economic growth, we tend to integrate such factors as the stock markets, openness to the outside world, educational system, cultural aspect, legal system model and the political factor. Hence, the major objective of this study is to understand the fundamentals behind the decision of adoption of IFRS by the DCs.

In conformity with previous studies (Al-Akra, Jahangir & Marashdeh, 2009; Larson, 1993; Zeghal & Mhedhbi, 2006), we have discovered that the economic growth level, constitutes a major determinant for adopting the international accounting standards. However, we find that such factors as culture, the political system and the existence of a capital market have not significantly affected the decision to adopt the IFRS.

Noteworthy, this paper is organized as follows. The second section summarizes the literature pertaining to the subject. The third outlines the research hypotheses. As for the fourth section, it describes the applied methodology. The fifth section presents the achieved results and their discussions. Finally, the sixth concluding section is consecrated to present the research findings along with its limitations.

## 2. Literature review

The purpose of this study is to identify the major determinants for adopting the IAS/IFRS by the developing countries. To note, studies on this subject are rare with respect to those dealing with the adoption of international standards by the developed countries.

Previous literature shows that two lines of research could be distinguished. While the first stream of research focuses on the macroeconomic factor related determinants for adopting international standards, the second investigates the microeconomic feature related determinants. Yet, one could well note the overwhelming dominance of microeconomic factor studies concerned with microeconomic factors related to firm charac-

teristics while institutional influences specific to each country are being neglected.

Within the framework of this research, the major focus of this study is centered around examining the determinants for adopting international standards via country characteristics related factors.

Noteworthy, Leuz and Verrecchia (2000) have examined the accounting choices of German companies listed on the DAX index for the year 1998. Using a logistic regression analysis, the authors show that factors such as firm size, financing needs and financial performance significantly explain the decision of adopting international standards.

As for Trembley (1989), has studied the characteristics of 53 U.S. software specialized firms among which 14 have opted for an anticipated adoption of SFAS No. 86 pertaining to the capitalization of software development fees. The author has reached finding that adoption choice is primarily determined by the company size along with the auditor's opinion.

Similarly, Barbue (2004) has conducted a longitudinal study over the period ranging from 1985 to 1999 to measure the French companies' tendency to implement the international benchmark. He established the existence of a wandering accounting developed among the 100 reviewed French business groups subject of study.

In their turn, Affes and Callimaci (2007) have highlighted the motivations leading to an early adoption of IAS/IFRS by the German and Austrian listed groups. The logistic regression conducted on a sample of 106 German and Austrian firms reveals that the probability of early adoption of IAS/IFRS increases with respect to firm size. However, the relationship between debt and the anticipated adoption of IAS/IFRS appears to have little importance to highly indebted companies as their creditors might require compliance with debt covenants based on specific calculations. Besides, in a sample consisting of 28 firms listed on the Swiss stock market and applying local standards along with 51 companies applying IAS/IFRS, Dumontier and Raffournier (1998) have demonstrated the absence of a significant relationship between the voluntary adoption of IAS, the debt ratio and firm performance.

Recently, however, the question of studying the adoption determinants of the IAS/IFRS has been explored in the context of developing countries. Actually, the DCs continue to experience strong economic growth and have a weight in the international economy, are multiplied in their adherence numbers for to IAS/IFRS. As a result, some research works have attempted to identify whether there are peculiarities related to DC regarding the decision to adopt international standards.

For instance, Omneya, Abd-El Salam & Weetman (2003) have examined the language effect on the first introduction of IFRS in Egypt. Through a sample of 72 locally listed companies, the authors have shown 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. This study reports evidence that the IAS/IFRS are of higher complexity with regards to the local standards.

Chamisa (2000) have examined the international standards' role in improving the quality of financial information produced for a stock market in the developing countries. He noted that these standards are critically and crucially important for the developing countries with an active financial and capital market and are devoid of such importance regarding the other developing countries.

Actually, this observation has been confirmed through the study conducted by Zeghal and Mhedhbi (2006) dealing with a sample examination composed of 32 DCs having adopted the IAS and some other 32 countries which have not adopted them. They show that the developing countries enjoying capital markets, advanced education levels and high economic growth rates are most inclined to adopt the IFRS.

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