

# An Institutional Analysis of IFRS Adoption in Poor Jurisdictions

C. F. Pricope

**Abstract**—The last two decades witnessed a movement towards harmonization of international financial reporting standards (IFRS) throughout the global economy. This investigation seeks to identify the factors that could explain the adoption of IFRS by poor jurisdictions. While there has been a considerable amount of literature published on the effects and key drivers of IFRS adoption in both developed and developing countries, little attention has been paid to jurisdictions with less developed capital markets and low income levels exclusively.

Drawing upon the Institutional Isomorphism theory and analyzing a sample of 45 poor jurisdictions between 2008 and 2013, the study empirically shows that poor jurisdictions are driven by legitimacy concerns rather than by economic reasoning to adopt an international accounting perspective. This in turn has implications for the IASB, as it should seek to influence institutional pressures within a particular jurisdiction in order to promote IFRS adoption.

**Keywords**—IFRS Adoption, isomorphism, poor jurisdictions, accounting harmonization.

## I. INTRODUCTION

**D**URING the past decade, the process for setting international accounting standards has undergone substantial development. International accounting harmonization has become a central topic for research and has been extensively investigated on a global scale [1]-[7].

Demand for a single set of high-quality accounting standards started to increase once equity capital markets capitalization took off and the number of multinational companies started to soar. Thus, the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee (IASC), have started designing principle-based standards that require a better reflection of a firm's economic position and performance. Financial information disclosed under international financial reporting standards (IFRS) seeks to meet the informational needs of investors worldwide. Scholars argue that IFRS adoption and the simultaneous implementation of a developed enforcement mechanism would be able to improve the quality of accounting practices on a global scale [8], [9].

Accounting literature has extensively investigated the influence of international accounting standardization by using the developed/developing countries dichotomy [10]-[25].

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Scholars agree that the international accounting framework is derived from the United Kingdom (UK) and United States (US) accounting practices and it is suitable for the accounting needs of developed countries with a free market orientation. However, the relevance of IFRS to the accounting needs of developing countries is still up for debate.

Notwithstanding research undertaken so far, accounting literature falls short in drawing the line between developed and developing countries. Consistent with previous studies, the first category includes countries with a developed economy and advanced technological infrastructure, while the second is made up of countries with low standards of living, an under-developed industrial base and low levels of economic development.

The developed/developing country dichotomy is considered inadequate for the purpose of this study for two reasons. First, the group of developing countries has a low degree of homogeneity, including jurisdictions for many regions of the world, some of them completely different from a political, cultural, economic and social point of view. Second, the values for various economic indicators and indexes that measure the standard of living and the level of economic development range on a large scale and vary greatly from case to case. Consequently, it is not made a distinction between transition countries and poor underdeveloped countries. In the transition countries, although the degree of economic development is low, the standard of living is still acceptable and people can buy the goods necessary for survival. On the other hand, in poor countries the economic situation is seriously deteriorated and poverty levels reach alarming heights.

Although a wide variety of studies have been conducted on the impact and the consequences of IFRS adoption worldwide, there has been little focus on the drivers and effects of the IASB standards adoption in poor countries.

There are several factors influencing IFRS adoption. Most researchers point out to perceived economic benefits and argue that jurisdictions adopt IFRS in order to develop their economic environment. Reference [26] points out that IFRS adoption which is believed to improve financial information quality is positively associated with higher inflows of foreign direct investment (FDI) and higher gross domestic product (GDP) growth rates.

Accounting practices differ among jurisdictions due to several factors. The most notable ones are: culture, legal systems, capital providers, taxation, inflation, regulation [27], ecologic, institutional, political, economic, legal and educational systems [28]. Given the rise of IFRS as a global

benchmark of accounting standards, the influences of these factors have exceeded national boundaries. The decision of poor jurisdictions, with less developed capital markets might be triggered by the fact that their domestic standards are not perceived as having an appropriate quality level. Countries seek acceptance and legitimacy on the international scene, having thus the tendency to adopt the dominant set of rules and standards. This tendency continues even if it may not lead to positive economic outcomes [29].

Reference [30] suggests that the institutional theory, previously approached by the accounting literature [31], [32], might be able to provide further insight into the investigation of the factors that encourage or restrain IFRS adoption.

The purpose of this research is to investigate the extent to which institutional isomorphic pressures influence a poor jurisdiction's decision to adopt IFRS. The contribution this study brings to the accounting literature is the focus on the particular case of poor jurisdictions while also controlling for the legal system type. Although there are numerous studies that discuss key drivers of IFRS adoption in developing countries, none of them investigates exclusively the group of poor jurisdictions. While these countries are part of the developing countries group, they present several particularities which may be relevant to the IFRS adoption process. First they have less developed equity capital markets and economic infrastructures. Second, the international organizations put continuous pressure on them to improve their financial reporting practices. Third, their poverty levels have reached alarming heights and have gained the attention of the entire international community.

The study is structured as follows: the first section presents the literature review and provides further insight into the institutional approach to the accounting harmonization process. The literature review is followed by an econometric study in which correlations between institutional isomorphic pressures and IFRS adoption are identified and analyzed while controlling for the effects of the level of economic development, the membership of jurisdictions to the low-income group as classified by the World Bank (WB), the type of legal system and the geographical localization of jurisdictions in the Sub-Saharan Africa region. Discussion of the results follows. Findings indicate that the IFRS adoption by poor countries is significantly related to social pressures of isomorphic changes.

## II. LITERATURE REVIEW AND RESEARCH HYPOTHESES

A considerable amount of literature on accounting harmonization points out that jurisdictions worldwide have become willing to adopt an international accounting perspective [12], [14]-[16], [22]. Poor jurisdictions have adopted or committed to adopt IFRS in order share common ground with the more developed nations [30].

The reasons behind the decision to adopt IFRS have always been a controversial topic in the accounting literature. There are two schools of thought. The first one supports IFRS adoption based on the following arguments: (1) the harmonization of international accounting standards improves

the quality of financial information; (2) improves the comparability of accounting information in the globalization millennium; (3) enables international financial transactions and thus leads to higher level of globalization of capital markets [33]; (4) contributes to the increase of capital markets integration and competitiveness [34]. The second school of thought insists on understanding the importance of the environmental factors specific to each country in the process of developing accounting standards. Reference [35] suggests that a country's accounting standards should be adapted to its environment.

To make better sense of differences among jurisdictions, it is widely used in the accounting literature the labelling of countries as either developing or developed. However, the absence of a generally agreed criterion makes it difficult to draw the line between developed and developing countries.

Research undertaken on the group of developing countries has often been hampered by its lack of homogeneity due to significant differences in cultural, political, economic and social components between jurisdictions. However, developing countries with low and middle-lower income levels (according to the WB classification) which have received loans and grants from the international organizations share several common characteristics due to the implementation of the structural adjustments programs. Although these programs are particularly designed for each jurisdiction, they are based on the same principles and purposes: intensification of exports, privatization and liberalization, increased efficiency of capital markets. Structural adjustment programs require countries to devalue their currency against the dollar, lift restrictions on imports and exports, balance their budgets and lift price controls. Thus, for the purpose of this research, we consider poor countries, the ones with low and middle-lower income levels which have implemented structural adjustment programs. The main rationale for classifying these countries as poor is the international consensus with regard to their high levels of poverty.

International organizations such as the WB, the IMF, the World Trade Organization (WTO), the United Nations (UN), the International Organization of Securities Commissions (IOSCO) and the Organization for Economic Co-operation and Development (OECD) encourage the diffusion of specific financial disclosure practices among jurisdictions [36]. These organizations put pressure on developing jurisdictions all together to adopt IFRS as they are expected to increase investors' confidence [37]. However the relevance of IFRS to poor jurisdictions is still up for debate [38].

Scholars argue that the process of adopting international accounting standards and practices is often too expensive and lacks relevance for the particular economic situation of developing countries. Further, the high level of non-compliance is a solid argument for the inappropriateness of IFRS in developing countries [39]-[42].

The institutional theory brings further insight into the role that the state, professionals and public opinion play in shaping organizational policies and structures. Reference [32] argues

that while seeking legitimacy, organizations often turn to minimal adoption of formal structures.

Reference [29] develops the concept of isomorphism, which is the resemblance of processes or structures between two entities. This may be the result of imitation or simply independent development under similar constraints. Isomorphic changes, in the context of globalization, explain why societies would immediately take on standardized forms and appear to be similar to a hundred other nation-states around the world.

Given the fact that IFRS were developed in high income, common-law countries, it is still up for debate whether or not they could properly be applied in countries with different cultures and different legal origins. Several studies report differences in financial reporting quality among jurisdictions [43]-[45]. Thus, there are sufficient reasons to believe that IFRS adoption alone it is not sufficient to achieve high-quality financial reporting.

Reference [46] points out that the proponents of IFRS adoption overlook several factors that continuously influence the accounting systems within particular jurisdictions. These factors include: culture, finance and financial markets, accounting regulation, economic development, legal systems, political systems, inflation, accounting profession, accounting education and research [47]. These views suggest that the economic explanation of the IFRS adoption process is too narrow as jurisdictions are also symbolic social and cultural entities [48].

Understanding the key drivers of IFRS adoption is of particular importance to the IASB, as this would enable it to influence institutional pressures that impede or boost IFRS adoption. At the same time, the identification of key IFRS adoption drivers would allow investors to explain and predict future IFRS adoption within certain jurisdictions of their interest.

Given the ascending diffusion of the IFRS on a global scale it is reasonable to give further attention to the factors that trigger its adoption by poor countries. Numerous studies seem to indicate that the main IFRS adoption drivers are economic in nature [14], [22], [23]. However, there is also evidence that institutional factors play a key role in the international accounting harmonization process [30].

The institutional isomorphism theory has been previously used by researchers to explain the international accounting harmonization process [50] and to empirically study the determinants of IFRS adoption [30], [46]. Studies revealed that isomorphic pressures play a significant role in the IFRS adoption decision-making process. According to the institutional isomorphism theory, international standards adoption provides legitimacy rather than improves performance.

From an economic perspective, institutions are responsible for influencing entities to engage in growth-enhancing activities. Thus, it is reasonable to think that social behavior is to a great extent influenced by institutional actors [31]. It follows that countries seek not only to compete for resources, but also for legitimacy and social acceptance.

There are three types of isomorphism within the institutional theory: coercive isomorphism, mimetic isomorphism and normative isomorphism [49].

#### *A. Coercive Isomorphism and IFRS Adoption*

Coercive isomorphism stems from legitimacy concerns and political influences. This particular form of isomorphic changes suggests that institutions can put pressure on economic actors to adopt an international accounting perspective [51], [52]. Similarly to organizations, nations can also be stimulated by coercive institutions to adopt IFRS.

Poor economies are heavily dependent on international norms. They receive aid from the international organizations such as the WB and the IMF under certain conditions. These conditions may also refer to IFRS adoption. Under these circumstances, the international organizations put pressure on poor jurisdictions to adopt international accounting standards and quite often play a key role in shaping financial reporting practices [17]. We are thus inclined to believe that:

- H1. Poor jurisdictions that experience higher levels of political and economic pressures are more likely to adopt IFRS.
- H2. The longer a poor jurisdiction has been receiving external debt relief the more likely it is to adopt IFRS.

#### *B. Mimetic Isomorphism and IFRS Adoption*

Reference [49] also identifies mimetic isomorphism which refers to the tendency of social actors to imitate other social actors viewed as legitimate or successful. As such, less developed countries may adopt IFRS in order to imitate the more developed nations.

A previous study reveals that there is a positive association between the level of onward foreign direct investment and the adoption of international quality standards within a nation [53]. Evidence such as the case of Iran and Bangladesh which have little inward FDI and avoid IFRS practices and the case of the UK and Ireland which are open economies with considerable inward FDI and embraced IFRS practices are supportive of the theorized relationship between mimetic pressures arising from FDI and adoption of IFRS [30]. Furthermore, social systems often make an attempt to imitate the success of others and this in turn might influence the accounting harmonization process [50]. Therefore, we expect that:

- H3. Poor countries that are more integrated into the global market are more likely to adopt IFRS.

#### *C. Normative Isomorphism and IFRS Adoption*

There is also normative isomorphism, associated with professionalism [49]. This refers to collective values that bring about conformity of thought and deed within institutional environments.

As [54] points out, Talcott Parsons, one of the original institutional theorists, argued that the educational environment played a significant role in the developments of all professions. Consequently, the educational level of a certain jurisdiction may predict normative pressures brought about through professionalization. We thus formulate the following hypotheses:

H4. Poor countries with higher levels of educational development are more likely to adopt IFRS.

### III. RESEARCH METHODOLOGY

#### A. Sample and Data Sources Used

The study population was limited to low-income and middle-lower income jurisdictions (according to WB classification) with active capital markets. Eligibility criteria required countries to have received financial aid from the World Bank (WB) and the International Monetary Fund (IMF) under structural adjustments programs. Data were collected for the 2008-2013 period. This six years period was selected in order to control for the effects of the business cycle, due to data availability and due to significant changes in foreign aid levels.

Consistent with the accounting literature suggesting that IFRS are relevant only within active capital markets, the sample was constructed using 45 poor countries that have active capital markets. Out of these, in 14 IFRS is mandatory for financial reporting purposes of listed companies for the entire period of the analysis, 9 adopt IFRS and make them mandatory for reporting purposes during the period of analysis and 22 apply domestic standards for financial reporting purposes. The sampled countries are presented in Table I. Cambodia, Lao, Rwanda, Sierra Leone, Syria and Ukraine were not sampled because they did not have active capital markets during the entire period of analysis. Data on Democratic Republic of Korea and Myanmar were not available and thus these countries were not sampled. The final size of the sample is 270 observations.

TABLE I  
 LIST OF SAMPLED COUNTRIES

IFRS is mandatory between 2008 and 2013		IFRS becomes mandatory between 2008 and 2013		IFRS is not permitted	
Country	Year of adoption	Country	Year of adoption		
Armenia	2008	El Salvador	2011	Benin	India
Bangladesh	1987	Guyana	2010	Bolivia	Indonesia
Georgia	2000	Honduras	2012	Burkina Faso	Mali
Ghana	2007	Moldova	2011	Cabo Verde	Morocco
Kenya	1999	Mozambique	2010	Cameroon	Niger
Kyrgyzstan	2002	Nigeria	2012	Central African Republic	Pakistan
Malawi	2001	Philippines	2010	Chad	Paraguay
Mongolia	2000	Sri Lanka	2012	Republic of Congo	Senegal
Nepal	2003	Sudan	2011	Côte d'Ivoire	Togo
Papua New Guinea	1997			Egypt	Uzbekistan
Tanzania	2004			Guinea-Bissau	Vietnam
Uganda	2003				
Zambia	2004				
Zimbabwe	1996				

Data were collected from several sources: WB and IMF databases; official websites of the accountancy bodies from the sampled jurisdictions; correspondence with representatives of professional bodies; PWC report on the status of IFRS adoption; IasPlus website published by Deloitte; research reports on IFRS adoption published by the Simon Fraser University; WB Reports on the Observance of Standards and Codes (ROSC). Data were imported into Stata 12.0 for economic and econometric interpretation.

#### B. Research Method

A probabilistic approach was used to empirically test the research hypotheses. This approach is considered appropriate to predict an outcome variable that is categorical from predictor variables that are continuous or categorical. A number of factors have been suggested by the accounting literature to influence the decision of a country to adopt IFRS. However, it was difficult to include all these factors in the research model, as some of them (e.g. cultural orientation, ecologic systems) were difficult to implement.

#### 1. The Study's Variables

##### The Adoption Variable (IFRS)

Examination of the available information on accounting systems in poor countries allow us to distinguish between countries imposing or permitting the application of IFRS and countries using national standards. This, in turn, allows us to define a binary variable that takes the value 1, for jurisdictions that apply IFRS and 0 otherwise. Data source: PWC report [55], IasPlus website [56], research reports on the adoption status of IFRS [57], [58].

##### Level of Foreign Aid (FAID)

According to the literature, there are several variables which might be used as proxies for coercive isomorphism. Political rights, rule of law and civil liberty indexes were previously considered coercive predictors and used in research models [59]. However, Judge et al. argue that the most appropriate proxy for coercive isomorphism is the level of foreign aid. This variable was computed using data from the WB's World Development Indicators dataset [60], as the proportion of the foreign aid relative to the gross domestic product.

#### Number of Years under WB and IMF Programs (WBIMFYEAR)

This variable was computed using data from the WB website [61]. It represents the number of years a jurisdiction has been receiving external debt relief from the WB and the IMF.

#### Level of Foreign Direct Investment (FDI)

Accounting literature has suggested several proxies for the mimetic isomorphism, including: trade freedom, foreign direct investment and import penetration. Foreign direct investment was selected to measure mimetic isomorphism due to its lack of collinearity as compared to other variables. FDI is measured through the net foreign direct investment to GDP ratio. Data were collected from the World Development Indicators database [60]. The indicator was used in a study on the factors influencing the adoption of IFRS by developing countries [26].

#### Level of Educational Development (LITERACYRATE)

Normative isomorphism illustrates how IFRS adoption is influenced by professional norms and standards. Given the fact that data on accounting professionalism are virtually non-existent, a previous study employs several education attainment variables as proxy for accounting professionalism [30]. Due to data availability, we consider literacy rate as being the most appropriate variable for measuring normative isomorphism. Data source: World Development Indicators [60].

Within the econometric interpretation we want to control the effects of the following variables: level of economic development, legal system type, income level and geographical location.

#### Level of Economic Development (EGROW)

There is a strong association between accounting development and economic development [26]. They argue that lower cost of capital might enhance economic growth and thus we take account of this variable in our model. Data source: World Development Indicators [60].

#### Legal system Type (LEGAL)

Literature on IFRS adoption still expresses concerns regarding the quality of IFRS implementation in code-law countries compared to common law countries. While the accounting model in code-law countries uses a rule based approach, the one in common-law countries uses a principle-based approach. IFRS uses a principle-based approach philosophy, favoring professional judgement over a reduced number of rules [62]. Thus, it is of paramount importance to distinguish between the two types of legal systems as this is relevant to the IFRS adoption process. Data were collected from the Central Intelligence Agency World Factbook [63]. In the case of mixed legal system, the dominant system was taken into account.

#### Income level (LOWINCOME)

As previously mentioned there are several country-

classifications used in accounting research. For the purpose of this study we consider more appropriate the WB country classification by income. Our sample includes both low-income and lower-middle-income countries. There is a notable difference in terms of economic growth between the two groups of countries. Thus, it is of paramount importance to distinguish between the two group countries. Data source: World Development Indicators [60].

#### Geographical Location (SSA)

The HIPC initiative includes both countries from Sub-Saharan Africa and America. Geographical location might play a significant role in the accounting profession development process. Thus, it is important to account for this geographical particularity. Data were collected from the WB website [61].

#### 2. The Econometric Model

The research hypotheses are tested based on:

$$\text{Log IFRS} = \alpha_0 + \alpha_1 \text{FAID} + \alpha_2 \text{FDI} + \alpha_3 \text{LITERACYRATE} + \alpha_4 \text{EGROW} + \alpha_5 \text{LEGAL} + \alpha_6 \text{LOWINCOME} + \alpha_7 \text{SSA} + \alpha_8 \text{WBIMFYEAR} + \varepsilon (1),$$

where, IFRS—binary adoption variable; FAID—level of foreign aid; LITERACYRATE—educational level; EGROW—economic growth rate; LEGAL—dichotomous legal system classification variable; LOWINCOME—dichotomous low-income classification variable; SSA—dichotomous geographical location classification variable; WBIMFYEAR—number of years under IMF and WB programs;  $\alpha_i$ —correlation coefficient;  $\varepsilon$ —residuals.

Validation tests were carried out using the functions implemented in Stata 12.0: skewness, kurtosis and Shapiro-Wilk tests for normality, t-test and Mann-Whitney test for determining the significance of the difference between foreign aid levels, foreign direct investment levels, literacy rates, periods of time under WB and IMF programs and economic development levels in poor jurisdictions that have adopted IFRS compared to those that use domestic standards, Pearson and Spearman-R to determine the correlation between the dependent and the independent variables.

#### IV. RESULTS OF THE ECONOMETRIC STUDY

##### A. Data Statistics Analysis and Interpretation

A preliminary analysis of the data was carried out in order to find potential errors and outliers. The standard deviation showed high values for all continuous data series. Thus, it is imperative to run several statistical tests in order to establish whether the data series are normally distributed or not.

Skewness, kurtosis and Shapiro-Wilk tests revealed all the variables of the analysis are prone to outliers. This in turn points out to a relatively low degree of homogeneity of the data series. Out of the 270 sample observations, in only 41,11% of the cases is required the use of IFRS by listed companies for financial reporting purposes.

Based on the results obtained from the skewness and

kurtosis tests in cannot be concluded that the data series are normally distributed. It follows that both parametric tests student-t and Pearson-R as well as the non-parametric tests Mann-Whitney and Spearman will be applied. Non-parametric tests are usually considered to be more relevant in the examination of data series which are not normally distributed.

In order to minimize the potential adverse effects of outliers on analyzing and interpreting the results, data were winsorized at the 5% and 95% percentile. Following winsorization, the distribution of the FDI variable was significantly skewed. Thus a logarithmic transformation was applied to the FDI data series. Table II presents the descriptive statistics for continuous variables after data transformation.

TABLE II  
DESCRIPTIVE STATISTICS AFTER WINSORIZATION

	FAID	FDI	LITERACYRATE	EGROW	WBIMFYEAR
Mean	5,71	0,99	71,19	5,00	18,78
Median	4,50	1,12	72	5,13	19
Maxim	15,42	2,67	99	10,53	29
Minim	0,18	-1,17	31	-1,27	4
Standard deviation	4,60	1,00	20,56	2,96	6,61
Skewness	0,67	-0,39	-0,30	-0,22	-0,31
Kurtosis	2,34	2,59	2,06	2,67	2,18

### B. The Association between Institutional Isomorphic Pressures and IFRS Adoption

We first want to determine if there is a significant difference between the low-income countries group and the middle-lower-income countries group in terms of foreign aid levels, number of years under structural adjustments programs, foreign direct investment levels, literacy rates and economic development levels.

Comparative descriptive statistics show that low-income jurisdictions receive on average more foreign aid than middle-lower income jurisdictions and have been under programs implemented by the WB and the IMF for a longer period of time. Furthermore, it is noticeable that populations' literacy rate is lower in low-income countries than in middle-lower income countries.

Next we want to determine if there is an a priori significant difference between the group of countries that adopted IFRS and the group of countries that apply domestic standards.

The student-t test revealed a significant difference between changes in literacy rates, economic growth rates and periods of time under WB and IMF programs in poor jurisdictions that have adopted IFRS compared to those that use domestic standards. The results generated by the nonparametric Mann-Whitney test are consistent with those of the student-t test (Table IV).

Pearson R coefficients seem to indicate a positive correlation between FAID and LITERACYRATE (0.3889), WBIMFYEAR and LITERACYRATE (0.3992), FAID and SSA (0.4905) and FAID and LOWINCOME (0.5298). Results of the Spearman test are consistent with those of the Pearson-R test.

TABLE III  
STUDENT-T AND MANN-WHITNEY TEST RESULTS

	FAID	FDI	LITERACY RATE	WBIMF YEARS	EGROW
Student-t	-0,6302 (0,5291)	-0,8033 (0,4225)	-4,9034 (0,0000)	-2,2672 (0,0242)	-2,8697 (0,0044)
Mann-Whitney	-1,765 (0,0776)	-1,729 (0,0838)	-4,824 (0,0000)	-2,055 (0,0399)	-3,374 (0,0007)

Correlation coefficients suggest that there is a positive association between jurisdictions with common law legal systems and the decision to adopt IFRS (0,4792).

The logistic model generated based on input series is:

$$\text{Log(IFRS)} = -14.58885 + 4.897967 \text{ FAID} - 0.612807 \text{ FDI} + 0.0596244 \text{ LITERACYRATE} + 0.3581546 \text{ WBIMFYEAR} + 0.1371576 \text{ EGROW} + 2.006769 \text{ LOWINCOME} + \epsilon \quad (2)$$

The model's coefficients have the anticipated sign.

The model revealed that three out of the four variables of interest are predictive of IFRS adoption as hypothesized. The overall model fit is 38,60% measured by the pseudo R2 (Table IV).

Results seem to indicate that the more foreign aid a country attracts the more likely it is to adopt IFRS. We can be more than 95% confident that this relationship did not occur by chance and will be reflected in the population. We have thus strong empirical support for hypothesis H1. Furthermore, the model shows that the more years a country stays under WB and IMF programs the more likely it is to adopt IFRS. The coefficient is statistically significant and supports hypothesis H2. This is not surprising because countries that are dependent for an extended period of time upon a vital financial source are likely to experience higher levels of coercive isomorphism [29]. Results are consistent with those obtained by previous studies [46], [30].

TABLE IV  
STATA OUTPUT

Variable	Coef.	Std. Err.	Z	P-value
FAID	0.1518294	0.0566164	2.68	0.007
WBIMFYEAR	0.0637514	0.0295068	2.16	0.031
FDI	0.3074174	0.2189509	1.40	0.160
LITERACYRATE	0.0829811	0.0140988	5.89	0.000
EGROW	0.0950979	0.0586726	1.62	0.105
LEGAL	3.322196	0.5101605	6.51	0.000
LOWINCOME	1.370225	0.564621	2.43	0.015
SSA	-0.1169238	0.4472131	-0.26	0.794
CONS	-10.96386	1.57719	-6.95	0.000
No. of obs	270	Prob >chi2	0.0000	
Chi2	141.18	Pseudo R2	0.3860	

The logistic regression points to a positive association between foreign direct investment levels and the likelihood of IFRS adoption. The coefficient seems to be statistically insignificant at a confidence level of 95%. Hypothesis H3 thus cannot be accepted. Results are inconsistent with those obtained by previous studies [46], [30].

As hypothesized, the model revealed that the more educated a country's population is the more likely it is to adopt IFRS.

The P-value of 0.0000, indicates that there is good empirical support for hypothesis H4.

The model revealed that economic factors seem not to play a significant role in a poor country's decision to adopt IFRS.

#### V. CONCLUSION

The last two decades witnessed an increase in the concern of academics and global organizations with regard to accounting development in poor countries. As a result, the IASB regulatory agencies, enforcement bodies and international organizations sought solutions to improve financial reporting practices in these countries. The purpose of the current study was to investigate between institutional isomorphism and IFRS adoption in the poorest countries of the world.

Returning to the hypothesis posed at the beginning of this study, findings seem to indicate that institutional isomorphism plays a significant role in the IFRS adoption process within poor countries. Results have showed that coercive isomorphism and normative isomorphism are predictive factors of IFRS adoption in poor countries. These findings suggest that in general poor countries are more driven by legitimacy concerns than by economic reasoning to adopt an international accounting perspective.

The present study focused exclusively on the poor countries group, revealing specific reasons to adopt or not to adopt IFRS, while also controlling for the legal system type and the membership of a country to a particular income level group. It thus makes a noteworthy contribution to the accounting literature.

Finally, a number of important limits need to be considered. First, due to data availability only 45 poor countries with active capital markets were sampled. Second, the study considers IFRS adoption in terms of a dichotomous variable and classifies countries in adopters and non-adopters based on the requirements they impose to listed companies. For the purpose of this investigation only publicly listed companies were taken into account. The reason for doing so is the strong regulation of capital markets which strictly either requires or do not permit reporting under IFRS. Domestic companies who may be permitted to apply IFRS were not taken into account as it is difficult to assess their level of compliance with IFRS requirements. Third, factors suggested by the accounting literature that might have a significant effect on the level of economic development (e.g. ecologic systems, cultural orientation) could not be included in the research model due to difficulties to operationalize them.

The international accounting harmonization process and its key drivers would be a fruitful area for further work. More research is needed to better understand the reasoning behind a poor jurisdiction's decisions to adopt IFRS. It would be interesting to assess the effect of accounting training programs in poor countries on their decision to switch to the international accounting framework.

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