IFRS adoption: a systematic review of the underlying theories

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Abstract

Purpose – This paper aims to examine the theoretical underpinnings of international financial reporting standards (IFRS)-related studies and offers directions for theoretical and empirical research. Specifically, this study examines the main theories in IFRS adoption research (i.e. adoption, compliance and effects).

Design/methodology/approach – The sample contains 67 empirical papers that have used theories and was collected from Web of Science database. This study uses a systematic review technique.

Findings – Generally, the review shows the prevalent and pervasive use of institutional theories of isomorphism across all the three areas of IFRS adoption. Particularly, regarding IFRS adoption stream, this study finds the institutional theory as a dominant theory used to explain IFRS diffusion around the globe. For IFRS compliance, this study finds that the agency and the capital need theories are widely used. For IFRS adoption effects stream, this study finds a few studies using the contingency and neo-institutional theories. Overall, the review provides theoretical lens for IFRS adoption, IFRS compliance and IFRS adoption effects.

Originality/value – Given the lack of a well-defined set of theories in the domain of accounting, the findings provide further guidance on theory building within the field. Further, accounting regulators, academics and practitioners may benefit from the findings when explaining various changes in the world of accounting.

Keywords IFRS adoption, Institutional theory, Agency theory, Capital need theory

Paper type Literature review

1. Introduction

Globalisation and internationalisation of businesses as well as the associated need for comparable and reliable financial information has led to the internationalisation of financial accounting principles. This has resulted in many actors in the business and accounting community advocating for the standardisation of accounting rules across the globe because standardised accounting principles can facilitate cross-border trading through increased comparability of financial information (Ball, 2006). Key player among these actors is the...
International Accounting Standards Board (IASB) charged with the promulgation of high-quality financial reporting standards. In this regard, the International Financial Reporting Standards (IFRS) (formerly International Accounting Standards – IAS) were developed and are currently the most widely recognised and applied accounting principles across the globe. IFRS are those standards developed by the IASB, whereas IAS are those promulgated by the IASB predecessor International Accounting Standards Committee (IASC).

Regarding the global acceptance of IFRS, Judge et al. (2010) observe that global competition for capital is on the increase and fairly intense, thus, compelling nations to willingly “trade” their domestic standards for more globally accepted standards such as the IFRS. It is further observed by Meeks and Swann (2009) that standardisation of financial reporting is driven mainly by the integration of capital markets.

The first stream of research following the adoption of IFRS focused on identifying motivations for voluntary adoption by firms, whereas subsequent studies focused on mandatory adoption, compliance with IFRS and the adoption effects of IFRS. Other prior studies investigated the intended benefits of the IFRS. Particularly, two broad empirical evidence exist in relation to the IFRS adoption effects: the IFRS relevance stream and the IFRS irrelevance stream. For instance, IFRS adoption can result in increased integration of capital markets and commitment to higher levels of disclosure and transparency (Hope et al., 2006; Ball, 2006). IFRS adoption is also reported to be associated with increased accounting quality (Barth et al., 2008; Garcia et al., 2017). However, it is also contended that IFRS-induced outcomes hinge on country-specific settings rather than the universal nature of the standards thus the anticipated benefits may be overly rated (Brown, 2011; Pope and McLeay, 2011; Sunder, 2011; Wysocki, 2011). For instance, Soderstrom and Sun (2007) and Brown (2011) argue that IFRS implementation benefits are dependent on country-specific factors such as the legal and regulatory systems and the extent to which the IFRS differs from domestic accounting standards.

The debate about IFRS relevance across the globe is an ongoing one yet the IASB is making significant progress with its goal of producing high-quality financial reporting standards. For instance, the approval by the US Securities and Exchange Commission to disallow foreign registrants reporting in IFRS from reconciling their IFRS-based financial statements to US Generally Accepted Accounting Principles (GAAP) is a milestone in the harmonisation of accounting practices (Alon and Dwyer, 2016). Given the market-oriented focus of the IFRS, it has also promulgated financial reporting standards for non-listed firms.

The growing interest in IFRS adoption–related research is largely attributable to the different context within which these standards are adopted coupled with the conflicting evidence emerging from these studies. Some studies including Zhang et al. (2012) argue that IFRS was developed within a context and culture, thus, its global applicability is exaggerated. For instance, they contend that the capital market orientation of IFRS (i.e. fair value accounting) is unsuitable for the Chinese environment. Additionally, it has been observed that jurisdictions across the globe adopt these standards differently with some adopting the standards without modifications while others adopt with modifications (Zeff and Nobes, 2010).

From the above discussion, one fundamental issue worthy of investigation is the theoretical underpinnings of these studies given that Ball (2006) and Judge et al. (2010) have raised legitimate concerns about the use of theory in accounting studies, particularly IFRS-related research. Moreover, Fontes et al. (2016) in their study on a theoretical model for understanding stakeholders perceptions regarding changes in financial reporting systems acknowledged the lack of an established theoretical framework or cumulative research tradition that can be used to explain stakeholders’ perceptions of financial reporting.
processes. The current study is motivated by these concerns and thus seeks to identify and synthesise the few theories in the field to provide further insights for theory building and application in the IFRS-related research and accounting in general. Specifically, the study seeks to examine the theories that are mostly used in explaining IFRS adoption strategies, compliance with IFRS and IFRS adoption effects.

This study is closely related to the review by Samaha and Khlif (2016) but differs from it in three respects. First, this study focuses on a synthesis of the theories used in the three main streams of IFRS adoption-related research across the globe. It does not restrict itself to studies from a defined geographical area like that of Samaha and Khlif (2016) which focuses on developing economies. Second, the current study does not limit itself to a defined set of theories, rather, it seeks to identify and synthesis all theories applied in IFRS-related research. This is quite different from Samaha and Khlif (2016) where the emphasis was partly on positive accounting theories. Finally, this study attempts to identify and recommend a “grand theory” or theories within the various streams of IFRS-related research. Generally, this study could serve as an important reference point for theorising in accounting research.

The rest of the paper is sectioned as follows. Section 2 presents the methodology, Section 3 relates to IFRS adoption stream, Section 4 presents IFRS compliance stream, Section 5 presents IFRS adoption effects stream and Section 6 concludes the paper and suggests directions for future research.

2. Methodology
Our systematic review data collection process is as follows. First, the sample is drawn from articles published in journals that are indexed in the Institute for Scientific Information (ISI) Web of Science (WoS) database. This database is considered superior because of its inclusion of high-quality peer-review journals. The database contains comprehensive coverage and a long timeframe of accounting and auditing journals. For instance, The Accounting Review is indexed in WoS from 1956, Journal of Accounting Research from 1963 and Auditing: A Journal of Practice and Theory from 1984. We search for IFRS adoption-related articles using standard keywords normally found in the titles, abstracts and keyword lists. Specifically, to ensure that all articles in the WoS database relating to IAS and IFRS with a focus on a theory are included, the search criterion “IAS” OR “IFRS” AND “THEORY” is used. This search yielded 6,559 articles.
Because IAS or IFRS could mean something else in other disciplines, articles from disciplines outside the domain of business, management and economics were eliminated. This procedure yielded 743 articles. We further excluded conference papers, review papers, book chapters and editorial materials resulting in a refined total of 542 articles. Our final filtering focused on papers that were written in English, thus all non-English papers such as those in Spanish, French, among others were excluded. This resulted in a total of 480 articles.

Next, we read the abstracts, introductions and hypothesis development/literature review sections of the 480 articles for further screening. Precisely, we focused on identifying articles with a theoretical framework or theory in the abovementioned sections. Notably, papers that do not state any theory in these sections are excluded resulting in 130 articles. Finally, we read the 130 articles and excluded articles that did not focus on IFRS adoption, compliance or adoption effects. Specifically, we further excluded papers that included IFRS as a control variable (Khémiri and Nouhighbh, 2020), studies that consider both US GAAP and IFRS (Sakawa et al., 2021; Goncharov and Peter, 2019), studies that focused on the IASB response to COVID-19 (Moscariello and Pizzo, 2022) and papers that mentioned theory without any theoretical discussion (Zakaria et al., 2021). We also excluded papers with IAS abbreviations meaning something different from International Accounting Standards. For example, international assignments (IAs) as in Dolce et al. (2021). In following the above procedures, we arrived at a final sample of 67 articles published during 2006–2022.

The 67 articles are grouped based on the three research streams as follows:

- 35 IFRS adoption articles;
- 11 IFRS compliance articles; and
- 21 IFRS adoption effect articles (see Appendix for a summary of the 67 articles).

Figure 1 presents the data selection process.

3. International financial reporting standards adoption studies

This stream of research has primarily focused on identifying factors influencing the adoption of IFRS and the adoption strategies used by firms and countries. Two main streams comprising voluntary and mandatory adoption of IFRS are examined. Voluntary adoption is at the firm level because firms elect to adopt the standards ahead of national/jurisdictional requirements. On the contrary, mandatory adoption relates to jurisdictional requirements for firms to adopt. For instance, prior studies examined the subject of adoption by looking at firm-specific characteristics such as age, size, among others (Guerreiro et al., 2012a). Recent studies (Kim, 2016; Mantzari et al., 2017; Jansson, 2020) have provided more insights into the IFRS adoption stream by combining firm-specific and institutional variables such as legal protection of investors, quality of national accounting standards, financial market development and other context-specific variables.

In the following section, a summary of the empirical results of these studies is first discussed followed by a review of the theories underlying these studies.

3.1 Summary of key empirical works

Studies on this stream sought to identify the factors influencing firms’ and countries’ decisions to adopt IFRS. With respect to firm-level determinants of IFRS adoption, firm size, auditor type, knowledge of IFRS, professionalism desire by management, and the desire to get listed on a stock exchange are factors motivating voluntary adoption (Guerreiro et al., 2012a;
Regarding the determinants of country-level adoption of IFRS, the empirical evidence suggests that countries with weak shareholder protection, low-quality national accounting standards (local GAAP) and openness of the local economy were among the first to require IFRS application (Hope et al., 2006; Kaya and Koch, 2015; Judge et al., 2010; Hassan, 2008; Boolaky et al., 2020). Other determinants include pressure from international donors, foreign direct investment, colonial ties, pressure from international financial institutions (e.g. World Bank, International Monetary Fund), international accounting networks (e.g. International Federation of Accountants) and trade (Tahat et al., 2018; Damak-Ayadi et al., 2020; Al-Htaybat, 2018; Boolaky et al., 2020), cultural factors (Edeigba et al., 2020; Salem and Ayadi, 2022; Silva et al., 2021; El-Helaly et al., 2020), institutional environments (Boolaky et al., 2018; Wijekoon et al., 2022; Fontes et al., 2021; Riahi and Khoufi, 2019; Alon, 2013; Guerreiro et al., 2012b), competition, learning and emulation (Koning et al., 2018; Bakr and Napier, 2020).

3.2 Theoretical basis/lens
Here, an examination of the theories used in IFRS adoption studies is presented and discussed with respect to how they are applied. From a total of 35 articles on IFRS adoption,
applied the institutional theory concepts of isomorphism. This is unsurprising because the emergence of IFRS in international accounting represented a change that countries and firms must contend with. Particularly, IFRS brought significant changes to local accounting regulations especially regarding standard setting.

### 3.2.1 Institutional theory

Institutional theory has its roots in sociology and specifically in the works of Meyer and Rowan (1977) and subsequently extended by several scholars (DiMaggio and Powell, 1983; DiMaggio and Powell, 1991; Scott, 2008). It focuses on the pressures and constraints of the institutional environment comprising the regulatory structures, governmental agencies, laws, courts and professional norms. Consequently, prior institutional theorists have focused on how organisations are shaped by forces of the institutional environment. Particularly, it is argued that organisational decisions reflect institutionalised rules, norms and procedures and that organisations must constantly adjust from within to conform to the rules of the game survival. Dimaggio and Powell (1983) introduced the concept of institutional isomorphism in explaining the influence of the institutionalised environment on organisations. Subsequently, DiMaggio and Powell (1991) improved upon the initial classification by re-classifying it into three categories of coercive isomorphism, normative isomorphism and mimetic isomorphism.

Coercive isomorphism also known as power isomorphism emanates from rules and regulations, often imposed by institutions of society to ensure accepted corporate behaviour (Meyer and Rowan, 1977). Shedding more light on this, Scott (2008) espoused that regulations can take the form of laws such as the Companies Act, Security and Exchange Commission Directives and Accounting Standards among others and are expected to be followed by relevant actors within the society. The next form of isomorphic pressure is the normative isomorphism also known as attraction isomorphism. It entails the social norms often seen as professionalism defining “rules of the game”. Finally, the memetic pressure is described as the force to adopt best practices to be more legitimate or successful.

### 3.2.1.1 Application of the theory: hypothesis development and operationalisation

The institutional theory as well as the Oliver’s (1991) framework seeks to shed light on how organisations are influenced by the institutionalised environment and how they respond to changes in the environment. Thus, despite its criticism of oversimplifying the change process, it has remained the most used theoretical lens (at least in the field of international accounting) for explaining how organisations/countries are affected by and react to changes in their environment (Alon and Dwyer, 2016, 2014; Mahoney and Thelen, 2010).

The adoption of a new set of financial reporting standards such as the IFRS represent a significant change in the accounting field. Before this, nearly all countries developed and used what is popularly called the local GAAP. Organisations operating within these countries were required to comply with these standards, thus multinational corporations with subsidiaries in several countries had series of reconciliations to do in preparing their consolidated financial statements. The development and application of the IFRS was therefore a great news to multinational corporations though challenging to some countries due to the changes that must be made with respect to the purpose and scope of financial reporting.

Following from the above, majority of prior studies on IFRS adoption have relied on the institutional theory to gain insights into the firm and country responses to these changes. We first examine how institutional theory is applied in firm-level studies of IFRS adoption (why firms adopt IFRS instead of national requirements) and proceed to the country-level studies (why countries adopt IFRS as their jurisdictional reporting standards).

Among the firm-level studies, Guerreiro et al. (2012a) is one study where the institutional theory is fully applied. They focused on the voluntary adoption of IFRS by non-listed firms.
in Greece, and argued that non-listed companies that are subsidiaries normally depend on the parent company thus creating a source of coercive pressure. Particularly, they posit that non-listed companies with parent companies who are required to use IFRS, are likely to voluntarily adopt IFRS. Coercive pressure is proxied by parent company involvement in subsidiary’s preparedness to adopt and the nationality of company owners. Normative pressure is proxied by the chief financial officer’s affiliation with a professional accountancy body arguing that given the acceptance of IFRS by professional accountancy bodies, its members are likely to influence the adoption of IFRS at the firm level. Given the role of the Big 4 audit firms in the IFRS adoption process, it was also identified as an indicator of normative pressure where firms that are audited by the Big 4 are more likely to adopt IFRS. Regarding memetic pressure, they contend that firms in the same industry share key suppliers and especially financial resource providers, thus, the adoption of IFRS by one will invariably influence others in the adoption process. Consequently, measurement of accounting values in an industry and the presence of foreign sales are used as measures of memetic pressures.

Nurunnabi (2015) relied on institutional isomorphism to identify coercive, normative and memetic forces exerting influence on the accounting regulation of Bangladesh specifically the decision to adopt IFRS. Government’s regulations such as the companies’ act, securities laws among others represented part of the institutional environment and their enforcement thereof signify a low or high isomorphic coercion. Regarding normative isomorphic pressure, it is operationalised by considering the national accountancy body and the practice of professional accountancy. It is argued that lack of collaboration among professional bodies would represent a scenario of low normative isomorphic pressure. In relation to memetic pressure, it is argued that developing economies often adopt IFRS to appear following the best practices propagated by international organisations like the IASB, the World Bank and the International Monetary Fund (IMF). Overall, the test of the hypothesis indicates that coercive, normative and memetic isomorphism are low in the Bangladesh environment implying regulatory bodies, professional accountancy firms and other trading partners could not exert any influence towards IFRS implementation.

Worthy of discussion is the study by Irvine (2008) where the institutional theory is used to identify global coercive, normative and memetic forces driving the spread of IFRS adoption particularly in the United Arab Emirates. She argues that the UAE adoption of IFRS is a response to globalised institutional pressures in the form of coercive, normative and memetic forces. Coercive pressure emanates from the World Bank/IMF and the world’s capital markets. The presence of the Big 4 accounting firms is noted as a manifestation of normative pressure given that these players collectively determine what is acceptable within the accounting profession. Memetic isomorphism is operationalised by trade partners and multinational corporations because the behaviour of these key partners in relation to the adoption of IFRS was influential in the decision of the UAE to adopt IFRS. Thus, the adoption of IFRS by the UAE was a response to the coercive, normative and mimetic pressures exerted by the regulatory regimes of the World Bank and multinational corporations, the IASB, the Big 4 accounting firms and relationships with trading partners.

Relying on the work of institutional theorist such as Dimaggio and Powell (1983), Alon and Dwyer (2014) examined the early adoption of IFRS by countries across the globe. They propose that the level of IFRS adoption (require IFRS, permit IFRS or do not allow IFRS) depends on the interplay of transnational pressures and local factors. Particularly, transnational isomorphic pressure urges countries towards uniformity in financial reporting but because countries are not homogenous, some may follow their specific needs and interests (Guerreiro et al., 2012a).
3.2.2 Legitimacy theory. Suchman (1995) describes legitimation as the process used by an organisation to justify its right to exist. Thus, legitimacy strives to achieve congruence between the social values of an organisation and the norms of acceptable behaviour in the larger social system. Notably, legitimacy is socially constructed and mirrors a congruence between the behaviours of the entity seeking legitimacy and the shared or assumed values of the wider society. In the international accounting literature, particularly the IFRS adoption studies, the legitimacy theory is mostly used in conjunction with other theories when applied. Specifically, Guerreiro et al. (2012a) relied on the legitimacy theory to provide insights into other reasons driving IFRS adoption other than perceived economic benefits. For instance, firms adopt IFRS to enhance their corporate image among peers and providers of funds given the adopting firms’ improved access to debt capital and improved debt negotiation.

3.2.3 Bonding theory. The term “Bonding” refers to the costs or liabilities that an agent or entrepreneur will incur to assure investors that it will perform as promised, thereby enabling it to market its securities at a higher price. Coffee (2002) first applied it in examining whether cross-listing bonds the firm to adhere to higher and comprehensive disclosure requirements, thus it has since been largely referred as the Coffee (2002) bonding theory.

Applying the bonding theory to the IFRS adoption literature, Hope et al. (2006) argue that countries that are likely to benefit substantially from the implementation of high-quality accounting standards are more likely to adopt IFRS than their counterparts. Thus, countries in need of enhancing the transparency of their firm-level financial reporting were more likely to adopt IFRS. Given its minimal application in the field and the dire need of theory, it does present an opportunity for accounting scholars to examine its application in other aspects of international accounting.

3.2.4 Actor network theory. The Actor Network theory (ANT) has its roots in the sociology of science and technology. The theory’s basic assumption is that ideas and practices have their roots in network building involving both humans (actors) and non-humans (actants). The theory evolved around the works of three authors: Michel Callon, Bruno Latour and the sociologist John Law. Concerning how ideas and practices (knowledge) emerge, Law (1992) reports that knowledge is a social product rather than something generated through the operation of a privileged scientific method. Thus, knowledge can be viewed as a product or an effect of a network of heterogeneous materials.

With regard to its application in the field of international accounting, Ezzamel and Xiao (2015) and Chua and Taylor (2008) relied on it to provide insights on various issues relating to IFRS adoption. First, Ezzamel and Xiao (2015) used it to gain insights into the interactions that took place among key stakeholders in developing accounting regulations for foreign invested firms in China. They conceptualised the process of developing each accounting regulation as a trial of strength, whereby actors interested in mobilising support for a new regulation seek to test and persuade others with their views. Similarly, Chua and Taylor (2008) used ANT to explain the diffusion of IFRS across the globe and China to be specific suggesting that the IFRS diffusion is driven by its principles-based nature. Given the limited applications of the theory and the increasing diffusion of knowledge in the form of accounting standards across the globe spearheaded by the IASB, it will be useful for future studies to use the ANT to delve into standard setting process and adoption.

3.2.5 Notable studies without an explicit theory. This section examines notable studies in the IFRS adoption literature that referred to a theory without any specific application. Key studies in this category include Bassemir (2018) who examines the rationale for IFRS adoption by German private firms. The results show that private firms with international
sales, a higher share of foreign subsidiaries and operating in a high-tech industry are more likely to adopt IFRS than those who do not. Inferring from the agency theory, he argues that firms in the categories above are more prone to agency problems and higher demands for information resulting from organisational and informational complexity hence, the adoption of IFRS. It is also observed that proprietary cost explanations could be the basis for larger firms’ high propensity to adopt IFRS. Francis et al. (2008) identified that both firm and country factors have significant implications for the voluntary adoption of IAS.

4. IFRS compliance studies

4.1 Summary of empirical works
Studies under this stream sought to identify the factors affecting firms’ compliance with IFRS. Like the previous stream, the IFRS compliance stream is divided into two sub-streams: firm- and country-level factors. Firm-level studies (Abdullah et al., 2015; Al-Shammari et al., 2008; Appiah et al., 2016; Samir et al., 1999; Samaha and Stapleton, 2009; Tawiah and Boolaky, 2019; Alnaas and Rashid, 2019; Glaum et al., 2013) have examined firm-specific factors affecting companies compliance with IFRS and identified firm size, auditor type and ownership concentration as important predictors. Other firm-level factors include corporate governance (Tawiah and Boolaky, 2019; Abdelqader et al., 2021; Agyei-Mensah, 2019), and value relevance of IFRS (Nurudeen et al., 2022).

The country-level studies focused on the size of the national stock market, governance, cultural, enforcement and other institutional factors influencing companies’ ability to comply with IFRS (Glaum et al., 2013; Balfour et al., 2017). For instance, Balfour et al. (2017) reviewed the suitability of market-oriented (fair value-based) IFRS for non-western economies particularly those that are relationship driven. They report that the context of the Chinese setting where the quanxi principle is deeply rooted in business and non-business relationships may make the fair value-based IFRS unsuitable for the Chinese environment. This may affect compliance with the fair value measurement basis of IFRS. They argued that the IFRS has a capital market orientation which is typical of western countries and cultures, hence it may not be easily applicable to non-western environments like China where contracts only set the basis for engaging each other but relationships determine outcomes. This, they noted, is a sharp contradiction of the west where the reverse is common.

4.2 Theoretical lens/basis
This section examines the theories used in IFRS compliance studies, specifically, a review of how the theories are used in hypothesis development and in the discussions of empirical results. Majority of the IFRS compliance studies used the agency theory. Another explicit theory used is the capital need theory. This is somewhat intuitive given that firms in an attempt to bridge the information gap between insiders and outsiders would endeavour to comply with all relevant financial reporting standards.

4.2.1 Agency theory. The agency theory has gained extensive application in the field of accounting and finance, where it has been used in various areas of interest particularly in relation to studies about stock prices and markets. Eisenhardt (1989) recounts the origin of the agency theory by tracing it back to the 1960s era where economists were concerned about risk-sharing among individuals or groups due to differing attitudes and interests among cooperating parties. Notably, the conflicting interest between the cooperating parties herein company insiders (managers) and providers of capital forms the basis of the agency theory. Studies such as Barth et al. (2008) used the agency theory to contend that firms may
adopt and comply with IFRS in a bid to reduce agency costs given that IFRS compliance yields greater disclosure and more transparency.

Additionally, Al-Shammari et al. (2008) applied the agency theory in examining the IFRS compliance among firms operating in the Gulf region. Based on the agency theory, they identified firm size as a predictor of IFRS compliance arguing that large firms are more visible and may be associated with a greater need to reduce information asymmetry. Abdullah et al. (2015) also applied the agency theory to examine whether ownership concentration such as family control affected compliance with IFRS. Their results show a negative association between family control and compliance with IFRS arguing that “owner opportunism” affected the extent to which boards demanded for compliance. They conclude by positing that in firms where Type 1 agency problems are prevalent, the accounting expertise of board members may adversely affect disclosure levels. On the contrary, in cases where Type 2 agency problems exist in the form of family control dominance, this may negatively affect mandatory disclosure.

4.2.2 Capital need theory. A relatively new framework for analysing compliance-related behaviour of firms in the accounting literature is the capital need theory (CNT). The CNT is premised on the assumption that firms need finance, and that the behaviour of the firm can be understood by analysing its funding needs. For instance, firms’ decision to comply and make certain disclosures to the investing community is driven by their perception of the implications of such disclosures for raising capital from the market. Consequently, the desire to raise cheap equity will drive firms to comply with high-quality financial reporting standards like IFRS. Samaha and Stapleton (2009) used the CNT to support the expectation that public companies desiring to issue securities will comply more with IFRS requirements than private companies. Furthermore, they hypothesise that foreign listing and internationalization influence compliance with IFRS given that firms are competing for resources. Future studies could use this theory to provide more empirical insights on IFRS compliance and implementation.

5. International financial reporting standards adoption effects studies

5.1 Summary of empirical works

Similarly, the empirical evidence on IFRS adoption effects is divided into sub-streams: country- and firm-level factors. Research on the country-level examined whether IFRS adoption has effects on foreign direct investment (FDI) (Mameche and Masood, 2021; Omotoso et al., 2022; Covrig et al., 2007; Golubeva, 2020), market liquidity (Saravanan and Firoz, 2022) and stock market development (Cheikh and Rejeb, 2021; Elmghaamez et al., 2022). Firm-level studies examined IFRS adoption effects on value relevance (Elkelish, 2017; Avwokeni, 2018), earnings management (Wang et al., 2022; Hlel et al., 2020; Pereira and Alves, 2017; Hasan et al., 2022), accounting quality (Gu, 2021), comparability (Li, 2010), access to capital (Alexandre and Clavier, 2017; Jorissen et al., 2022), cost of capital (Li, 2010; Turki et al., 2017; Moscariello et al., 2014), audit fees (Coffie and Bedi, 2019), forecasting (Turki et al., 2017) and corporate social responsibility (CSR) reporting (Weerathunga et al., 2020). Another classification of the IFRS adoption effects literature is the partitioning between voluntary adoption effects and mandatory adoption effects as suggested by De George et al. (2016) in their extensive review of the IFRS adoption literature. Given the focus of the current study, an overview of the studies is presented without a special focus on this segmentation.
5.2 Theoretical basis
The application of theory in IFRS adoption effects is mostly implied, hence, nearly all studies in this stream do not make application of a stated theory. Even though the use of theories within this stream is often implied, yet some few studies have risen above this theoretical shortcoming. A review of such studies reveals the application of contingency theory, neo-institutional theory and efficient market hypothesis (EMH). Others used information asymmetry perspective which assumes that information is not evenly distributed among interested parties.

5.2.1 Contingency theory. Othman and Kossentini (2015) used the contingency theory to explain how partial adoption of IFRS can affect the development of emerging stock markets. They argue that the contingency theory recognises the role and influence of environmental factors in economic development; thus, country-specific accounting systems can vary even under uniform accounting systems. Their results show that adopting IFRS with modifications based on reasoning from the contingency theory leads to a negative influence on the development of emerging stock markets.

5.2.2 Neo institutional theory. The neo-institutional theory is closely related to the institutional theory which is extensively discussed earlier. Thus, this section only examines how the theory is used in explaining IFRS adoption effects. Kim (2016) applied the theory in predicting the association between changes in legitimacy-seeking behaviour by firms on account of changes in the financial reporting environment. They argue that changes in reporting quality in the form of value relevance of accounting numbers and the level of conditional conservatism are determined by the type of isomorphic pressure in the institutional environment (coercive, normative and memetic pressure). Consequently, they conclude that accounting quality is observed to have improved because of the presence of coercive, mimetic and normative societal pressures following IFRS adoption in the Russian context.

5.2.3 Efficient market hypothesis and others. In the accounting literature, the EMH is widely used and often implied without any explicit discussion and application in most studies. As such, this section presents a general review of key premises of the hypothesis. First, proponents such as Fama (1970) posit that all available information is fully reflected in the prices of shares/stocks traded on the market at any time. For instance, Watts and Zimmerman (1990) explain that EMH uses the information set to test the level of efficient markets. Thus, EMH is the basis for most accounting and finance research though it is mostly not discussed. It is therefore on this basis that accounting numbers reported in financial statements are used in predicting value relevance. Regarding the influence of IFRS adoption on accounting quality, most studies are always grounded on the basis that accounting numbers estimated from IFRS should reflect certain values in the market (Landsman et al., 2012).

6. Conclusion and direction for future studies
This study reviews theories used in three streams of IFRS adoption research: IFRS adoption, IFRS compliance and IFRS adoption effects. Concerning the IFRS adoption stream, institutional theories of isomorphism and logics are mostly used to explain the changes in global financial reporting. Regarding IFRS compliance stream, the review finds that agency and capital need theories are widely used. For instance, agency theory hypothesised that as firm size increases, the need for more disclosure and transparency increases leading to an increase in demand for compliance with high-quality financial reporting standards such as the IFRS.
The IFRS adoption compliance stream is identified from the review as one area with fewer studies as well as explicit theoretical underpinnings. Given the contextual differences in adopting countries, it will be more insightful for future studies to explore the contextual/institutional mechanisms underpinning compliance with IFRS. This is particularly important given the assertion that some countries especially those in the developing world have become label adopters of these standards. It is also recommended for future studies to consider the nuances and the different approaches used by IFRS adopting countries. For example, as noted by Zeff and Nobes (2010), countries use different approaches in adopting IFRS with some adopting the standards as promulgated by the IASB, whereas others modify the standards to suit their local context. These differences in adoption approaches are important but are largely overlooked in the literature, thus, it will be useful for future studies to offer empirical insights on this. For example, do differences in adoption approaches account for differences in IFRS compliance levels and what theoretical perspectives best explain these differences? Similarly, do these differences in adopting approaches result in different effects for accounting quality, comparability, among others?

The study concludes by confirming the assertions of Fontes et al. (2016) about the paucity of theoretical basis in international accounting research, thus a call for more explicit theoretical applications in the domain is made.

Furthermore, future reviews could focus on identifying the implied theoretical basis for IFRS adoption effects stream which is on the ascendancy but lacks direct theoretical bases. Future studies could also adopt a different sample selection criterion, for instance, a sample from top journals known for publishing ground-breaking theoretical applications in empirical work as used in De George et al. (2016).

Note

1. This search was first conducted on 7 November 2022 and repeated on 25 December 2022.

References


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<td>Acquiescence of companies in adopting IFRS is not a blind response to institutional demands but is largely predictable by the inherent nature and importance of such institutional pressures to them</td>
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<td></td>
<td>Alon (2013)</td>
<td>Institutional logics</td>
<td>Applied to understand the contextual influences that surround adoption of IFRS in Russia</td>
<td>IFRS did not replace RAS and that organisational identity and the discretion in standard implementation are identified as factors that play a role in how organisations manage the institutional complexity created by the co-existence of IFRS and RAS</td>
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<td></td>
<td>Alon and Dwyer (2016)</td>
<td>Institutional theory; Institutional change</td>
<td>Used to examine a historic regulatory change in which the U.S. SEC made a significant move towards accepting IFRS foreign registrants</td>
<td>Identified how the interplay between national and transnational players and their coalitions can shape a change in accounting regulation</td>
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<td></td>
<td>Nurunnabi (2015)</td>
<td>Coercive, normative and mimetic isomorphisms</td>
<td>Used in examining the tensions between politico-institutional factors and IFRS adoption in Bangladesh</td>
<td>Notably, political forces have been undermining mimetic isomorphism because of the high level of government intervention and the high level of political lobbying</td>
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<td>Guerreiro et al. (2012b)</td>
<td>Neo institutional theory</td>
<td>Used in explanatory variables selection</td>
<td>Coercive and mimetic pressures are identified as predictors of the evolution of an organisation’s accounting practices</td>
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<td>Guerreiro et al. (2008)</td>
<td>Agency theory</td>
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<td>Company size, commercial internationalisation, audit by a “Big 4” accounting firm, and profitability predict IFRS adoption</td>
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<td>Kaya and Koch (2015)</td>
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<td>Hope et al. (2006)</td>
<td>Bonding theory</td>
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<td>Weak shareholder protection countries bond themselves to superior accounting standards to access international investors and/or markets</td>
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<td>10</td>
<td>Judge et al. (2010)</td>
<td>Institutional theory</td>
<td>Used in hypothesis development and operationalisation of variables</td>
<td>The findings show that all three forms of isomorphic pressures (i.e., coercive, mimetic and normative) are predictive of IFRS adoption</td>
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<td>Mantzari et al. (2017)</td>
<td>Institutional theory and hegemony</td>
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<td>IFRS adoption is not based primarily on the technical efficiency of the standards but the outcome of pressures channelled through the coercive authority of state and EU regulation</td>
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<td>Irvine (2008)</td>
<td>Institutional theory</td>
<td>Used to explain the widespread adoption of IFRS in the UAE</td>
<td>IFRS adoption in the UAE is in response to coercive, normative and mimetic pressures including the regulatory regimes of the World Bank, etc</td>
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<td>13</td>
<td>Chua and Taylor (2008)</td>
<td>Institutional theory, actor network theory</td>
<td>Used in identifying the political and social considerations driving IFRS adoption</td>
<td>IFRS adoption in China is influenced by powerful first mover global economies</td>
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<td>14</td>
<td>Ezzamel and Xiao (2015)</td>
<td>Actor network theory</td>
<td>Used to identify the key actors and the interactions among them in determining accounting regulations</td>
<td>Noted how different machinations, political discourses and Chinese characteristics influence promulgation of new accounting regulations</td>
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<td>Tahat et al. (2018)</td>
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<td>Quagli and Avallone (2010)</td>
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<td>The choice for fair values is driven by information asymmetry, contractual efficiency and managerial opportunism</td>
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<td>17</td>
<td>Edeigba et al. (2020)</td>
<td>Cultural theory</td>
<td>Used in identifying the country-level cultural factors associated with IFRS adoption</td>
<td>Flexibility, uniformity, transparency, secrecy, professionalism and statutory control were identified as significant cultural factors that influence IFRS adoption</td>
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<td>Damak-Ayadi et al. (2020)</td>
<td>Neo-institutional theory and economic theory</td>
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<td>Culture, trading networks and economic growth as well coercive and normative pressures drive IFRS for SME adoption</td>
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<td>19</td>
<td>Salem and Ayadi (2022)</td>
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<td>Cultural (e.g. open-mindedness), coercive and normative forces influence IFRS adoption</td>
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<td>20</td>
<td>Phan et al. (2018)</td>
<td>Legitimacy theory</td>
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<td>The desire for legitimacy enhances the association between perceived IFRS benefits and willingness to adopt IFRS</td>
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<td>Boolaky et al. (2018)</td>
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<td>Used in explaining the factors associated with accounting development including IFRS adoption</td>
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<td>Wijekoon et al. (2022)</td>
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<td>Touron and Daly (2020)</td>
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<td>Used in explaining the institutional mechanisms and incentives underlying companies choice for IAS or US GAAP</td>
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<td>Koning et al. (2018)</td>
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<td>Country-level decisions to adopt IFRS are not driven by local determinants but instead by adoption decisions by other neighbouring countries and influential organisations.</td>
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<td>Silva et al. (2021)</td>
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<td>Coercive isomorphism by informal market forces rather than by formal supervisory mechanisms influence implementation of IFRS.</td>
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<td>Al-Htaybat (2018)</td>
<td>Strong structuration theory</td>
<td>Used in hypothesising the factors underpinning IFRS adoption</td>
<td>External and internal factors influenced the decision to adopt IFRS in Jordan. The adoption of IFRS in Saudi Arabia particularly IFRS for SMEs was driven by mimetic isomorphism as the country emulated its neighbours.</td>
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<td>El-Helaly et al. (2020)</td>
<td>Gray’s theory of cultural influence</td>
<td>Used in predicting the impact of various dimensions of national culture impact IFRS adoption</td>
<td>Cultural dimensions such as uncertainty avoidance, power distance, masculinity and long-term orientation impact the decision to adopt IFRS. Notably, countries with higher levels of uncertainty avoidance are more likely to adopt IFRS</td>
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<td>Boolaky et al. (2020)</td>
<td>Neo-institutional theory</td>
<td>Used in predicting the coercive, mimetic and normative pressures associated with IFRS adoption in Africa</td>
<td>The World Bank and IMF, the presence of global audit firms and years of IFAC membership are key determinants of IFRS diffusion in Africa</td>
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<td>Wagaw et al. (2019)</td>
<td>Neo-Gramscian theory of globalisation</td>
<td>Used in explaining how the interaction between global and national forces drive IFRS adoption</td>
<td>IFRS adoption in Ethiopia is underpinned by a dialectical interaction between global and national forces</td>
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<td>Eierle et al. (2018)</td>
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<td>Used to predict how agency problems in private firms can influence their adoption of IFRS</td>
<td>Relevance of equity from foreign investors and inclusion within an international group determines private firms decision to use IFRS</td>
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<td>34</td>
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<td>Used to explain the processes and the interconnection among actors in IFRS adoption</td>
<td>IFRS adoption involves several actors with peculiar challenges and their response to those challenges</td>
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<td>35</td>
<td>Hassen and Ramakrishna (2020)</td>
<td>Technology adoption model (TAM) and theory of planned behaviour (TPP)</td>
<td>Used in predicting the impact of perceived familiarity on the adoption of IFRS</td>
<td>IFRS adoption depend on perceived familiarity, usefulness and associated risk</td>
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<td>Samaha and Stapleton (2009)</td>
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<td>Firms seeking to make an IPO or issue more shares are observed to be more complaint with IAS</td>
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<td>39</td>
<td>Alnaas and Rashid (2019)</td>
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<td>Used in providing background to the adoption of IFRS and the implications for compliance</td>
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<td>Tawiah and Boolaky (2019)</td>
<td>Stakeholder salience theory</td>
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<td>Companies with high ownership bloc by a single or few shareholders are less likely to comply with IFRS. Audit committee are significant determinants of compliance with IFRS</td>
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<td>Abdelqader et al. (2021)</td>
<td>Agency theory and resource dependency theory</td>
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<td>Three corporate governance mechanisms were found to have a significant effect on the level of compliance with IFRS, namely, board independence, concentrated ownership and the external auditor quality</td>
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<td>Agyei-Mensah (2019)</td>
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<td>Auditor type, industry type and leverage were the factors influencing the compliance with IAS 38 disclosure requirements</td>
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<td>Glaum et al. (2013)</td>
<td>Economic reasoning</td>
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<td>Strength of the enforcement system and the size of the national stock market play important roles in compliance. Prior experience with IFRS (seasoned user), type of auditor, the existence of audit committees, the issuance of equity shares or bonds in the reporting period or in the subsequent period, ownership structure, and industry (financial services) impact compliance</td>
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<td>Uyar et al. (2016)</td>
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<td>Pardo-del-Val et al. (2014)</td>
<td>Impression management framework, agency and signalling</td>
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<td>Compliance disclosures increase with growth opportunities and decrease with leverage suggesting that firms disclose more to signal favorable positions</td>
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<td>Dawd (2018)</td>
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<td>Consistent with agency theory predictions, large firms tend to have higher levels of compliance than smaller firms</td>
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<td>Kim (2016)</td>
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<td>Used in hypothesis formulation</td>
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<td>Alexandre and Clavier (2017)</td>
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<td>The adoption of IFRS (both voluntary and mandatory) lead to an increase in the credit supply only for small and constrained banks</td>
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<td>Maneche and Masood (2021)</td>
<td>Information asymmetry</td>
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<td>Li (2010)</td>
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Notes: SEC = Securities and Exchange Commission; IFAC = International Federation of Accountants
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