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The Determinant Factors for the Adoption of IFRS in Africa

Abstract: Many countries worldwide have converted local accounting standards to the International Financial Reporting Standards (IFRS). Although most countries embraced the IFRS, only a few African countries adopted global accounting standards in their current form. This paper extends the literature by investigating potential factors influencing the adoption of IFRS on the African continent and contributes significantly to the current knowledge in the field. The study employs a panel data logistic regression using the random-effects statistical estimation technique to compare African countries that adopted the IFRS to non-adopting countries from 2005 to 2019. The findings suggest that culture, external pressure, investor protection, market capitalisation, and trade openness are the predicted springboards determining African countries' decisions to adopt the IFRS. These findings provide valuable insight for standard-setters, enabling them to effectively promote the IFRS among African countries that have not adopted the IFRS in their current form.

Keywords: IFRS, regulation, Africa, heterogeneity, panel data, culture
JEL: C61, F18, M41

1. Introduction

The International Accounting Standards Board (IASB), a successor to the International Accounting Standards Committee established in 1973 (IAS), was set up in 2001 to develop the International Financial Reporting Standards (IFRS) as a unified set of high-quality, understandable, and enforceable international accounting standards for listed firms worldwide (Schutte, Buys, 2011). The standards explain how a listed firm's economic and related financial transactions are disclosed in the financial statement to make it more transparent and comparable for the benefit of international stock exchange participants (George, 2010). In 2005, the European Union (EU) announced the mandatory adoption of IFRS. This landmark development in accounting regulation motivated other countries worldwide to embrace and recognise the IFRS. According to the IFRS (2018), 176 countries worldwide, including certain African countries, have fully implemented the IFRS in the last 15 years.

Proponents of uniform accounting standards suggest that the adoption of IFRS reduces diverse accounting practices. Gordon, Loeb, and Zhu (2012), Shima and Yang (2012), and Salem, Damak-Ayadi, and Saïhi (2017) emphasise that the application of national accounting standards may cause inconsistencies and hamper the transparency and comparability of financial statements. Ben-Othman and Kossentini (2015) argue that integrating world economies and increased cross-border investments render financial statements prepared under national accounting standards inappropriate. Therefore, the situation suggests an increased demand for unified global accounting standards by capital market participants.

The development of IFRS by the IASB was expected to benefit the users of accounting information in several ways. For example, the costs involved in comparing financial statements between jurisdictions could be reduced. Likewise, it was anticipated that adopting the IFRS would enhance the quality, reliability, relevance and credibility of financial statements (Ball, 2006; Assenso, Ali, Ahmed, 2011; Iyoha, Owolabi, 2012). Consequently, it would provide users with homogenous and consistent accounting information. Moreover, Aggarwal, Klapper, and Wysocki (2005) advocate that adopting the IFRS would efficiently diversify foreign capital.

Adopting the IFRS will improve accounting information and reduce financial information asymmetry (Armstrong, Barth, Riedl, 2010; Beneish, Miller, Yohn, 2015). It is also believed that adopting the IFRS may reduce information irregularities and improve

communication between existing and potential financial statement users. Barth, Landsman, and Lang (2008) emphasise that the IFRS are information-based and are assumed to have a high capability to improve the quality of financial statements that meet the demand of world capital market participants.

Besides these advantages, only thirty percent of African countries have adopted the IFRS (IFRS, 2018). This scenario indicates heterogeneity in African countries' decisions to adopt the IFRS and brings to the limelight the question of what factors may influence this decision.

Prior studies examined some of the proximate factors to accounting, such as culture, economic growth, capital market development, the level of education, foreign operation, the legal system, and the political system (Jaggi, Low, 2000; Zeghal, Mhedhbi, 2006; Shima, Yang, 2012; Kolsi, Zehri, 2013; Zehri, Chouaibi, 2013; Pricope, 2016; Tawiah, 2019; Boolaky, Tawiah, Soobaroyen, 2020). Empirical findings from these studies were inconsistent and focused mainly on developed economies with little or no emphasis on Africa (Chen, Ding, Xu, 2014; Boolaky, Tawiah, Soobaroyen, 2020). Therefore, the unresolved argument concerns factors influencing the adoption of IFRS within the African context.

Stainbank (2014) examined five determinant factors, and recently, Boolaky, Tawiah, and Soobaroyen (2020) focused on the institutional perspective influencing the adoption of IFRS in Africa. Besides these two studies, there is limited information available about the factors influencing the adoption of IFRS in Africa. This study aims to fill this gap by empirically estimating possible determinants assumed to influence the adoption of IFRS.

Our study is motivated as follows. Firstly, it complements previous research that examined the factors influencing the adoption of IFRS; and secondly, the study includes investor protection as an additional variable in the model. The study employs a logistic regression model, using the random effect estimation technique to empirically investigate the determinant factors that influence the adoption of IFRS in Africa.

The remaining sections of this paper are organised as follows: Section 2 presents the theoretical and empirical reviews and the research hypotheses. Section 3 discusses the methodology adopted for the study, while Section 4 presents the empirical results. Section 5 discusses the empirical findings, and the conclusion is presented in Section 6.

2. Theoretical and empirical review

Previous research focusing on the factors influencing the adoption of IFRS emphasised the different contexts of relevant theories, such as the agency theory, corporate governance, and information asymmetry. The economic theory of networks and isomorphism further explain the adoption of IFRS regulation.

The decision to adopt the IFRS has been ascribed to the economic theory of networks that compare the benefits and costs of migrating from local accounting standards to the IASB-developed accounting standards (Ramanna, Sletten, 2009). The distinguishing feature of this theory is that a country may adopt the IFRS if its colonial master, trading partners, or neighbouring countries adopt the IFRS. For this reason, many countries with political, social, legal, educational or economic relations with European countries migrated to the IFRS in 2005 when the European Union adopted the IFRS.

DiMaggio and Powell developed the isomorphism theory in 1983. It held that an institution or a country adopts legitimate and socially acceptable practices by other countries or institutions irrespective of whether the rules are helpful. This theory shifts attention away from the economic theory of networks toward the importance of the legitimacy of adopting the IFRS. In this regard, DiMaggio and Powell (1983) stress that countries predominantly adopt certain norms and conditions not to lose legitimacy.

Judge, Li, and Pinsker (2010) and Lasmin (2012) use the isomorphism theory to determine the probability of adopting the IFRS. Their findings reflect that coercive, normative, and mimetic isomorphism plays a vital role in the decision to adopt IFRS. Joshi, Deshmukh, and Deshmukh (2013) and Roberts, Weetman, and Gordon (2005: 146) explain that an accounting system is the product of a multifaceted process that can be influenced by several economic, institutional, and political factors that may be internal or external.

Nobes (1998) explains that accounting is influenced by its immediate environments, such as cultural and economic development. Moreover, the development of accounting practices is a function of cultural values and country-specific institutional factors. According to Shima and Yang (2012), a country's accounting system is traditionally shaped by its socioeconomic, cultural, and physical environment. However, it shows that the consequence of implementing the IFRS depends on the effectiveness and viability of these factors.

Zeghal and Mhedhbi (2006) conducted research to identify factors affecting the adoption of accounting standards. Their results show that literacy levels, the existence and liquidity of capital markets, and culture influence the adoption of IFRS. Shima and Yang (2012) suggested that equity financing, taxation, the legal system, political and economic ties, inflation, economic development, education, and culture influence the adoption of IFRS. Furthermore, Salem, Damak-Ayadi, and Saïhi (2017) explain that culture and the Big Four accounting firms influence the adoption of IFRS in most African countries.

Stainbank (2014) investigated factors that determine the adoption of IFRS in African countries using a sample of 32 countries. The study identified five variables, namely economic growth, education level, economic openness, culture, and relative capital market size. Zehri and Chouaibi (2013) examined the determinants of IFRS adoption

in developing countries. They found compelling evidence that the decision to adopt the IFRS could be linked to economic growth, a legal system of common law, and an advanced level of education. Al-Akra, Ali, and Marashdeh (2009) investigated the development of accounting regulations in Jordan and found that political and economic factors are essential in promoting the development of accounting standards.

Kolsi and Zehri (2013) investigated micro- and macroeconomic variables influencing the adoption of IFRS in developing countries. The findings indicated that the decision is influenced by Anglo-Saxon culture, higher economic growth, a more advanced educational system, the legal system, and Big Four auditing firms. In another study, Judge, Li, and Pinsker (2010) found that foreign aid, import penetration, educational levels, and external pressure could be reasons for adopting the IFRS.

2.1. Hypotheses development

Based on the existing literature, the determining factors pertaining to the adoption of IFRS in Africa are discussed in Section 2 above. Although several determining factors may influence the probability of adopting the IFRS, this section discusses nine identified proximates that may affect the decision to adopt the IFRS.

Culture

Culture plays a prominent role in explaining a nation's choice of relevant and appropriate accounting systems. According to Cieslewicz (2014), culture can significantly influence an accounting system if the same colonial master colonises the country. Regarding accounting culture, researchers have shown that countries that were influenced or colonised by Anglo-Saxon countries have more developed and sophisticated accounting systems than other countries do (Zehri, Chouaibi, 2013). According to Zeghal and Mhedhbi (2006), countries with Anglo-Saxon cultures are more likely to adopt the same accounting framework, making it easier to adopt the IFRS. The first hypothesis is therefore formulated as follows:

H1. Anglo-Saxon countries are more likely to adopt the IFRS.

Level of education

Zehri and Chouaibi (2013) explain that complex accounting standards require advanced educational knowledge in various disciplines. The adoption of IFRS needs a high level of professional expertise and academic qualifications to facilitate the interpretation and use of the standards. Sarapaivanich et al. (2019) report that education is

the foundation and bedrock of sophisticated and complex IFRS accounting systems. Consequently, a high level of education prompts the adoption of IFRS and the second hypothesis is stated as follows:

H2. The level of education is positively associated with the adoption of IFRS.

The rule of law

According to Apodaca (2004), the rule of law promotes economic growth, development, and human rights protection worldwide. The literature emphasises that accounting is influenced by a country's rule of law and the legal system (Zehri, Chouaibi, 2013). Therefore, the rule of law may affect the optimal disclosure of accounting information and the third hypothesis is formulated as follows:

H3: The rule of law is positively associated with the adoption of IFRS.

Political stability

The most crucial aim of international accounting standards is to enable transparency and accountability in financial reporting. This objective can be achieved if a country has high economic and political stability that catalyses accounting standards' growth. Zehri and Chouaibi (2013) state that accurate and relevant disclosure of accounting information results from adequate political stability in a country. A country with low political stability will deprive its citizens of all types of independence, affecting the efficiency of accounting policy. For this reason, the fourth hypothesis is formulated as follows:

H4: Political stability is positively associated with the adoption of IFRS.

External pressure

According to Al-Omari (2010) and Phan (2014), major economic and financial international institutions, such as the World Bank (WB) and the International Monetary Fund (IMF), encourage countries to adopt the IFRS. According to Al-Omari (2010), Judge, Li, and Pinsker (2010), and Phan (2014), developing countries are sensitive to different forms of institutional pressure, which may influence the adoption of IFRS. Zori (2015) emphasises that financial assistance from the World Bank encouraged Nigerian firms to adopt the IFRS. The fifth hypothesis is therefore formulated as follows:

H5: External pressure encourages countries to adopt the IFRS.

Investor protection

Houqe et al. (2012) emphasise that the quality of financial statements would improve if the interests of the investors were protected. Moreover, Jamal et al. (2008) note that inadequate investor protection results in diverse accounting practices. Therefore, the sixth hypothesis is formulated as follows:

H6. The level of investor protection is positively associated with the adoption of IFRS.

Market capitalisation

Ben-Othman and Kossentini (2015) explain that the IFRS were specifically developed to cater to the needs of capital market participants. Similarly, Jermakowicz and Gornik-Tomaszewski (2006) and Zehri and Chouaibi (2013) believe that the quality of information available in capital markets will be a significant determinant in ensuring adequate market capitalisation. Therefore, the seventh hypothesis is formulated as follows:

H7. A functional capital market is positively associated with the adoption of IFRS.

Economic growth

Zeghal and Mhedhbi (2006) advocate that economic growth is associated with a complex and sophisticated accounting system. Economic growth further creates the need for transparent accounting standards (Judge, Li, Pinsker, 2010). It is, consequently, anticipated that economic growth will influence the adoption of IFRS; the eighth hypothesis, therefore, is stated as follows:

H8. The level of economic growth is positively associated with the adoption of IFRS.

Trade openness

Nnadi and Soobaroyen (2015) suggest that the more a country conducts foreign operations, the greater the tendency to adopt global accounting standards. According to Lau and Ma (1997), international trading partners significantly influence economic development, especially in their local trading partners' financial and accounting practices. Countries that rely predominantly on foreign partners are therefore more likely to adopt the IFRS, and therefore the ninth hypothesis is formulated as follows:

H9. Open economies that are more accessible to international investors are more likely to adopt the IFRS.

3. Methodology

This section explains the methodology used to provide the empirical evidence supporting the objective of this paper. The details of the method are as follows.

3.1. Population and selection of the countries

The target population used in this paper comprises 54 African countries. Table 1 below presents the list of countries in Africa and their IFRS status.

Table 1. Presentation of IFRS classifications in Africa with the relevant year of adoption

Fully adopting IFRS countries and year of adoption		Countries categorised as not fully adopting the IFRS Non-adopting IFRS (as a controlling factor)	
Botswana	2007	Angola	Egypt
The Gambia	2007	Eritrea*	E. Guinea*
Ghana	2007	Lesotho*	Ethiopia*
Kenya*	2005	Libya*	Gabon*
Malawi	2005	Madagascar*	Guinea
Mauritius	2005	Morocco	Guinea Bissau
Mozambique	2007	Liberia	Mali
Namibia	2010	Algeria*	Mauritania*
Nigeria	2012	Benin	Niger
Rwanda	2008	Burkina Faso	Rep of Congo*
Sierra Leone	2010	Burundi	Sao Tome Principe
South Africa	2005	Cabo Verde	Seychelles
Swaziland	2009	Cameroon	Senegal
Tanzania	2005	C African R*	Somalia*
Uganda	2005	Chad*	South Sudan*
Zambia	2005	Comoros*	Sudan
Zimbabwe*	2005	Cote d'Ivoire	Togo
		D R of Congo*	Tunisia
		Djibouti*	

* Indicates countries with incomplete data.

Source: Deloitte (2017); IFRS (2018); UNCTAD (2019)

According to Table 1, the population is classified into two groups. The first group is comprised of African countries that have adopted the IFRS (n = 15), while the second group of African countries did not adopt the IFRS (n = 20). The remaining African countries could not be classified due to incomplete data.

3.2. Dependent variable

The two groups of countries in Table 1 represent the dichotomous variables. The measurement is categorised into two binary values, '1' and '0,' to reflect the countries that have adopted the IFRS and those that have not (Gordon, Loeb, Zhu, 2012; Kolsi, Zehri, 2015; Nandi, Soobaroyen, 2015).

3.3. Independent variables and sources of data

Culture (CUL)

Culture (CUL) represents the country's culture, where 1 represents Anglo-Saxon countries and non-Anglo-Saxon countries are represented by 0 (Higham, Ryan, 2013).

Level of education (EDU)

Level of education (EDU) represents educational attainment. Education is measured according to the adult literacy rate of the population aged 15 years and over (World Development Indicators Database (WDI)).

The rule of law (RoL)

The rule of law (RoL) measures people's views about the strength and effectiveness of the rule of law in a particular country, ranging from –2.5 (weak) to +2.5 (strong) (World Bank, 2019).

Political stability (PS)

Political stability (PS) represents the measure of political stability in a country with values ranging from –2.5 (weak) to +2.5 (strong) (World Bank, 2019).

External pressure (EXPRE)

External pressure (EXPRE) indicates the external pressure and was sourced from the Fund for Peace (FFP, 2017) on the Fragile State Index (FSI). The FSI was developed in the 1990s by the Fund for Peace to measure various categories of pressure experienced by other countries worldwide, such as cohesion, economic, political rights, social, as well as external forces' intervention. FSI scores range from 0 to 10, where a higher score indicates more external pressure.

Investor protection (IP)

Investor protection (IP) measures the extent to which investors are protected in a country. The variable is measured in terms of the disclosure index's business extent, ranging from 0 to 10. Data were sourced from the WDI (World Bank, 2019).

Market capitalisation (lnMCAP)

Market capitalisation (lnMCAP) represents the total market value of the listed companies in a particular country. The value is calculated by multiplying the market price by the total number of shares issued. Data were sourced from the WDI (World Bank, 2019) and various stock exchange websites.

Economic growth rate (EG)

The GDP in US dollars was employed as a proxy for the economic growth rate. Economic growth rate data were sourced from the WDI (World Bank, 2019).

Trade openness (TOP)

Trade openness (TOP) is measured as exports and imports divided by a country's GDP (Nnadi, Soobaroyen, 2015). Trade openness data were collected from the WDI (World Bank, 2019).

3.4. Methods of estimation

A panel data logistic regression model using the random-effects estimation technique was employed to examine the factors that influence the probability of adoption or non-adoption of IFRS in Africa. The random-effects or error components model assumes that the individual unit intercept is random and not correlated with dependent and independent variables (Gujarati, 2007). The logistic regression model is more appropriate for estimating the variables to achieve the objective since the dependent variable is dichotomous. The approach helps to calculate the probability of countries falling into a particular category. Therefore, it shows the direction of the independent variable's relationship that can increase the propensity to influence the adoption of IFRS.

For this purpose, a positive value indicates that an increase in an independent variable unit will increase the probability of a country adopting the IFRS. In contrast, a negative coefficient value indicates that an increase in an independent variable's unit will decrease the likelihood of adopting the IFRS. The logistic regression approach is well-established in the field of IFRS research (Kolsi, Zehri, 2013; Stainbank, 2014; Salem, Damak-Ayadi, Saïhi, 2017). Therefore, the panel logistic regression model in Equation 1 tests the formulated hypothesis:

$$LogitIFRS_{it} = \frac{P_{it}}{1-P_{it}} = \alpha_0 + \alpha_1 CUL_{it} + \alpha_2 EDU_{it} + \alpha_3 RoL_{it} + \alpha_4 PS_{it} + \alpha_5 EXPRE_{it} + \alpha_6 IP_{it} + \alpha_7 \ln MCAP_{it} + \alpha_8 EG_{it} + \alpha_9 TOP_{it} + \varnothing_{it}, \quad (1)$$

where:

$LogitIFRS_{it}$ measures the logit of IFRS in the country *i* at the time *t*. It represents 1 (if a country adopts the IFRS) and $LogitIFRS_{it} = 0$ (if a country does not);

P_{it} is the predicted probability of adoption;

$P_{it} / (1 - P_{it})$ represents the ratio in favour of adopting countries. It is the probability ratio of a country adopting the IFRS to the likelihood that a country will not adopt the IFRS;

CUL_{it} represents the culture in the country i at the period t and is a proxy for the Anglo--Saxon or non-Anglo-Saxon country with dummy 1 for Anglo-Saxon and 0 for non--Anglo-Saxon countries;

EDU_{it} is the level of education in the country *i* at the period *t*;

RoL_{it} is the rule of law in a particular country *i* at the period *t*;

PS_{it} represents the measure of political stability in the country *i* at the period *t*;

$EXPRE_{it}$ represents the measure of external pressure in the country *i* at the period *t*;

IP_{it} is the investor protection in a particular country *i* at the period *t*;

$\ln MCAP_{it}$ represents the total logarithm value of all the listed companies in the country *i* at the period *t*;

EG_{it} represents the GDP per capita of the country *i* at the period *t* in US dollars;

TOP_{it} stands for trade openness in the country *i* at the period *t*;

α_0 represents the coefficients of the log of odds;

$\alpha_1 - \alpha_{10}$ stands for the odds ratios representing the change in the predicted probability of IFRS adoption, P(IFRS = 1), when the value of a predictor increases by a unit;

$\varnothing_{it}$ stands for the error term that represents some other variable that may affect the model.

Table 2. Summary of the possible determinant factors of IFRS

Variable	Measurement	Expected sign (+/–)
Culture	Dummy variable: 1 if the country is Anglo-Saxon, 0 if not	+
Level of education	Adult literacy rate (percentage of the population aged 15 years and over who can read and write)	+
The rule of law	WGI regarding the rule of law measurement which ranges from –2.5 to +2.5	+
Political stability	WGI concerning the political system measurement which ranges from –2.5 to +2.5	+
External pressure	The Fragile State Index of external pressure which ranges from 0 to 10	+
Investor protection	WGI regarding business disclosure index which ranges from 0 to 10	+
Market capitalisation	The logarithm of the total market values of listed companies	+
Economic growth	GDP per capita of a country in US dollars	+
Trade openness	A country's total value of exports plus imports divided by the GDP	+

Source: Authors' finding

4. Empirical results

4.1. Descriptive statistics

Table 3 below explains the descriptive statistics of the selected countries' estimated variables from 2005 to 2019. The results indicate that three variables (EDU, lnMCAP, EG) show a more significant difference in mean value than non-adopting countries do. In contrast, TOP and EXPRE have higher averages in non-adopting countries compared to adopting countries.

Table 3. Descriptive statistics for adopting and non-adopting IFRS countries

Variables	IFRS adopting countries (2005–2019)				Non-adopting IFRS countries (2005–2019)			
	Mean	Std. dev.	Min	Max	Mean	Std. dev.	Min	Max
EDU	0.68	0.17	0.32	0.54	0.21	0.20	0.15	0.94
RoL	– 0.00	0.01	– 0.01	0.01	– 0.01	0.01	– 0.02	0.01
PS	– 0.00	0.01	– 0.02	0.12	– 0.01	0.01	– 0.03	0.01
EXPRE	0.06	3.63	0.02	0.10	0.07	0.02	0.03	0.10
IP	0.04	0.02	0.00	0.08	0.05	0.02	0.00	0.08
lnMCAP	7.62	3.42	0.00	11.97	1.32	3.49	0.00	11.14
EG	0.32	0.04	– 0.22	0.18	0.02	0.03	– 0.07	0.19
TOP	0.73	0.26	0.00	1.32	1.56	1.18	0.00	7.22

Note: EDU = level of education, ROL = rule of law, EXPRE = external pressure, IP = investor protection, lnMCAP = log of market capitalisation, EG = economic growth, TOP = trade openness.

Source: results generated from data analysis using Stata statistical software package

4.2. Summary of country-level mean scores

Table 4 presents country-level variables. The table indicates the five top IFRS-adopting countries with strong mean scores in EDU, including South Africa (.917), Mauritius (.903), Swaziland (.851), Namibia (.818), and Ghana (.715). The five countries with the weakest mean EDU scores are Benin (.302), Burkina Faso (.287), Guinea (.265), Mali (.299), and Niger. Regarding RoL, most countries have a weak rule of law, indicated by the negative sign. Only five countries have positive signs, including Botswana (.006), Ghana (.001), Mauritius (.009), Namibia (.002), and South Africa (.001). Interestingly, these five countries are IFRS-adopting countries. Table 5 also shows that the mean PS scores of many

African countries are negative. As with the rule of law, most countries with positive mean PS scores are IFRS-adopting countries, such as Botswana (.010), Ghana (.001), Malawi (.001), Mauritius (.008), Mozambique (.002), and Namibia (.008).

Furthermore, in terms of external pressure (EXPRE), most non-adopting IFRS countries have high mean scores, including Angola (.067), Benin (.069), Sudan (.097), Niger (.080), and Cote D'Ivoire (.097). In contrast, IFRS-adopting countries, including South Africa (.026), Botswana (.054), Ghana (.053), Mauritius (.036), and Namibia (.043), have lower mean scores. The mean of lnMCAP indicates high scores for IFRS-adopting countries. For example, South Africa has 11.843 mean scores, followed by Nigeria with 10.675 mean scores. The economic growth (EG) indicates that IFRS adopting countries have higher mean scores than non-adopting countries do. For example, Botswana (0.30), Ghana (0.43), Malawi (0.24), Mauritius (0.39), Nigeria (0.32), and Rwanda (0.54) have the most robust mean scores compared with non-adopting IFRS countries such as Angola (.018), Benin (.011), and Mali (.011) with weak mean scores. Finally, for the trade openness (TOP) mean scores, non-adopting IFRS countries recorded the highest mean scores with Angola (1.077), Cabo Verde (1.006), Morocco (2.345), Seychelles (1.984), and Liberia (4.952); whereas the IFRS-adopting countries such as Botswana (0.420), Ghana (0.615), Nigeria (0.481), and South Africa (0.611) have the lowest mean scores.

Table 4. Results of summary of country-level mean scores for variables

Country	IFRS	CUL	EDU	RoL	PS	EXPRE	IP	lnMCAP	EG	TOP
Angola	0	0	.660	-.012	-.004	.067	.04	0	.018	1.077
Benin	0	0	.302	-.005	.003	.069	.061	0	.011	.590
Botswana	1	1	.824	.006	.010	.054	.072	9.315	.030	.420
Burkina Faso	0	0	.287	-.004	-.003	.077	.061	0	.016	.495
Cabo Verde	0	0	.354	.005	-.007	.079	.01	.028	.018	1.006
Cameroon	0	0	.410	-.010	-.006	.068	.061	0	.013	1.126
Cote D'Ivoire	0	0	.415	-.011	-.015	.097	.061	0	.018	1.126
Egypt	0	0	.609	-.003	-.011	.077	.052	10.885	.023	1.010
The Gambia	0	0	.419	-.005	-.002	.068	.02	0	-.001	.726
Ghana	1	1	.715	.001	.001	.053	.07	9.344	.043	.615
Guinea	0	0	.265	-.014	-.015	.078	.062	0	.015	1.409
Guinea Bissau	0	0	.456	-.014	-.007	.081	.062	0	.010	1.504
Liberia	0	0	.429	-.010	-.009	.094	.04	0	.018	4.952
Malawi	1	1	.617	-.002	.001	.060	.04	6.972	.024	.612
Mali	0	0	.299	-.004	-.006	.073	.062	0	.011	1.367

Country	IFRS	CUL	EDU	RoL	PS	EXPRE	IP	lnMCAP	EG	TOP
Mauritius	1	1	.903	.009	.008	.036	.06	9.804	.039	.359
Morocco	0	0	.608	-.002	-.0041	.075	.055	6.445	.020	2.345
Mozambique	1	0	.505	-.006	.002	.064	.05	5.681	.013	.883
Namibia	1	1	.818	.002	.008	.043	.05	5.681	.011	.883
Niger	0	0	.238	-.006	-.007	.080	.061	0	.017	.585
Nigeria	1	0	.510	-.011	-.017	.062	.013	10.675	.032	.481
Rwanda	1	1	.667	-.003	-.003	.053	.052	8.350	.054	.427
Sao Tome P.	0	0	.770	-.006	-.002	.068	.03	0	.010	0
Senegal	0	0	.454	-.002	-.002	.058	.062	0	.010	.725
Seychelles	0	1	.339	.001	-.007	.068	.04	0	.021	1.984
Sierra Leone	1	1	.324	-.009	-.002	.066	.049	0	.024	.611
South Africa	1	1	.917	.001	-.003	.026	.08	11.843	.016	.611
Sudan	0	0	.535	-.013	-.023	.097	.002	0	.017	.341
Swaziland	1	1	.851	-.005	-.003	.045	0	8.190	.017	1.629
Tanzania	1	1	.715	-.004	-.002	.052	.02	9.472	.034	.480
Togo	0	0	.588	-.009	-.004	.067	.062	0	.011	1.004
Tunisia	0	0	.585	-.000	-.003	.045	.025	9.851	.021	1.015
Uganda	1	1	.712	-.004	-.010	.078	.03	9.419	.031	.481
Zambia	1	1	.732	-.004	.004	.068	.04	9.612	.039	.699

Note: IFRS = International Financial Reporting Standards, CUL = Culture, EDU = level of education, RoL = rule of law, PS = political stability, EXPRE = external pressure, IP = investor protection, lnMCAP = log of market capitalisation, EG = economic growth, TOP = trade openness.

Source: results generated from data analysis using Stata statistical software package

4.3. T-test for independent samples

The independent samples T-test was employed to compare the mean scores of the two groups of countries. Table 5 shows that the mean scores of IFRS countries differ significantly in terms of EDU (.698 > .546), RoL (-.002 > -.007), PS (-.000 > -.005), IP (0.047 > 0.045), lnMACP (7.927 > 1.773), and EG (.030 > .024). On the other hand, the mean scores of non-IFRS countries for EXPRE (.074 > .062) and TOP (1.055 > .834) differ significantly.

Table 5. Result of T-test for independent samples of variables

Variables	Mean variables		F	Sig	T-test	Sig (2-tailed)
	ADOPT = 1	ADOPT = 0				
EDU	.698	.546	17.15	.000	– 7.910	.000
RoL	-.002	-.007	3.88	.050	– 8.956	.000
PS	-.000	-.005	20.45	.000	– 6.680	.000
EXPRE	.062	.074	5.616	.018	6.892	.000
IP	.047	.045	.126	.722	.612	.541
lnMACP	7.927	1.773	1.855	.174	– 16.186	.000
EG	.030	.024	.696	.405	– 1.685	.093
TOP	.834	1.055	19.988	.000	2.743	.006

Note: EDU = level of education, RoL = rule of law, PS = political stability, EXPRE = external pressure, IP = investor protection, lnMCAP = log of market capitalisation, EG = economic growth, TOP = trade openness.

Source: results generated from data analysis using Stata statistical software package

4.4. The correlation matrix of IFRS determinants

The Spearman correlation matrix presented in Table 6 shows the relationship among all the variables estimated in the model, including their significance levels. The results indicate no multicollinearity; therefore, the random effects logistic regression model's outcome is assumed to be reliable. All the variables revealed a moderate linear relationship. Many assessed variables show less than 50% coefficients, while the highest correlation coefficient is 0.71. This result is statistically acceptable since it is far below the critical cut-off of 75% (Salem, Damak-Ayadi, Saïhi, 2017). The findings show no multicollinearity problem.

Furthermore, the results indicate a positive and significant correlation between the probability of IFRS adoption and six variables, including CUL, EDU, ROL, PS, lnMCAP, and EG, all at a 1% significance level. The EXPRE variable is negative but significantly correlated with the IFRS. TOP revealed a negative correlation, although not significant. The results show that almost all the estimated variables are substantial to the probability of IFRS adoption. The positive correlation suggests the likelihood of the variables in predicting the possibility of adopting the IFRS. However, the descriptive statistics and correlation results are insufficient to lead to conclusions about the possibility of these factors as determinants of the likelihood of adopting IFRS. Consequently, the inferential statistics (logistic regression using the random-effects model) are estimated to provide more evidence from these findings.

Table 6. Correlation matrix of the determinants of IFRS adoption

	IFRS	CUL	EDU	RoL	PS	EXPRE	IP	lnMCAP	EG	TOP
IFRS	1.00									
CUL	0.65*	1.00								
	0.00									
EDU	0.34*	0.48*	1.00							
	0.00	0.00								
RoL	0.41*	0.37*	0.59*	1.00						
	0.00	0.00	0.00							
PS	0.29*	0.34*	0.44*	0.69*	1.00					
	0.00	0.00	0.00	0.00						
EXPRE		– 0.30*	– 0.39*	– 0.49*	– 0.51*	1.00				
	0.00	0.00	0.00	0.00	0.00					
IP	0.01	– 0.09	– 0.17*	0.10*	0.03	– 0.19*	1.00			
	0.80	0.06	0.00	0.03	0.55	0.00				
lnMCAP	0.61*	0.50*	0.55*	0.49*	0.14*	– 0.43*	– 0.01	1.00		
	0.00	0.00	0.00	0.00	0.00	0.00	0.71			
EG	0.18*	0.18*	0.16*	0.17*	0.18*	– 0.09	– 0.10*	0.21*	1.00	
	0.00	0.02	0.00	0.00	0.00	0.05	0.04	0.00		
TOP	– 0.03	– 0.03	0.25*	0.18*	0.17*	– 0.20*	0.06	0.01	0.06	1.00
	0.54	0.48	0.00	0.00	0.00	0.00	0.21	0.69	0.20	

Note: IFRS = International Financial Reporting Standards as predicted probability, P(IFRS = 1), CUL = culture, EDU = level of education, RoL = rule of law, EXPRE = external pressure, IP = investor protection, lnMCAP = log of market capitalisation, EG = economic growth, TOP = trade openness, * = level of significance at 1% and 5% respectively.

Source: results generated from data analysis using Stata statistical software package

4.5. Panel logistic regression: random-effects model results

Table 7 presents the panel logistic regression model results using the random-effects model. The estimated regression coefficients (Column 2, Table 7) indicate how the log odds of a determining factor predict the probability of adopting the IFRS. Therefore, it demonstrates the change in the logarithmic odds of IFRS for a one-unit increase in the independent variable.

Culture, CUL, has estimated log odds of 26.10 with a probability value of 0.00 $(\beta = 26.10, \rho \leq 0.01)$, indicating a positive and statistically significant value at 1% with a predicted probability of IFRS, P(IFRS = 1). This result implies that the log odds of adopting the IFRS (versus non-adopting) increase by 26.10 times if the country is Anglo-Saxon, P(IFRS = 1), holding all other variables constant.

Table 7 also indicates the log odds of EXPRE to be 210.71 with a probability value of 0.04 $(\beta = 210.71, \rho \leq 0.05)$, which shows a positive and significant relationship with the probability of adopting the IFRS. Likewise, the table indicates the log odds of IP to be 148.83, with a probability value of 0.07 $(\beta = 148.83, \rho \leq 0.10)$, which indicates a positive and significant relationship with the probability of adopting the IFRS. Moreover, a one-unit increase in the value of *IP* may lead to a 148.83 increase in the logarithmic odds of adopting the IFRS, regardless of all other independent variables.

Additionally, market capitalisation (lnMCAP) has an estimated log odds of 1.59 with a probability value of 0.00 $(\beta = 1.59, \rho \leq 0.01)$, demonstrating that it is positive and highly significant with the predicted probability of IFRS adoption (i.e. P(IFRS = 1)). This positive and significant level indicates the relevance of improved market capitalisation as a factor in determining the probability of adopting the IFRS. Likewise, the log odds of adopting the IFRS increase by 1.59 if lnMCAP increases by one USD ($). Similarly, trade openness (TOP) has an estimated regression coefficient of 2.08 and a probability value of 0.04 $(\beta = 2.08, \rho \leq 0.05)$, indicating a positive and highly significant factor in the predicted probability of IFRS adoption.

The estimated log odds of PS show a negative value of –162.92 with a probability value of 0.02, $(\beta = -162.92, \rho \leq 0.05)$. It is negative and significant at a 5% level with the predicted probability of IFRS adoption. Therefore, the logarithmic odds of adopting the IFRS decrease on average by 162.92 if the value of *PS* increases by 1 unit. Therefore, the political system, PS, does not predict the probability of adopting the IFRS.

Table 7 also indicates that EDU, ROL, and EG are insignificant in the model. These findings suggest that these variables do not play a significant role in the decision to adopt the IFRS within the African context.

Robustness check

Another statistical interpretation of the odds ratios (see Table 8) is presented in the column of odds ratios (OR) in Table 7, as a robustness check. It explains the straightforwardness interpretation in the logit model. It represents the change in odds of being in one of the outcome categories (IFRS 0, 1) when the value of a predictor increases by 1 unit (Tabachnick, Fidell, 2013: 461). The logit IFRS adoption is represented by '1,' whereas non-adoption is represented by '0.'

Consequently, reflecting on Table 7, the independent variables that are positive and significantly related to the probability of IFRS adoption (i.e. P(IFRS = 1)) are CUL, EXPRE, IP, lnMCAP, and TOP, with odds ratios greater than 1 (see Column 6, Table 7). In contrast, *PS* and *EG's* odds ratios indicate values less than 1.

Table 7. Logit regression model results on determinant factors of IFRS

Variable	Coefficient	Robust std. error	Z-statistics	Prob. P > |z|	Odds ratios (OR)
CUL	26.10	6.05	4.31	0.00***	2.16e+11
EDU	17.35	10.69	1.62	0.11	3.46e+07
ROL	447.15	337.78	1.32	0.19	1.6e+194
PS	– 162.92	68.30	– 2.39	0.02**	1.75e–71
EXPRE	210.71	102.58	2.05	0.04**	3.25e+91
IP	148.83	81.41	1.82	0.07*	1.96e+64
lnMCAP	1.59	0.46	3.49	0.00***	4.92
EG	– 3.24	6.34	– 0.51	0.61	0.039
TOP	2.08	1.02	2.04	0.04**	8.00

Wald $\chi^2(9, N = 385) = 70.77$ Prob > $\chi^2 = 0.0000$

Note: IFRS = International Financial Reporting Standards as predicted probability, P(IFRS = 1), CUL = culture, EDU = level of education, ROL = rule of law, EXPRE = external pressure, IP = investor protection, lnMCAP = log of market capitalisation, EG = economic growth, TOP = trade openness, * = level ***, ** and, * = level of significance at 1%, 5%, and 10% respectively.

Source: Hayat, 2010

5. Discussion of the findings

Table 7 revealed that five variables (CUL, EXPRE, IP, lnMCAP and TOP) are positive and statistically significant.

Culture (CUL) is a variable in the model related to colonisation, namely Anglo-Saxon and non-Anglo-Saxon countries. It is believed that countries colonised by English-speaking Anglo-Saxon countries tend to embrace the IFRS faster than non-Anglo-Saxon countries do (Salem, Damak-Ayadi, Saïhi, 2017). This is evident from Table 1, as 93% of the countries that adopted the IFRS were colonised by the British – apart from Mozambique, which was colonised by the Portuguese.

The external pressure variable, EXPRE, shows a positive and highly significant relationship with IFRS adoption. The outcome confirmed the opinions of Al-Omari (2010), and Phan (2014) that international financial and economic institutions influence developing countries to adopt the IFRS.

The results identified the investor protection index (IP) as a critical factor influencing the adoption of IFRS in African countries. The level of protection offered by the application of IFRS was also promoted by Hope, Jin, and Kang (2006) and Houqe et al. (2010).

The log odds of market capitalisation (lnMCAP), which indicate the level of a country's capital market development, have also been identified as an essential determinant factor influencing the adoption of IFRS. The estimated logarithmic odds imply that the more developed a country's capital market is, the higher the tendency to adopt the IFRS will be. This result confirms the findings of Jermakowicz and Gornik-Tomaszewski (2006), Ball (2016), and Kimeli (2017).

The trade openness (TOP) coefficient is also positive and significantly related to adopting the IFRS. This finding supports the research results presented by both Nnadi and Soobaroyen (2015) and Ramanna and Sletten (2009) indicating that the more foreign operations a country conducts, the greater the probability of adopting the IFRS.

Political stability (PS) revealed a negative relation, implying that the selected countries did not base their decision to adopt the IFRS on political stability. The finding conforms with the empirical results of Kolsi and Zehri (2013), who found that political stability does not significantly affect the adoption of IFRS.

6. Conclusions

The IASB developed the IFRS to improve the transparency of disclosure policies and to foster the comparability of financial statements globally. Consequently, factors motivating a country to adopt IFRS reporting have been a contextual issue for academic researchers. The literature suggests that the adoption of IFRS can be influenced by institutional, economic and environmental factors. This paper, therefore, employs the economic theory of networks and isomorphism theories to evaluate the adoption of IFRS in Africa.

The paper employed a panel logistic regression model from 2005 to 2019 using the random-effects model estimation technique to evaluate the adoption of IFRS in Africa. The empirical study has found that the likelihood of adopting IFRS in Africa hinges on culture, external pressure, investor protection, market capitalisation, and trade openness.

The outcome of this study will provide great insight for accounting regulators and other key stakeholders to strengthen the mechanisms aimed at encouraging countries that have not fully adopted the IFRS to do so.

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Czynniki decydujące o przyjęciu Międzynarodowych Standardów Sprawozdawczości Finansowej w Afryce

Streszczenie: Wiele krajów na całym świecie przekształciło swoje lokalne standardy rachunkowości, przyjmując Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF). Chociaż większość krajów przyjęła MSSF, tylko kilka krajów afrykańskich przyjęło globalne standardy rachunkowości w ich obecnej formie. Niniejszy artykuł poszerza literaturę przedmiotu poprzez zbadanie potencjalnych czynników wpływających na przyjęcie MSSF na kontynencie afrykańskim i wnosi znaczący wkład w obecną wiedzę w tej dziedzinie. W badaniu zastosowano regresję logistyczną danych panelowych, z wykorzystaniem techniki estymacji statystycznej efektów losowych w celu porównania krajów afrykańskich, które przyjęły MSSF w latach 2005–2019, z krajami, które ich nie przyjęły. Wyniki sugerują, że kultura, presja zewnętrzna, ochrona inwestorów, kapitalizacja rynkowa i otwartość handlowa są przewidywanymi

źródłami determinującymi decyzje krajów afrykańskich o przyjęciu MSSF. Wyniki te dostarczają cennych informacji dla podmiotów tworzących standardy, umożliwiając im skuteczne promowanie MSSF w krajach afrykańskich, które nie przyjęły MSSF w ich obecnej formie.

Słowa kluczowe: Międzynarodowe Standardy Sprawozdawczości Finansowej, regulacje, Afryka, heterogeniczność, dane panelowe, kultura

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