**Diffusion Theory, National Corruption and IFRS Adoption around the World**

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**Abstract**

International financial reporting standards (IFRS) have been widely adopted around the world. However, whilst there is a lot of evidence on the economic consequences of IFRS adoption (e.g., foreign direct investments; development of financial markets; financial accounting quality; access to capital; and stock market liquidity), especially at the firm-level, few studies examine the national factors that may impede or facilitate the adoption of IFRS at the country-level. This paper seeks to make two new contributions to the extant international accounting literature by examining the influence of national corruption on the (i) speed and (ii) extent of IFRS adoption around the world. Relying on Rogers’ (1962) theory on diffusions of innovation (i.e., early adopters, early majority, late majority, and laggards), this study uses data relating to 89 non-EU countries, collected over the 2003–2014 period. Our proposition is based on theoretical and empirical evidence that suggests that country-level IFRS adoption decisions are a function of a country’s institutional environment, such as the level of corruption. The findings show that the level (control) of corruption is negatively (positively) associated with a country’s (i) speed and (ii) extent of IFRS adoption.

**Keywords:** IFRS, national corruption, diffusion of innovations theory, macroeconomic factors, legal origin.

**JEL Classification:** M41, M48

1. **Introduction**

The adoption of international financial reporting standards (IFRS) around the world has often been driven by the articulated potential benefits of these standards in facilitating financial statement comparability, investor protection through increased accounting transparency and disclosure, higher capital market liquidity, and the concomitant positive implications for global economic growth and development (Soderstrom & Sun, 2007; De George et al., 2016).[[2]](#footnote-2) The European Union’s (EU) 2005 directive that mandated IFRS for all listed companies in all 28 EU stock exchanges has been described as the single most important moment for the IFRS project (Ball, 2016). Consequently, the number of countries adopting IFRS has noticeably increased since 2005,andIFRS is currently a globally recognized body of accounting standards (De George et al., 2016)**.** Nevertheless, IFRS adoption has, however, always taken place in a staggered manner, whether in EU countries prior to 2005 or in non-EU countries in more recent years. Also, little is known about the country-level drivers that could enhance or delay IFRS adoption. This paper investigates whether variations in countries’ (i) *speed* and (ii) *extent* of IFRS adoption can be explained by variations in their levels of corruption.

Despite the IFRS’s (international accounting’s) potential to be a catalyst for global socio-economic development (Kimbro, 2002; Larson & Kenny, 1995, 1996; Malagueno et al., 2010) and financial/stock market (Othman & Kossentini, 2015)[[3]](#footnote-3) development, many national factors have often impaired efforts at the global harmonizing, standardizing and/or converging of accounting standards. While there is extensive prior literature that investigates the consequences of IFRS adoption (Daske et al., 2008; Armstrong et al., 2010; Zeghal et al., 2012; Hoque et al., 2016), few studies address the country-level factors that can either accelerate or decelerate this adoption (Ramanna, & Sletten, 2009, 2014).

In general, the literature on this topic can be classified into two major streams. The first stream focuses almost exclusively on the economic consequences of IFRS adoption at the firm-level (Daske et al., 2008; Armstrong et al., 2010; Zeghal et al., 2012; Daske et al., 2013; Florou & Kosi, 2015; Hoque et al., 2016; Marra & Mazzola, 2014). A second stream investigates the *ex-ante* determinants of IFRS adoption; however, studies relating to this second strand of the literature are rare. In terms of country-level studies, Hope et al. (2006) provide evidence that investor protection and access to capital markets were significant determinants of country-level IFRS-adoption decisions for 38 countries up to 2004. Other studies (e.g., Agyei-Mensah, 2017; Kythreotis, 2015; Zaidi & Huerta, 2014) show that corruption has a negative impact on post-IFRS accounting quality, whilst still others (Mazzi et al., 2018) suggest that corruption has a negative effect on mandatory IFRS goodwill disclosures. Of closer relevance to our study is a study by Ramanna and Sletten (2014) that found evidence that IFRS-adoption decisions are systematically related to the perceived benefits that can be achieved from a country’s network of IFRS adopters. However, none of the existing studies examines the effect of corruption on the (i) *speed* and (ii) *extent* of IFRS adoption at the country-level.

We, therefore, attempt to shed light on institutional factors as they relate to IFRS adoption, placing specific attention on the role of national corruption. This approach is warranted for two reasons. First, the consequences of a country’s decision to adopt IFRS can lead to several changes in its institutional and accounting environments. Second, the extent to which IFRS adoption is resisted may be related to the level of corruption in the affected country (Kimbro, 2002; Malagueno et al., 2010; Hoque & Monem, 2016). Given the prior evidence on the negative effect of corruption on accounting-related outcomes (Agyei-Mensah, 2017; Kythreotis, 2015; Mazzi et al., 2018), we argue that corruption can also negatively affect the (i) *speed* and (ii) *extent* of IFRS adoption for two main reasons.

First, IFRS require more comprehensive disclosures than most local/national accounting standards (Ding et al., 2007). Similarly, IFRS require stronger monitoring and enforcement when these standards are adopted (Preiato et al., 2015) and can, therefore, reduce information asymmetry (Horton et al., 2013). Hence, such positive IFRS-adoption effects are likely to be resisted (especially by large multinational corporations; powerful senior corporate executives and connected officials lobbying corrupt politicians; ruling families; and officials and regulators who are self-interested or captured) in countries with weak institutional environments and high levels of corruption (Cuervo-Cazzura, 2006; Argandona, 2007; Everett et al., 2007; Treisman, 2007; Collins et al., 2009; Chen et al., 2010; Chua et al., 2012). Additionally, countries with weaker institutions also exhibit low levels of accounting enforcement; hence, the cost of adopting and enforcing IFRS can be much higher than in countries with strong legal environments.[[4]](#footnote-4)

Second, IFRS adoption decreases the risk associated with shareholder expropriation and illegitimate extraction of benefits that can take place in more corrupt countries. Therefore, countries with higher levels of corruption might be more reluctant to consider IFRS adoption. We argue that this resistance to IFRS adoption can be observed in two different dimensions. The first is the *speed* of IFRS adoption. This reflects how quickly (i.e., early or late) a country is willing to voluntarily commit itself to a set of accounting standards that promote transparency and a better disclosure environment. The second is the *extent* of adoption. This dimension indicates to what degree and how far (fully/partially and mandatorily/voluntarily), a country is willing to oblige listed firms to use IFRS for the purposes of financial reporting. We argue, for example, that allowing voluntary (partial) instead of mandatary (full) IFRS adoption across listed firms indicates a significantly different level of commitment towards IFRS.

We focus on corruption due to (i) its negative effects on international business, trade, and economic growth and development; and (ii) also, in the main, national corruption has and continues to be a major institutional factor that is a primary focus of policy-makers, regulators, standard-setters, and civil society around the world (Shleifer & Vishny, 1993; Cuervo-Cazzura, 2006; Treisman, 2007; Hoque & Monem, 2016). Therefore, our proposition is based on theoretical and empirical evidence that suggests that country-level IFRS-adoption decisions are a function of a country’s institutional environment (Daske et al., 2008; Armstrong et al., 2010).

This study seeks to build on and make two main new contributions to the IFRS literature by providing direct evidence on the association between national corruption and IFRS adoption. We rely on the *Control of Corruption* index developed by Kaufmann et al. (2014) and the IFRS adoption database first constructed by Ramanna and Sletten (2014). Next we extend the IFRS adoption database developed by Ramanna and Sletten (2014) to cover the period 2009-2014 to develop a dataset of 1,066 country-year observations from 89 non-EU[[5]](#footnote-5) countries and estimate the effect of corruption on these countries’ *speed* and *extent* of IFRS adoption. To the best of our knowledge, this is the first study of its kind to provide direct evidence on the association between national corruption and IFRS adoption that is distinctively informed by insights drawn from Rogers’ (1962) theory of diffusions of innovation. Also, asour study focuses on the country-level, it complements studies on the firm-level determinants of IFRS adoption, given that the voluntary adoption of IFRS is only available to firms residing in countries that allow IFRS adoption.

Our study is closely related to Ramanna and Sletten (2014). In particular, while Ramanna and Sletten (2014) investigate the perceived benefits from IFRS adoption as an *ex-ante* factor that *can facilitate* a country’s IFRS adoption, we examine corruption as an *ex-ante* factor that could *increase the cost* of IFRS adoption and, hence, restrict or delay this adoption in a given country. Also, prior studies on both accounting and corruption provide valid explanations as to why corruption could be related to IFRS adoption.

Our findings suggest that corruption is indeed a significant predictor of both a country’s (i) *speed* and (ii) *extent* of IFRS adoption. We base our inferences on multinomial logistic regressions that control for a wide range of other economic and institutional variables that are likely to affect our results. Specifically, our results show that corruption is a more significant predictor for voluntary or partial IFRS adoptions than for mandatory adoptions. Our results also show that corruption has a significant impact on the speed of adoption, with countries with high levels of corruption more likely to be late and partial rather than full IFRS adopters. These findings are largely in line with predictions of Roger’s (1962) diffusion of innovations theory. Our results are also robust to alternative corruption measures, sub-sample analyses, and alternative regression models.

The rest of this paper is structured as follows. Section 2 presents a background on corruption and IFRS in general. Section 3 discusses the theoretical framework of the diffusion of innovation. Section 4 reviews the relevant literature and develops our main hypotheses. Section 5 delineates our research design and explains the data and variables used in the study. The empirical results are presented in Section 6. Section 7 presents our sensitivity analysis, and section 8 concludes.

**2. IFRS and Corruption around the World**

*2.1 IFRS around the world*

The international accounting literature provides evidence on the economic consequences of accounting quality.[[6]](#footnote-6) These include impacts on the cost of capital, and the efficiency of capital allocation and international capital mobility. Different accounting practices applied in different countries make it difficult for users of financial statements to compare the financial performance of firms listed in stock exchanges of different countries (Prather-Kinsey, 2006). This discrepancy leaves some investors or users of financial statements in unfavorable positions. Supporters of IFRS argue that this set of standards reduces information costs and makes it easier for capital market participants to become familiar with one set of global standards than with several different local/national standards (Leuz, 2003).

The importance of the harmonization, standardization and convergence of accounting standards has recently been recognized and accepted due to the rapid development of international capital markets and these markets’ increased importance nationally and globally. Also important is the fact that many multinational corporations are listed on more than one stock exchange. This creates a need to develop an internationally accepted set of accounting standards (Ding et al., 2005).

In an attempt to reduce information asymmetry and the variation in accounting quality and economic efficiency across countries, the IFRS were introduced as a unified set of standards designed to enhance the main objectives of financial reporting; namely, reducing information asymmetry and increasing the comparability of financial statements across the globe (Soderstorm & Sun, 2007). Regulators argue that the use of IFRS enhances the comparability of financial statements, improves corporate transparency, and increases the quality of financial reporting and, hence, can be beneficial to investors (EC Regulation No. 1606/2002).

IFRS adoption has, however, always taken place in a staggered manner, whether for EU countries prior to 2005 or for non-EU countries. Some countries voluntarily and independently adopted IFRS before 2005 (e.g., Peru, Russia and Brazil), with the number of countries adopting IFRS experiencing a noticeable increase since 2005. For example, by the end of 2006, IFRS was required in at least 23 countries in addition to the EU countries (e.g., Bahrain, Kazakhstan, and South Africa); this number increased to 30 non-EU countries by the end of 2010 and increased further to 35 non-EU countries by the end of 2015. Moreover, during the 2003 to 2015 period, an additional 43 non-EU countries allowed IFRS adoption or closely linked their national/local accounting standards to IFRS. Table 1 presents a list of the countries this study investigated and their dates and extent of IFRS adoption since 2003.

**(Insert Table 1)**

The number of countries adopting IFRS offers a considerable amount of evidence relating to the economic consequences of this adoption, especially at the firm-level (Leuz & Verrechia, 2000; Daske et al., 2008; Armstrong et al., 2010; DeFond et al., 2011; Zeghal et al., 2012; Ahmed et al., 2013; Christensen et al., 2013; Horton et al., 2013; Hoque et al., 2014; Florou & Kosi, 2015; Hoque et al., 2016). The findings of most of these firm-level studies support the traditional articulated benefits of adopting IFRS. For example, Hope et al. (2006) provide evidence that investor protection and access to capital markets were significant determinants of country-level IFRS adoption decisions for 38 countries up to the year 2004. Similarly, Marra and Mazzola (2014) report that IFRS adoption enhances internal corporate governance structures, which in turn, reduces earnings management. However, despite the importance of IFRS adoption in the context of the harmonization of accounting standards, very little is known about the country-level determinants of IFRS adoption (Hope et al., 2006), particularly relating to the (i) *speed* and (ii) *extent* of this adoption (Ramanna, & Sletten, 2009, 2014). However, some studies provide a better understanding of the country-level characteristics that are associated with a country’s decision about whether or not to adopt IFRS and the interested stakeholders, such as the International Accounting Standards Board (IASB), that might be able to promote IFRS more effectively or help countries with specific institutional settings that might impair their ability to adopt IFRS (Hope et al., 2006).

*2.2 Corruption around the world*

Corruption is defined as individuals/enterprises that misuse public resources for private power/gain (Lindgreen, 2004). The term corruption refers to the opportunistic utilization of a public office/position to obtain an illegitimate private gain (Shleifer and Vishny, 1993). Hoque and Monem (2016) define corruption as the abuse of authority by officials who opportunistically use the power governments delegate to them in order to pursue their own self-interests through unauthorized/undisclosed activities. Corruption usually requires illegal practices that can include cash payments, the misallocation of assets, and other inappropriate economically driven transactions (Malagueno et al., 2010).

Corruption is a serious economic, social, political, and moral problem that is becoming an international phenomenon in scope, substance, and consequences (Argandona, 2007). The negative effects of corruption are easily evident, including reducing foreign direct investment (Habib & Zurawicki, 2002; Voyer & Beamish, 2004; Cuervo-Cazurra, 2006), and impeding economic growth and development (Wilhelm, 2002; Gupta et al., 2002). Corruption also has a negative impact on government spending on education and health (Tanzi, 1998), negatively affects domestic and international aid flows (Mauro, 1997), increases the cost of doing business (Kehoe, 1998), and reduces the efficiency of taxes as sources of government revenue, all of which contributes to budgetary deficiencies (Mauro, 1997; Tanzi & Davoodi, 1997). Additionally, political connections in more corrupt countries have more adverse effects on the accuracy of analysts’ forecasts, which is another capital market consequence of corruption (Chen et al., 2010).

Accordingly, corruption is relevant when a person in authority can generate illegitimate, private benefits that will not be detected or penalized. The person who possesses this authority is someone who can ensure that the corrupt or illegitimate action or transaction will not be monitored or penalized. According to Jain (2001), a corrupt person with authority could use their power to change national policies or these policies’ implementation so as to serve their own best interests. When good accounting standards are adopted, these standards can create transparent, accurate, and comparable financial information (Malagueno et al., 2010). However, this might not necessarily be in the interests of authorized persons, who are engaged in corrupt activities. A relevant example of this is where adopting IFRS would imply more transparency and adequate disclosure of transactions. Therefore, we argue that, in a country with a high level of corruption and weak governance, and legal and institutional structures, where powerful, well-connected politicians/officials can gain private benefits from weak accounting standards, these officials are likely to be reluctant to support the adoption of IFRS, especially if it is likely to reduce the illegitimate private benefits they can gain. These officials may interfere with the IFRS adoption by either slowing down the *speed* of adoption or minimizing the *extent* of adoption[[7]](#footnote-7).In this case, we argue that these politicians/officials are likely to be engaged in this type of interference in two different ways.

First, corrupt politicians, powerful families, and captured regulatory authorities and institutions may face lobbying from connected and powerful multinational corporations and senior executives in pursuit of the outright rejection of the idea of adopting IFRS. This will have a negative effect on the *speed* of adoption. Second, even if powerful corporations and connected officials fail in their attempts at preventing a country’s IFRS adoption, they may seek to impair its effectiveness by minimizing the extent of IFRS adoption that focuses on voluntary (partial) rather than mandatory (full) adoption. This will also have a negative impact on the *extent* of IFRS adoption.

**3. A Diffusion of Innovation Theoretical Framework for IFRS Adoption**

The decision to adopt IFRS can be analyzed as being similar to deciding whether to adopt a new product (Ramanna & Sletten, 2009). Introducing the IAS/IFRS as a unique set of standards that companies in different countries could adopt was simply a new idea that can be considered an innovation. According to Rogers (1962), innovation requires long periods of time from the date it becomes available to the point at which it is widely adopted. Similarly, the IFRS were introduced in 2003 and, over-time, the number of countries that have mandated/allowed its adoption has dramatically increased. Therefore, it is important to investigate the diffusion of IFRS adoption in order to understand what variables can influence a country’s decision as to whether or not to adopt this specific type of accounting innovation.

Diffusion is the process by which an innovation is communicated through certain channels, over-time, among the members of a social system (Rogers, 1962). The innovation is the idea, practice or object that is perceived to be new by an individual or other unit of adoption (e.g., a country). Any idea that is new to this adoption unit is an innovation. As mentioned by Rogers (1962), not all countries/individuals in a social system adopt an innovation at the same time (i.e., speed of adoption: early, late, or laggard) and in the same manner (i.e., extent of adoption: full or partial). In this case, Rogers (1962) argues that the societal adoption of an innovation tends to be staggered and societies can be classified into different adopter categories, namely innovators, early adopters, early majority, late majority, and laggards.

According to Rogers (1962), each adopter category has dominant characteristics that drive the response to the introduction of an innovation. Moreover, Anokhin and Schulze (2008) document empirical evidence that corruption negatively affects innovation and reduces the chances of pursuing or accepting innovative ideas at the country-level. Their findings have two relevant implications for our study. First, that Rogers’ (1962) theory provides new insights on how to examine similar phenomena at the country-level. Second, that country-level corruption can also be linked to IFRS adoption when the IFRS adoption is perceived or investigated as an innovation or a new idea for the particular country in question. This notion is further supported by the Global Innovation Index. It shows that countries with low levels of perceived corruption, like Switzerland and Sweden, tend to have the highest rankings in the Global Innovation Index. By contrast, it demonstrates that countries with high levels of perceived corruption, such as Pakistan and Zimbabwe, tend to alsohave the lowest rankings in the Global Innovation Index.

**4. Related Literature and Hypotheses Development**

*4.1. Causes and Consequences of IFRS adoption*

IFRS literature is vast, yet it is still growing.[[8]](#footnote-8) Early studies on IFRS provide evidence that IFRS adoption is associated with significant economic and financial benefits to adopting firms and countries (De George et al., 2016). Those benefits include improved transparency, lower cost of capital, more cross-country investments, better comparability of financial statements and more analysts’ coverage by foreign analysts. Ding et al. (2007) found that IFRS requires more disclosure than most local accounting standards**.** Hoque et al. (2014) found significant improvement in both forecast accuracy and forecast dispersion following IFRS adoption in France, Sweden, and Germany. Prior literature supports the notion that more comprehensive disclosures can reduce information asymmetry and increase market liquidity (Leuz & Verracchia, 2000; Bushee & Leuz, 2005).

Additionally, several studies report positive capital market consequences that are related to IFRS adoption**.** For example, Armstrong et al. (2010) report a positive market reaction to events leading up to IFRS adoption. Also, Daske et al. (2008, 2013), Hoque et al. (2016), and Florou and Kosi (2015) report an overall increase in market liquidity and a decrease in the cost of capital associated with IFRS adoption. IFRS adoption is also associated with more foreign debt and equity investments (DeFond et al., 2011).

Other studies examined the association between IFRS adoption and accounting quality; however, so far their findings are mixed. For example, Chua et al. (2012) found that IFRS adoption improves accounting quality in Australian firms. On the contrary, Paananen and Lin (2009) found a decrease in accounting quality in the post-IFRS adoption period in German firms. In another study that sampled 15 EU countries, Zeghal et al. (2012) found that mandatory IFRS adoption is associated with less earnings management and higher timeliness, conditional conservatism, and the value relevance of accounting numbers. In a cross-country study, Ahmed et al. (2013) provide evidence that IFRS adoption is associated with more earnings management.

Other academics attribute the mixed results of IFRS adoption on accounting quality to differences in institutional settings. Accounting standards are developed in the context of domestic cultural, legal, and institutional characteristics. This implies that changing accounting standards and adopting a set of standards that are perceived to be of higher quality will be costly if this is not associated with changes in capital market regulations or in the enforcement of these accounting standards (Ball et al., 2003).

One observation, here, is that these studies examined the effects of IFRS adoption mainly at the firm-level. By contrast, very little is known about the reasons why countries adopt IFRS or the characteristics of these IFRS adopters compared to their non-adopter counterparts**.** In addition, prior studies mainly focused on the determinants and consequences of IFRS adoption at the firm-level, while there is scant literature that investigates the determinants and consequences of IFRS adoption at the country-level. For example, Hope et al. (2006) investigated whether disclosure practices, investor protection, firms’ access to equity markets, and the size of equity markets are associated with the adoption decisions of different countries. They found evidence that countries with weaker investor protection and better access to capital markets are more likely to adopt IFRS. They investigated adoption decisions made prior to 2005; their sample size included 38 countries. Ramanna and Sletten (2014) investigated whether the perceived network benefits from IFRS adoption can explain part of a country’s decisions to adopt IFRS instead of the local standards. They found robust evidence that a country is likely to adopt IFRS if other countries—those with which it has economic ties—have already adopted these standards. They also report that this link is stronger for smaller countries.

Prior literature argues that standards adoption should not be considered the only determinant of achieving the intended benefits of adopting IFRS (Daske et al., 2013; Christensen et al., 2013). IFRS adoption should be accompanied by substantial changes in monitoring and enforcement to ensure that the desired results are achieved (Christensen et al., 2013). Hence, it is worth noting that a country’s institutional settings, in regard to its market and monitoring, information processing capabilities, audit quality, legal regime, market integration, and financial reporting environment, can also influence its choice of accounting standards to adopt. Since accounting quality is directly influenced by the strength of a country’s cultural, economic, legal, political and social institutions, it can be argued that this may be the case for the actual set of accounting standards that are adopted.

*4.2 The relationship between institutional variables and accounting quality*

Prior research has investigated the relationship between country-level macro settings and the quality of firm-level reporting. For example, La Porta et al. (2000) provide evidence that investor protection is a key variable that affects corporate policy choices. Building on the findings of La Porta et al. (2000), Leuz et al. (2003) predicted and found evidence that earnings management is less likely to occur in a strong investor-protection context because strong investor protection mitigates the ability of insiders to acquire the benefits of private control. Bhattacharya et al. (2003) found that earnings opacity is linked to decreased trading in the relevant country’s stock market. Bushman et al. (2004) found evidence that governance transparency is related to a country’s legal regime and the financial reporting quality is a function of a country’s political economy. Wyscoki (2004) argues that a main tool used to reduce insider control benefits and fraudulent financial reporting is ensuring the presence of a strong regulatory system. Riahi-Belkaoui and Alnajjar (2006) found that earnings opacity globally is negatively associated with the level of economic freedom and quality of life, and positively associated with the rule of law, economic growth, and the level of corruption. Soderstrom and Sun (2008) suggest that accounting quality is a function of the firm’s overall regulatory setting, including the legal and political system of the country in which the firm resides. Finally, Seligson (2002) argues that political stability may require the type of higher accounting quality that is necessary to maintain a strong financial system. Hence, it can be argued that political stability can have an impact on accounting quality.

*4.3 Hypotheses Development*

Several factors point to country-level corruption as explaining a considerable proportion of the variation in country-level decisions on IFRS adoption. These factors include institutional variables, such as enforcement, power of the law, monitoring, information processing, audit quality, and others as they are reflected in corruption measures and the relevant country’s regulatory environment. Corruption, itself, is associated with institutional voids in highly corrupt countries. Corruption is also a crucial factor that can affect several issues that, on a macro-level, might be related to a country’s accounting and reporting environment. For example, both Kimbro (2002) and Malagueno et al. (2010) conclude that corruption, as measured by Transparency International’s (TI) Corruption Perception Index (CPI), is negatively correlated with accounting quality. Malagueno et al. (2010) also found the same link between corruption and audit quality. Additionally, few studies provide empirical evidence that high corruption levels are more likely to be associated with negative accounting-related outcomes. For example, Agyei-Mensah (2017) shows that corruption negatively influences the extent of risk disclosure compliance under IFRS 7 (effective, January 2011). Kythreotis (2015) shows that the level of corruption in a country influences the degree of reliability of the financial statements produced in that country. Finally, Zaidi and Huerta (2014) provide evidence that corruption could reduce the *ex-post* economic development outcomes of IFRS adoption.

While direct evidence on the relationship between accounting and corruption is rare, some studies discuss how the two constructs might be related to each other. Shleifer and Vishny (1993) argue that an accounting system that prevents the theft of government assets can reduce corruption. Sun (1999) argues that accounting practices play a vital role in controlling corruption in China. Everett et al. (2007) claims that accounting is the solution for resolving problems of corruption**.** Finally, Rose-Ackerman (1997) argues that creating a more transparent environment in a country will reduce the level of corruption.

Although corruption and accounting might be theoretically related to each other, as the prior literature indicates, this assumption is not based on empirical evidence. Moreover, an alternative explanation that perceives accounting quality or the choice of accounting standards, as an outcome (not a determinant) of corruption may be appropriate, to a significant extent. In this vein, Hoque and Monem (2016) investigated the accounting environment in relation to the level of perceived corruption in 166 countries and found convincing evidence that the accounting environment plays a role in controlling corruption. However, they report that the extent to which accounting systems can control corruption is less than the extent to which political structures can do so.

Moreover, internal policies influence a country’s decision to adopt IFRS (Ramanna & Sletten, 2009). These policies are usually affected by special-interest lobbyists and the specific incentives of regulatory authorities. Therefore, it can be reasonably argued that authorities and corrupt officials in highly corrupt countries might be more reluctant to adopt IFRS due to its accountability and transparency implications. Hence, we predict that corruption can play a key role in explaining the diffusion in country-level decisions that are relevant to IFRS adoption.

 As previously discussed, individuals benefiting from corrupt activities and practices are often connected to a country’s decision-making process and policy-making and, thus, are less likely to favor a transparent environment or support regulations that are perceived to mitigate corruption (Jain, 2001). This is supported by Collins et al. (2009) who suggest that executives with ties to government officials are more likely to engage in corruption. Hence, we argue that IFRS adoption or similar initiatives that target increasing transparency are usually a function of a country’s level of corruption because the level of corruption is related to the magnitude of private benefits that public officers, politicians, or politically connected firms/individuals can gain**.** The various institutional factors that can play a role in a country’s decision to adopt IFRS and the relevance of corruption to these factors drive our expectations on the association between corruption and IFRS adoption. In this case, our central argument is that countries with higher levels of corruption exhibit weaker governance, legal enforcement, and institutions, and therefore, are more likely to demonstrate a higher level of resistance towards IFRS adoption. This resistance could be observed in delayed IFRS adoption or in allowing only some firms within the jurisdiction to adopt IFRS on a voluntary basis. Our predictions are generally motivated by two explanations.

First, in countries with weak governance and, legal and institutional structures, large multinational corporations, powerful senior corporate executives, and connected officials, who have a lot to lose from IFRS adoption are likely to resist this adoption through its outright rejection or at least delay adoption if possible; thereby negatively affecting the *speed* of adoption. In countries with stronger governance, legal enforcement and rule of law, such resistance is likely to be lower and the *speed* of IFRS adoption is likely to be faster. Therefore, we predict that higher levels of corruption are negatively associated with a country’s *speed* of IFRS adoption.

***H1:*** *There is a positive relationship between a country’s level of control of corruption and its speed of IFRS adoption*.

Second, in countries with weak governance and, legal and institutional structures, even if connected officials lose their quest for the outright rejection of IFRS adoption, they may seek to weaken its efficacy by damping down the *extent* of adoption and, in this case, by pushing for voluntary (partial) rather than mandatory (full) adoption, if possible. In contrast, we would expect the opposite (i.e., mandatory adoption) to be the case in countries with strong governance, legal and institutional structures. Thus, our prediction is that countries with higher levels of corruption exhibit a lower *extent* of IFRS adoption.

***H2:*** *There is a positive relationship between the level a country’s control of corruption and the extent of its IFRS adoption****.***

**5. Research Design**

*5.1 Measuring the diffusion in IFRS adoption*

In this subsection, we describe the construction of the proxies for IFRS adoption by country-year. We then explain the coding process applied to measuring the diffusion of IFRS adoption (i.e., to assign an adopter category to each country). Here, we are interested in examining the effect of corruption on both the (i) *speed* and (ii) *extent* of IFRS adoption. These two adopter categories are assigned to each country. The speed of adoption describes whether a country is an early adopter, early majority, late majority, a laggard, or a non-adopter based on the time the country decided to adopt IFRS regardless of whether this specific adoption is voluntary or mandatory for listed firms. The extent of adoption assigns adopter categories to countries based on full mandatory adoption rather than partial or voluntary adoption.

We build on the database constructed by Rammana and Sletten (2014) as the main source of information on each country’s time and extent of adoption. Ramanna and Sletten’s (2014) database covers the period 2003 to 2008. We update this database by including the years 2009 to 2014, using the same three primary resources of data on IFRS adoption used by Ramanna and Sletten (2014): (i) Deloitte and Touche’s IASplus.com website; (ii) IFRS adoption country guides by PriceWaterhouseCoopers; and (iii) data from the World Bank’s country Reports on Observance of Standards and Codes (ROSC reports). IASplus.com lists IFRS adoption information for more than 170 countries, including all the EU countries that adopted IFRS in 2005. We mainly rely on IASplus.com as it is the most comprehensive database in terms of the number of countries available.

In coding the diffusion of IFRS adoption, we follow two main steps. First, we maintain the adopter categories used by Ramanna and Sletten (2014): (i) non-adopters; (ii) partial adopters —this includes countries that allow voluntary IFRS adoption, those with convergence projects, and those requiring IFRS for some of the listed firms; and (iii) mandatory IFRS adopters. Next, we use the information presented in Table 1 to identify each country’s year and extent of adoption. This information is the main source of data for constructing our two main dependent variables.

*Adoption* (speed) classifies country-year observations to the following categories, based on the timing of the first adoption (partial or full): (i) early adopters; (ii) early majority; (iii) late majority; (iv) laggards; and (v) non-adopters. The fifth category (non-adopters) represents the failure case of our multinomial logistic regressions, as we will illustrate later in this section**.** This variable captures the time of the first IFRS adoption event for a country regardless of the extent of adoption (voluntary or mandatory). In other words, this variable only classifies countries to their respective adopting categories based on the year of (any) IFRS adoption. Countries classified as early adopters are those that adopted IFRS (fully or partially) in 2003. Early majority refers to countries that adopted IFRS (fully or partially) from 2004 to 2006. Late majority refers to countries that adopted IFRS (fully or partially) from 2007 to 2010. Laggards refer to countries that adopted IFRS (fully or partially) between 2011 and 2014. Non-adopters refer to countries that did not adopt IFRS in any form nor converged their local accounting standards with IFRS until the end of 2014.We assign the value 4 to early adopters, 3 to early majority, 2 to late majority, 1 to laggards, and 0 for non-adopters.

*Mandatory Adoption* (extent of adoption) classifies country-year observations to the same adoption categories based on the year of the first mandatory adoption**.** In other words, this variable captures the variation in the diffusion of *Mandatory Adoption* in particular. Therefore, we assign categorical values based on the speed of *Mandatory Adoption*, where a country that receives a value of 4 will be a country that mandated IFRS earlier than all other countries, and so on. This variable assigns adopting categories in a way similar to *Adoption*. However, it only considers a country as an IFRS adopter if that country mandated IFRS for all firms listed in its jurisdiction. *Adoption (Mandatory Adoption)* is the dependent variable used to test *H1* (*H2*), since it exclusively captures the speed (extent) of IFRS adoption.

*5.2 Independent Variables*

The primary independent variable we are investigating is the country-level control of corruption measured by Kaufmann et al. (2014) in the Worldwide Governance Indicators (WGI). The *control-of-corruption* indicator reflects the extent to which a country resists and combats the phenomenon where public power is being exercised for private gain. The score ranges from -2.5 for the most corrupt country (no control of corruption) to 2.5 for the least corrupt country (more control of corruption), and therefore, explaining our positive prediction between this measure and the country’s IFRS adoption. Similar to Hoque and Monem (2013), we used a perception-based corruption index instead of actual corruption as a measure of corruption. Prior corruption literature provides empirical evidence that perception-based corruption measures are more valid measures of corruption compared to actual corruption measures. According to Triesman (2007) perception-based corruption measures are highly correlated with real factors that usually lead to corruption**.** Moreover, Wilhelm (2002) provides empirical evidence on the validity of corruption-perception indices. On the contrary, actual corruption proxies are weakly correlated with factors that cause corruption.

In order to assure that we have valid results, we include a set of relevant control variables. First, we control for country-level variables that potentially relate to the country’s decision to adopt IFRS. In particular, we control for the country-level business disclosure (*Disclosure)*. Prior evidence shows that country-level disclosures can be a significant determinant of IFRS adoption (Hope et al., 2006). We measure disclosure using the World Development Indicators (WDI) Business Extent of disclosure index. We control for the legal origin (*Legal Origin)* of each country by adding a dummy variable for each legal origin (*Legal-UK, Legal-French, Legal-German, Legal-Socialist*) as it is a valid proxy for investor protection. Investor protection is considered to be a significant determinant of accounting and reporting practices (Leuz et al., 2003). Additionally, we control for the audit environment as this might drive the country’s decision to adopt IFRS. Following Ramanna and Sletten (2014), we proxy the audit environment by the variable (*Audit)* that takes the value of one for countries where three of the Big 4 audit firms (Deloitte and Touche, Ernst and Young, KPMG, and PWC) have offices located in the country. Second, we consider that larger and more economically successful countries (e.g., US, China, and India) are more likely to rely on their own local accounting standards, compared with small and less economically successful countries (e.g., Botswana, Gambia, and Ghana). Prior IFRS adoption literature provides empirical evidence that emerging stock markets developed significantly after their respective country’s IFRS adoption (Ben Othman and Kossentini, 2015). Moreover, prior evidence shows that the level of economic development is associated with IFRS adoption (Hope et al., 2006; Ramanna and Sletten, 2014). Therefore, we control for the economic development of the country-year by including the natural log of the GDP (*LNGDP*), net government lending/borrowing percentage of GDP (*Net Lending% of GDP)*, balance of payments as a percentage of GDP (*BOP% of GDP)*, percentage of change in inflation (*Change in Inflation %*), the percentage of change in imports (*Change in imports %*), and the percentage of change in exports (*Change in exports %*) from year *t*-1 to year *t*. The Appendix provides a description of all variables, definitions, and data sources.

*5.3 Model and sample*

Our primary tests are multinomial logistic regressions of the categories of adoption that capture the diffusion in IFRS adoption on the control of corruption, where the non-adopters are the reference group as they represent the failure case. The regressions are estimated in the panel of all country-year observations from 2003 to 2014. We predict *β1* in equations 1 and 2, below, to be positive and significant. In other words, we predict a positive association between the control of corruption and IFRS adoption *(Mandatory Adoption)*.

*Adoption (speed of IFRS adoption) = β0+β1\*Control of Corruption+ β2\*Disclosure+β3\*Audit+ β\*4Legal Origin + β\*5 LNGDP+ β\*6 Net Lending% of GDP + β\*7 BOP% of GDP+ β\*8 Inflation+ β\*9 Change in imports+ β\*10 Change in Exports (Equation 1).*

*Mandatory Adoption (extent of IFRS adoption) = β0+β1\*Control of Corruption+ β2\*Disclosure+β3\*Audit+ β\*4Legal Origin + β\*5 LNGDP+ β\*6 Net Lending% of GDP + β\*7 BOP% of GDP+ β\*8 Inflation+ β\*9 Change in imports+ β\*10 Change in Exports (Equation 2).*

*Adoption (Mandatory Adoption)* captures the diffusion of IFRS in the *speed* (*extent*) of its adoption. Each country-year receives a value based on the *time* (*extent*) of its IFRS adoption status. *Adoption* captures all IFRS adoptions by all sampled countries. This includes countries that allow firms to voluntarily adopt IFRS, those requiring only some firms to adopt IFRS, or those mandating IFRS for all listed companies. As discussed earlier, we assign a value from 0 to 4 to each country-year based on when the first adoption (mandatory adoption) took place. Therefore, *Adoption (Mandatory Adoption) is* an ordinal value from 0 to 4 that measures the *speed (extent*)of IFRS adoption for each country. In regressions of equations (1) and (2), country-years with a zero score are treated as the reference group. In other words, the reference group for the regression in equation (1) covers all countries that never adopted IFRS. Similarly, the reference group for the regression in equation (2) covers the observations from all countries that never *mandated* IFRS adoption. All of the other variables were introduced earlier in this section and are detailed in the Appendix.

We are able to obtain the information about the adoption status for 93 non-EU countries and 1,116 country-years. We exclude four countries with missing data for the above-mentioned variables**.** The final sample is based on 1,066 observations from 89 non-EU countries for the period 2003 to 2014. It is worth noting that we excluded EU countries from the sample as all EU countries were required to mandate IFRS for all listed firms. Hence, individual countries in the EU have no discretion over their decisions to adopt IFRS. We further lose two country-year observations because Croatia joined the EU and consequently adopted IFRS starting in 2013, so we observe Croatia for up to 2012 only.

*5****.*** *4 Descriptive Statistics*

Table 2 provides the descriptive statistics for the key variables in the study. As the table shows, the average *Adoption* rate is 2.448, which means that, on average, our sampled countries fall between *early majority* and *late majority* adoption categories. On the contrary, a country’s decision to mandatorily adopt IFRS *(Mandatory Adoption)* is much lower 1.441. Our interpretation of this is that most of our sampled countries are either *laggards* or *late adopters* when it comes to mandatory adoption as some countries might choose to allow voluntary IFRS adoption to ease in before mandating it (Ramanna & Sletten, 2014). This increases the rate of *Adoption* over *Mandatory Adoption*. This evidence offers support for our empirical hypothesis that in countries with weak legal, governance, and institutional structures, even if corrupt officials fail to reject IFRS adoption (*speed of adoption*) they will be keen to negate its efficacy by limiting the extent to which IFRS is applicable.In terms of the *Control of Corruption* measure, it ranges between -1.816 (most corrupt country) and 2.462 (least corrupt country). The average country in our sample is highly corrupt with a mean (median) score of -0.137 (-0.401).

The mean (median) score of *Disclosure* is 5.403 (6.00) and, thus, the average country falls slightly above the scale of 10 on the disclosure score**.** The variable for audit environment (*Audit)* shows that at least three of the Big-4 audit firms have local offices in around 80% of the countries in the study.

**(Insert Table 2)**

Tables 3 and 4 present the means and medians by adoption categories for *Adoption* (speed) and *Mandatory Adoption* (extent)*,* respectively. As Table 3 shows, the means for the *Control of Corruption* ranges from -0.779 to 0.259. The highest levels of corruption are noted for *non-adopters* (-0.779), followed by the *late majority* (-0.249). The highest mean is found for the *early majority* (0.259), which indicates that the lowest levels of corruption are exhibited by countries in the *early majority* category, providing further support for our hypotheses that in countries with higher levels of corruption along with weak governance, and legal and institutional structures, officials who are corrupt, connected, and powerful are more likely to resist the speed and extent of IFRS adoption as this adoption may reduce their ability to extract private benefits from corrupt activities.

As Table 4 shows, the means and medians for the *Mandatory Adoption* (extent) categories differ to a great extent. The means range from -0.316 to 0.234, with the highest levels of corruption being exhibited within countries in the category *early majority,* followed by the non-adopters, laggards, early adopters, and late majority, respectively. This indicates that, contrary to *Adoption* (speed), where the countries in the *early majority* category had the lowest levels of corruption, those in the category *early majority* for *Mandatory Adoption* (extent) exhibit the highest levels of corruption on average. The mean scores for control of corruption across the categories *Adoption* and *Mandatory Adoption* show that the more corrupt a country is, the more likely it is to resist IFRS adoption. Therefore, in terms of countries in the *Adoption* or *Mandatory Adoption* categories, one should expect that a monotonic increase in the level of corruption control could sometimes (at least descriptively), but not always be supportive of IFRS adoption.

In some cases (e.g., Tables 3 and 4), countries with strong legal environments and investor protection would rather depend on their own local accounting standards. This is evident, for example, in the late introduction of mandatory IFRS adoption by Canada and Australia and in the fact the USA still uses US GAAP for its accounting standards. However, empirical evidence shows that countries with weak legal enforcement and investor protection are more likely to adopt IFRS so as to bond themselves to superior accounting standards in order to access international investors (Hope et al., 2006).

 **(Insert Table 3)**

**(Insert Table 4)**

Table 5 presents the correlations for the main variables of interest. To determine the robustness of our findings, we report both Spearman’s non-parametric and parametric coefficients. The Spearman (Pearson) correlations are shown above (below) the diagonal line. The direction and magnitude of both coefficients are generally similar and, hence, any remaining non-normalities may not pose a serious problem. Moreover, the correlations among the variables are also low, on average and do not seem to pose any multicollinearity concerns. They also have a variance inflation factor below 2.0 for all variables in the OLS regression. All of the correlations between *Adoption (Mandatory Adoption)* and the variables of interest (except *Disclosure)* exhibit the expected signs; they all have significant correlations with the dependent variable, except for *Legal-Socialist, Legal-German and Change in Inflation% (Legal-Socialist and Change in Exports%)*. In general, and consistent with our expectations, the *Control of Corruption* variable is statistically significant with the categories *Adoption* and *Mandatory Adoption*.

**(Insert Table 5)**

**6. Empirical Results and Discussion**

*6****.****1 Diffusion in IFRS adoption (speed of IFRS adoption)*

Table 6 (Panel A) presents the results of the multinomial logistic regression in equation (1). This regression analyzes the effect of corruption on the speed of IFRS adoption (*Adoption)* and is our main test for *H1*. The four columns in Table 6 correspond to the four adoption categories, where the *non-adopters* are the reference group. The first column shows the results for the *Early Adopters* of IFRS, followed by the *Early Majority, Late Majority,* and *Laggards*. The four coefficients for *Control of Corruption* are positive and significant at the 1% level. This indicates that the *Control of Corruption* can significantly predict a country’s adoption category (laggard, late majority, early majority, or early adopter) in regards to IFRS adoption *(Adoption)* (speed of IFRS adoption) compared to non-adopters*.* This finding suggests that hypothesis 1 (*H1)* is empirically supported. The coefficients are 1.404, 1.665, 2.395, and 1.856 for the *laggards, late majority, early majority* and *early adopters*, respectively.

The audit environment also plays a role in explaining the variation in the diffusion of IFRS *Adoption.* The coefficient for *Audit* is significantly associated with IFRS *Adoption.* The presence of a strong audit environment significantly explains the presence of a country in a particular adopter category compared to *non-adopters* (except for the early majority). Finally, *Disclosure* failed to record any significant coefficient with adopter categories, and thereby suggesting that the extent of a country’s business disclosure index (*WDI*) is not related to its *Adoption* decision. The Cox and Snell (Nagelkerke) *R*-Square is 0.603 (0.632).

 **(Insert Table 6)**

*6.2 Diffusion in IFRS Mandatory adoption (extent of IFRS adoption)*

Table 6 (Panel A) also presents the results of the multinomial logistic regression in equation (2). This regression analyzes the effect of corruption on mandatory IFRS adoption (speed of IFRS adoption) and is our main test for *H2*. The first column shows the results for the *Early Adopters* of IFRS, followed by the *Early Majority, Late Majority,* and *Laggards*. The reference group is *No Mandatory Adoption*.

 The coefficients for the *Late Majority* and *Early Adopters* (*Laggards* and *Early Majority*) are significant (insignificant).[[9]](#footnote-9) This indicates that the *Control of Corruption* can significantly predict whether a country can be categorized in the *late majority* or the *early adopters* in regards to Mandatory IFRS adoption *(Mandatory Adoption;* extent of IFRS adoption)*.* This implies that hypothesis 2 (*H2)* is empirically supported because corruption can explain the adoption (extent of IFRS adoption) behavior of the *late majority* and *early adopters*. However, as the coefficients are not significant across all adoption categories, the empirical support for *H2* is moderate rather than strong. The coefficients are 1.396 and 0.683 for the *late majority* and *early adopters*, respectively. It is also noteworthy that the coefficient for the *laggards* is negative though insignificant. We interpret this as meaning that when a country has more control over corruption, it will be less likely to fall into the *laggard adopter* category. These findings are consistent with the means presented in Table 4 that show that countries in the late majority and early adopter’s categories have the highest levels of *Control of Corruption* and, hence, these countries’ control of corruption can significantly predict their adoption category.

Similar to *Adoption,* for all adoption categories the coefficient *Audit* is significant (except for *laggards*) and positive (except for *early adopters*). This shows that the audit environment does not sufficiently differentiate the adoption status between non-adopters and *laggards*. Moreover, we interpret these coefficients as an indicator that the presence of a strong audit environment (*Audit*) is associated with the early and late majority categories and is negatively associated with early adopters. Finally, unlike *Adoption, Disclosure* is negatively and significantly associated with countries that are late majority and early adopters. The Cox and Snell (Nagelkerke) *R*-Square is 0.592 (0.630).

**7. Sensitivity Analyses**

A major limitation of previous studies is that they tend to use limited control variables, alternative measures, and robustness checks. In particular, some previous studies identified a number of firm- and country-specific characteristics that may influence IFRS adoption. Thus, it can be argued that the effects of corruption on the timing of the first adoptions (speed of IFRS adoption) and the mandatory IFRS adoptions (extent of IFRS adoption) can only be convincingly isolated after these other effects are controlled for. Therefore, in this section, we seek to conduct additional empirical investigations in order to determine the sensitivity or robustness of our findings.

In the first place, we re-run our main regressions mentioned in equations (1) and (2) while controlling for the *Rule of Law.* The results of these regressions are reported in Panel B of Table 6. To control for the *Rule of Law,* we construct the variable *AVGKAUF*,which captures the country’s rule of law by combining both the *Control of Corruption* and the *Rule of Law. AVGKAUF* is calculated as the mean (simple average) score of the *Control of Corruption* and the *Rule of Law* for each country-year observation*.* We construct this variable by computing the mean of the two Kaufmann et al. (2014) measures. We believe that combining the two measures in this fashion is appropriate for two reasons. First, countries with effective corruption control are likely to exhibit a stronger rule of law. This logic implies that the two measures are highly correlated, as stated earlier, and that adding the two measures to the model would not properly capture the complementary nature of the underlying constructs. Second, the various governance indicators constructed by Kaufmann et al. (2014) should be substitutes, at least to some extent. By combining the two proxies into a comprehensive measure, we allow for the substitution between the control of corruption and the rule of law as country-level governance mechanisms.

In Table 6 (Panel B) for *Adoption*, all of the coefficients of *AVGKAUF* are significant in the same direction as the *Control of Corruption* (Panel A)*.* Similarly, for *Mandatory Adoption* the results reported in Panel B (controlling for *AVGKAUF)* are similar to the results reported in Panel A. Our interpretation of this is that even though the *Rule of Law* and the *Control of Corruption* are highly correlated, controlling for the *Rule of Law* in our main regressions does not change our inferences, nor does it affect our findings.[[10]](#footnote-10)

The second concern we would like to address is whether our results are affected by choosing multinomial logistic regressions for our main analysis instead of other regression techniques. To address this concern, we re-run our main regressions in equations (1) and (2) using OLS and binary logistic regressions while controlling for *AVGKAUF*. The results of this test are reported in Table 7. Here, the first two columns show the results of running equations (1) and (2) using the OLS regression. Columns (3) and (4) show the results of the same model, but using *AVGKUAF*; this captures the average of the rule of law and the control of corruption, while maintaining all of the other variables in equations (1) and (2). We repeat the same analysis using binary logistic regressions. The results are shown on columns (4) to (8) in Table 7. They show that all the coefficients of the *Control of Corruption (AVGKAUF)* are positive and significant and, hence, support our previous findings that the level of corruption is a significant determinant of IFRS adoption.

**(Insert Table 7)**

Third, we address concerns about potentially correlated omitted variables. An alternative explanation for our results is that IFRS adoption might be associated with the size of the capital market, securities regulations, and investor protection. Therefore, we conduct further analyses to ensure that the exclusion of those variables does not affect our results.

Prior international accounting literature argues that financial reporting standards usually develop along with a country’s economic, political, and cultural development (Ball et al., 2000; Hail et al., 2010). IFRS adoption is associated with significant economic and financial benefits to adopting firms and countries (De George et al., 2016). Those benefits include improved transparency, lower cost of capital, more cross-country investments, better comparability of financial statements, and more foreign analysts following the reports of these countries’ own analysts. Therefore, we argue that the development of a country’s capital market can be a significant determinant of its decision to adopt IFRS in order to capture the above-mentioned benefits. In this case, countries with weak capital markets might not be encouraged to adopt IFRS as doing so would be less likely to generate those benefits. Therefore, we re-estimate our main regressions in equations (1) and (2) while controlling for several country-level capital-market attributes that capture the size and development of capital markets at the country-level. We re-estimate our main regressions while controlling for market capitalization (*Market Capitalization % of GDP*), the total value of shares traded (*Share Value Traded % of GDP*), and the sum of the country’s portfolio inflows and outflows (*Portfolio inflows % of GDP*).

The results (untabulated) show that the coefficients for market capitalization are positive and significant for all adopter categories except for the *Laggards* in *Mandatory Adoption.* Also, the value of traded shares is negatively associated with *Mandatory Adoption.* However, the direction and significance of our corruption measure do not change. Therefore, we conclude that the size of the capital market can be a significant determinant of IFRS adoption. Moreover, our results and inferences remain unchanged even as we control for different measures of capital market development.

Fourth, other potential omitted correlated variables are those that can capture the strength of the mandated securities regulations in terms of enforcing disclosures and investor protection in a given country. Hope et al. (2006) found evidence that countries with weaker investor protection and disclosure requirements are more likely to adopt IFRS. This follows the argument that IFRS adoption is a tool that countries can use to create better information and an improved investor protection environment. To address this concern, we re-estimate our main regressions, while controlling for securities regulation (*SECREG)*. Following Hail and Leuz (2006), we measure the variable *SECREG* as the average of the disclosure index, the liability standard index, and the public enforcement index from La Porta et al. (2006). As with *AVGKAUF,* we think that since those variables are highly correlated and can act as substitutes, combining them into one measure will be appropriate in order to avoid multicollinearity issues and also to allow for the substitution effect between these two variables to arise. We also control for investor protection by including the anti-director index measure from La Porta et al. (2006). This index captures various attributes of investor protection.

The results of this test (untabulated) are twofold. First, they show that our results are robust to the inclusion of variables that capture disclosure regulation and investor protection. This implies that after controlling for the above-mentioned variables, the *Control of Corruption* measure still remains a positive and significant determinant for IFRS adoption. Second, our results are in line with Hope et al. (2006) and show that, on average, countries with poor disclosure requirements are more likely to adopt IFRS. Although the significance of the *Control of Corruption* measure in Table 9 is not obvious, as it was in earlier tests, this is expected because securities regulations and anti-director index measures are both facets of investor protection and this is normally highly correlated with the control of corruption*.* Our interpretation is that our results are still robust to the inclusion of those variables.

Fifth, to ascertain that our results are robust to other corruption measures, we re-estimate equations (1) and (2) using *Transparency International’s Corruption Perception Index* (*CPI)*. This is one of the best and most commonly used indices for cross-country comparisons for corruption (Wilhelm, 2002; Hoque and Monem, 2016). Data for the CPI were obtained from the Transparency International website. Similar to Kaufmann et al. (2014), the CPI score measures the level of corruption control, where the most corrupt countries have the lowest scores. Hence, we predict a positive relationship between the CPI scores and the *speed* (adoption) and *extent* (mandatory adoption) of IFRS adoption.

The results (untabulated) support our findings and show that all corruption coefficients are positive and significant. This supports our earlier finding that the corruption level can predict the adopter category (speed of IFRS adoption) in which a country falls, compared to non-adopters, and that our corruption measure (*Control of Corruption*) is robust. These results also confirm our prior findings on *Mandatory Adoption* (extent of IFRS adoption), shown in Table 6. The coefficients of corruption, when measured by the CPI score, are consistent with the *Control of Corruption* (Kaufmann et al., 2014) for *Mandatory Adoption* reported in Table 6*.* The coefficients are positive and significant for the categories *late majority* and the *early adopters*.

Sixth, we re-estimate our multinomial logistic regressions after removing *non-adopters* from the sample. In this case, we would like to ascertain whether or not our results are driven by the large number of *non-adopters* for both *Adoption* and *Mandatory Adoption.* In this case, we only have the four adopter categories ranked from 1 to 4, where 1 (*laggards*) is the reference category. In the results of these regressions (untabulated), all of the corruption coefficients exhibit the same signs and are all significant except for the *Early Majority* in *Mandatory Adoption* (similar to Table 6) and the *Late Majority* for *Adoption*. The latter finding shows that there is no significant difference between *Late Majority* and *Laggards* in *Adoption*. However, the central tenet of our results remains stable.

Finally, another issue of interest is that it is unclear from our current analysis as to whether the determinants of voluntary IFRS adoption differ from those of mandatory IFRS adoption. Thus, it follows that perhaps a more fruitful approach would be to focus on the effects of corruption on the extent voluntary IFRS adoptions that take place prior to mandatory adoptions, while carefully controlling for the determinants of voluntary adoptions that have been identified within the prior literature. To address this specific concern, we re-estimate our main model by creating a binary variable that divides the sample in two: (i) receives the value of 1 if a country had a period of voluntary adoption before its mandatory adoption; and (ii) receives a value of 0 if there was no voluntary adoption prior to the mandatory adoption. The results (untabulated) show that the coefficient of the *Control of Corruption* variable is positive, but statistically insignificant, while carefully controlling for all of the reasonably conceivable determinants of voluntary adoptions that have been identified by prior studies. This finding offers further evidence that our result appears to be generally robust to estimating the effects of corruption on the extent of voluntary IFRS adoptions prior to mandatory adoptions.

In summary, all of the empirical analyses suggest that corruption is a significant predictor of countries’ IFRS adoption behavior even after controlling for several variables that have been identified by prior studies**.** Our results apply to both *Adoption* (i.e., speed of adoption)and *Mandatory Adoption* (i.e., the extent of adoption)*.* This is consistent with prior studies (Hoque & Monem, 2016; Hope et al., 2006; Ramanna & Sletten, 2014) that note that the choice of accounting standards or the quality of the accounting environment, in general, is an outcome and not a determinant of country-level institutional settings. While the common hypothesis that is relevant to this area of research argues that higher quality accounting standards can deliver higher quality financial information only in countries with strong political institutions, our findings suggest that even the choice of higher quality standards can be determined by a country’s level of corruption.

**8. Conclusion**

IFRS have been adopted widely around the world. However, while there is a lot of evidence on the economic consequences of IFRS adoption, especially at the firm-level, few studies examine the national factors that may impede or facilitate the adoption of IFRS at the country-level. Therefore, distinctively relying on Rogers’ (1962) theory of diffusions of innovation (i.e., early adopters, early majority, late majority and laggards), this paper examined the influence of national corruption on the *speed* and *extent* of IFRS adoption around the world.

Our results show that the level (control) of corruption is negatively (positively) associated with a country’s speed and extent of IFRS adoption. Our results are robust to the inclusion of several control variables and across several regression models with different specifications.

These results have implications for both academic researchers and accounting-standards setters. First, our evidence suggests that the IASB should employ better communication channels and processes for IFRS so as to serve three objectives: (i) to investigate how the internal policies of countries with weaker governance and political institutions can hinder the adoption of IFRS; (ii) to investigate how a country’s institutional setting can prevent IFRS from achieving their intended outcomes; and (iii) to better inform such countries on how can they deal with the challenges of IFRS adoption and set the necessary grounds for this adoption in order to achieve their desired outcomes.

Second, future research could benefit from exploring the effect of corruption on the adoption of International Public-Sector Accounting Standards (IPSAS) and IFRS for SMEs. This will provide different insights on the impact of corruption on the accounting environment and could contribute to current understanding of how financial reporting regulations can influence the perception of corruption in each country. Moreover, IFRS adoption for SMEs is not mandatory for EU member states. Therefore, this area of research can be expanded by examining whether corruption is related to SMEs’ IFRS adoption decisions in European countries.

Several caveats apply to our study. First, due to the EU’s 2005 mandatory directive that all EU countries must adopt IFRS, we excluded EU countries from our analysis as individual countries did not have discretion over their IFRS-adoption decisions. As the EU is the world’s largest single economic trading block, the impact of its exclusion from our study should be considered when interpreting our findings. Second, although our perspective on the diffusion of innovation is appropriate, future studies may be able to employ other conventional theories, such as institutional theory, resource dependence theory and/or even a multi-theoretical framework in analyzing their findings.

Third, we acknowledge that a country’s decision to adopt IFRS might be influenced by the differences between domestic accounting standards and IFRS (Ding et al., 2007). However, due to the limited number of non-EU countries sampled by Ding et al. (2007), we were not able to conduct this robustness test in order to ensure that our results would hold.

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**Table 1**: List of Jurisdictions’ IFRS Adoption Dates and Extent of Adoption.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Country | Latest Adoption | Second Adoption | First Adoption | Country | Latest Adoption | Second Adoption | First Adoption |
|   | Extent | Year | Extent | Year | Extent  | Year |   | Extent | Year | Extent | Year | Extent  | Year |
| Argentina | 2c  | 2009 |   |   |   |   | Macedonia | 2a | 2004 |   |   |   |   |
| Armenia | 3 | 2011 |   |   |   |   | Malawi | 3 | 2003 |   |   |   |   |
| Australia | 3 | 2005 |  |  |  | 2005 | Malaysia | 2c  | 2012 |   |   |   |   |
| Azerbaijan  | 2c  | 2004 | 2a | 2003 |   |   | Mali | 1 |   |   |   |   |   |
| Bahrain | 3 | 2005 |   |   |   |   | Mauritius | 3 | 2003 |   |   |   |   |
| Bangladesh | 2a | 2013 |   |   |   |   | Mexico | 3 | 2012 | 2b | 2008 |   |   |
| Belarus | 2c  | 2008 |   |   |   |   | Moldova | 3 | 2008 |   |   |   |   |
| Benin | 1 |   |   |   |   |   | Morocco | 2c  | 2008 |   |   |   |   |
| Bolivia | 1 |   |   |   |   |   | Mozambique | 2c  | 2007 |   |   |   |   |
| Bosnia | 3 | 2007 |   |   |   |   | Namibia | 3 | 2005 |   |   |   |   |
| Brazil | 3 | 2010 | 2b  | 2003 |   |   | Nepal | 2a | 2013 |   |   |   |   |
| Burkina Faso | 1 |   |   |   |   |   | New Zealand | 2a | 2005 |   |   |   |   |
| Canada | 3 | 2015 | 2c | 2011 | 2b  | 2005 | Nicaragua | 3 | 2011 | 2b  | 2004 |   |   |
| Chile | 3 | 2009 |   |   |   |   | Niger | 1 |   |   |   |   |   |
| China | 2a | 2007 |   |   |   |   | Oman  | 3 | 2003 |   |   |   |   |
| Colombia | 3 | 2015 |   |   |   |   | Pakistan | 2a | 2006 |   |   |   |   |
| Costa Rica | 1 |   |   |   |   |   | Panama | 2c  | 2003 |   |   |   |   |
| Croatia | 2a | 2006 |   | Joined Eu in 2013 |   |   | Paraguay  | 2b  | 2003 |   |   |   |   |
| Dominican Republic | 3 | 2014 | 2a | 2003 |   |   | Peru | 3 | 2012 | 2a | 2003 |   |   |
| Ecuador | 3 | 2012 | 2c | 2011 |   |   | Philippines | 2a | 2003 |   |   |   |   |
| Egypt | 2a | 2007 |   |   |   |   | Qatar  | 3 | 2003 |   |   |   |   |
| Salvador | 2a | 2004 |   |   |   |   | Russia | 3 | 2015 | 2c  | 2004 |   |   |
| Georgia | 3 | 2006 |   |   |   |   | Saudi Arabia | 2c  | 2007 |   |   |   |   |
| Ghana  | 3 | 2007 |   |   |   |   | Singapore | 2a | 2012 |   |   |   |   |
| Guatemala | 3 | 2003 |   |   |   |   | South Africa | 3 | 2005 | 2b | 2003 |   |   |
| Guyana  | 3 | 2003 |   |   |   |   | Sri Lanka | 2a | 2009 | 2b  | 2004 |   |   |
| Honduras | 3 | 2008 |   |   |   |   | Switzerland | 2b  | 2003 |   |   |   |   |
| Hong Kong | 2a | 2003 | 2b | 2003 |   |   | Syria | 1 |   |   |   |   |   |
| India | 2a | 2015 |   |   |   |   |  Tajikistan  | 3 | 2007 |   |   |   |   |
| Indonesia | 1 |   |   |   |   |   |  Tanzania  | 3 | 2004 |   |   |   |   |
| Iran | 1 |   |   |   |   |   |  Thailand  |  2a  | 2007 |   |   |   |   |
| Israel | 3 | 2008 | 2b | 2006 |   |   | Togo |  1 |   |   |   |   |   |
| Ivory Coast | 1 |   |   |   |   |   | Trinidad And Tobago | 3 | 2003 |   |   |   |   |
| Jamaica | 3 | 2003 |   |   |   |   | Tunisia | 1 |   |   |   |   |   |
| Japan | 2b  | 2010 |   |   |   |   | Turkey | 2b  | 2003 |   |   |   |   |
| Jordan | 3 | 2003 |   |   |   |   | Ukraine | 3 | 2011 |   |   |   |   |
| Kazakhstan | 3 | 2005 | 2c | 2003 |   |   | UAE | 3 | 2003 |   |   |   |   |
| Kenya | 3 | 2003 |   |   |   |   | USA | 1 |   |   |   |   |   |
| South Korea | 3 | 2011 |   |   |   |   | Uruguay | 3 | 2007 | 2a | 2004 |   |   |
| Kuwait | 3 | 2003 |   |   |   |   | Venezuela | 1 |   |   |   |   |   |
| Kyrgyzstan | 3 | 2006 | 2c | 2003 |   |   | Zambia | 3 | 2005 |   |   |   |   |
| Laos | 1 |   |   |   |   |   | Zimbabwe | 3 | 2003 |   |   |   |   |
| Lebanon | 3 | 2003 |   |   |   |   |   |   |   |   |   |   |   |

This table shows the date and extent of adoption of each country in our dataset. This table is based on a similar table reported in Appendix B in Ramanna and Sletten (2014), as well as our extension to this data to cover years till 2014. Each country receives a score for adoption based on the following: non-adopter=1, countries attempting to reconcile their domestic standards with IFRS, without directly adopting IFRS=2a, countries allowing voluntary IFRS adoption=2b, countries requiring only some listed firms to use IFRS=2c, and countries requiring all listed firms to use IFRS=3.

**Table 2**: Descriptive Statistics

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Variables | Mean | Median | SD | Min | Max |
| Adoption | 2.448 | 3.000 | 1.463 | 0.000 | 4.000 |
| Mandatory Adoption | 1.441 | 1.000 | 1.601 | 0.000 | 4.000 |
| Control of Corruption | -0.137 | -0.401 | 0.906 | -1.816 | 2.462 |
| Disclosure | 5.403 | 6.000 | 2.604 | 0.000 | 10.000 |
| Audit | 0.810 | 1.000 | 0.394 | 0.000 | 1.000 |
| Legal- UK | 0.350 | 0.000 | 0.477 | 0.000 | 1.000 |
| Legal – French | 0.450 | 0.000 | 0.498 | 0.000 | 1.000 |
| Legal-Socialist | 0.170 | 0.000 | 0.374 | 0.000 | 1.000 |
| Legal – German | 0.030 | 0.000 | 0.181 | 0.000 | 1.000 |
| LNGDP | 3.924 | 3.612 | 1.974 | 0.180 | 9.740 |
| Net Lending/Borrowing % of GDP | -1.251 | -2.249 | 5.950 | -18.944 | 43.303 |
| BOP % of GDP | -1.464 | -2.527 | 10.209 | -40.621 | 45.025 |
| Change in Inflation % | 6.080 | 4.860 | 6.120 | -7.670 | 108.690 |
| Change in imports % | 7.800 | 6.780 | 12.010 | -41.620 | 77.020 |
| Change in exports % | 6.600 | 5.640 | 12.640 | -37.920 | 18.290 |

This table provides descriptive statistics for variables used in the main analyses**.** All variables are defined as described in the Appendix.

**Table 3**: Means and Medians by IFRS *Adoption* Categories

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Adoption | Control of Corruption | Disclosure | Audit | LNGDP | Net Lending% of GDP | BOP% of GDP | Change inInflation % | Change inImports % | Change inExports % | Legal UK | LegalFrench | LegalSocialist | LegalGerman |
| No Adoption | Mean | -0.779 | 4**.**899 | 0.29 | 3.049 | -1.823 | -3.746 | 7**.**084 | 1**.**22229 | 9**.**54013 | 0.00 | 0.93 | 0.07 | 0.00 |
| Median | -0.779 | 6**.**000 | 0.00 | 2.439 | -2.455 | -3.297 | 4**.**672 | 7**.**89550 | 6**.**363 | 0.00 | 1**.**00 | 0.00 | 0.00 |
| N=168 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| LaggardN=132 | Mean | -0.039 | 6**.**339 | 0.82 | 5.220 | 5.220 | 1.641 | 5**.**208 | 7**.**21177 | 6**.**450 | 0.55 | 0**.**18 | 0**.**18 | 0.09 |
| Median | -0.437 | 6**.**000 | 1**.**00 | 5.085 | 5.085 | -0.396 | 4**.**148 | 6**.**58300 | 6**.**521 | 1**.**00 | 0.00 | 0.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Late MajorityN=192 | Mean | -0.249 | 6**.**078 | 0.94 | 4.592 | -1.954 | -2.364 | 6**.**782 | 9**.**10036 | 7**.**712 | 0**.**18 | 0.44 | 0.32 | 0.06 |
| Median | -0.404 | 7**.**000 | 1**.**00 | 4.545 | -2.408 | -1.744 | 4**.**972 | 7**.**73450 | 6**.**706 | 0.00 | 0.00 | 0.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Early Majority | Mean | 0.259 | 5**.**361 | 1**.**00 | 3.982 | -2.072 | -3.004 | 5**.**644 | 6**.**59999 | 4**.**965 | 0**.**59 | .18 | 0.23 | 0.00 |
| Median | -0.044 | 6**.**000 | 1**.**00 | 3.341 | -2.493 | -3.447 | 4**.**893 | 6**.**49800 | 4**.**677 | 1**.**00 | 0.00 | 0.00 | 0.00 |
| N=202 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| EarlyAdopterN=372 | Mean | -0.039 | 4**.**973 | 0.87 | 3.481 | 0.091 | -0.234 | 5**.**810 | 6**.**89786 | 5**.**635 | 0.39 | 0.48 | **.**10 | 0.03 |
| Median | -0.330 | 5**.**000 | 1**.**00 | 3.371 |  -1.753 | -3.104 | 5**.**002 | 6**.**30800 | 4**.**768 | 0.00 | 0.00 | 0.00 | 0.00 |

This table shows the means and medians of all variables for each category of IFRS *Adoption* (speed)***.***All variables are defined as described in the Appendix.

**Table 4**: Means and Medians by *Mandatory Adoption* Categories

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Adoption | Control of Corruption | Disclosure | Audit | LNGDP | Net Lending% of GDP | BOP% of GDP |  Change inInflation % | Change inImports % | Change inExports % | Legal UK | LegalFrench | LegalSocialist | LegalGerman |
| No AdoptionN=490 | Mean | -0.274 | 5**.**710 | 0.66 | 4**.**081 | -1.693 | -0.547 | 6**.**210 | 8**.**274 | 7**.**178 | 0.27 | 0.54 | 0**.**14 | 0.05 |
| Median | -0.495 | 6**.**000 | 1**.**00 | 4.082 | -2.311 | -1.251 | 4**.**500 | 7**.**150 | 5**.**863 | 0.00 | 1**.**00 | 0.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| LaggardN=144 | Mean | -0.139 | 5**.**596 | 1**.**00 | 5.390 | -1.418 | -2.314 | 5**.**485 | 7**.**052 | 5**.**270 | **.**17 | 0.50 | 0**.**25 | 0.08 |
| Median | -0.449 | 6**.**000 | 1**.**00 | 5.238 | -1.260 | -1.773 | 4**.**051 | 6**.**645 | 5**.**711 | 0.00 | 0.50 | 0.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Late MajorityN=120 | Mean | 0.234 | 5**.**158 | 0.90 | 3.959 | -2.232 | -4.546 | 6**.**108 | 9**.**047 | 8**.**312 | 0.30 | 0.40 | 0.30 | 0.00 |
| Median | -0.078 | 7**.**000 | 1**.**00 | 3.382 | -2.385 | -3.685 | 5**.**554 | 8**.**542 | 5**.**580 | 0.00 | 0.00 | 0.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Early MajorityN=96 | Mean | -0.316 | 5**.**906 | 0.99 | 3.101 | -1.373 | -2.715 | 6**.**913 | 9**.**506 | 7**.**923 | 0.63 | 0.00 | 0.38 | 0.00 |
| Median | -0.358 | 7**.**000 | 1**.**00 | 2.765 | -2.070 | -3.185 | 6**.**108 | 8**.**495 | 7**.**314 | 1**.**00 | 0.00 | 0.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| EarlyAdopterN=216 | Mean | 0.048 | 4**.**491 | 0.89 | 2.931 | 0.462 | -0.709 | 5**.**799 | 5**.**776 | 4**.**632 | 0.56 | 0.44 | 0.00 | 0.00 |
| Median | -0**.**142 | 4**.**000 | 1**.**00 | 2.926 | -2.638 | -5.065 | 5**.**000 | 4**.**588 | 3**.**434 | 1**.**00 | 0.00 | 0.00 | 0.00 |

This table shows the means and medians of all variables for each category of IFRS *Mandatory Adoption* (extent)*.* All variables are defined as described in the Appendix.

**Table 5:** Spearman and Pearson Correlations

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Variable | Adoption | MandatoryAdoption | Control of Corruption | Disclosure | Audit | Legal UK | Legal French | Legal Socialist | Legal-German | LNGDP | NetLending% of GDP | BOP% of GDP | Changein Inflation% | Change inimports % | Change in Exports% |
| Adoption |   | 0.6**15** | **0.251** | **-0.99** | **0.367** | **0.204** | **-0.152** | -0.048 | -0.019 | **-0.067** | .087 | -0.009 | 0.012 | **-0.092** | **-0.088** |
| MandatoryAdoption | **0.628** |   | **.183** | **-0.151** | **0.295** | **0.244** | **-0.165** | -0.034 | **-0.117** | **-0.210** | .012 | **-0.151** | **0.066** | **-0.061** | -0.043 |
|  |  |
| Control of Corruption | **0.252** | **.128** |   | **0.223** | **0.313** | **0.28** | **-0.14** | **-0.293** | **0.252** | **.293** | **.119** | **.176** | **-0.385** | **-0.081** | -0.043 |
| Disclosure | **-**0.700 | **-0.152** | **.199** |   | 0.033 | **.188** | **-0.149** | -0.034 | -0.014 | **.443** | **.095** | **.172** | **-**0.2**46** | **0.068** | 0.023 |
| Audit | **0.421** | 0.2**56** | **0.23** | 0.028 |   | 0.052 | **0.0190** | **.143** | **0.091** | **.232** | -0.060 | -0.030 | -0.056 | -0.053 | -0.051 |
| Legal-UK | **0.228** | 0.2**72** | **0.317** | 0.2**01** | 0.052 |  | **-**0.6**61** | **-**0.3**28** | **-0.137** | **.070** | **-0.111** | .059 | -0.028 | **-**0.0**88** | **-**0.0**73** |
| Legal French | **-0.200** | **-**0.1**64** | **-0.209** | **-**0.1**47** | **-**0.1**9** | **-**0.6**61** |   | **-0.407** | **-0.169** | .002 | .023 | -0.035 | 0.029 | 0.019 | -0.004 |
| Legal Socialist | -0.018 | **-**0.0**66** | **-0.271** | -0.036 | 0.1**43** | -0.328 | **-0.407** |   | **-0.084** | **-0.137** | **.089** | **-0.125** | **0.108** | **0.113** | **0.089** |
| Legal-German | -0.015 | **-**0.1**29** | **0.302** | -0.053 | 0.0**91** | **-**0.1**37** | **-**0.1**69** | **-**0.0**84** |   | .**093** | .044 | .**197** | **-**0.2**29** | -0.054 | 0.021 |
| LNGDP | **-0.114** | **-**0.1**14** | **0.238** | 0.1**98** | 0.1**08** | 0.0**93** | **-**0.1**54** | 0.004 | 0.1**68** |  |  **.075** | **.457** | **-**0.0**7** | 0.034 | -0.045 |
| Net Lending% of GDP | **.122** | **.117** | **.162** | **.060** | -0.042 | -0.050 | .038 | .021 | -0.017 | .055 |  |  **.386** | -0.043 | **.219** | **.061** |
| BOP % of GDP | **.060** | -0.033 | **.237** | **.130** | .013 | **.060** | -0.018 | **-0.116** | **.130** | **.333** | **.561** |  | **-0.108** | .013 | .007 |
| Changein Inflation% | -0.054 | -0.008 | **-0.305** | **-0.161** | **-0.09** | -0.046 | 0.020 | **0.102** | **-0.146** | -0.054 | -0.056 | -0.032 |   | **0.155** | 0.024 |
| Change inimports % | **-0.088** | -0.052 | **-0.082** | 0.040 | **-**0.0**8** | **-**0.0**81** | 0.036 | 0.0**78** | -0.047 | -0.026 | .**168** | -0.007 | 0.0**77** |   | **0.436** |
| Change in Exports% | **-0.102** | 051 | -0.053 | 0.036 | **-**0.1 | -0.057 | 0.023 | 0.045 | -0.006 | -0.074 | .043 | .004 | 0.010 | 0.4**2** |   |

This table provides correlation coefficients among main variables**.** The upper diagonal shows Spearman correlation coefficients**.** The lower diagonal presents Pearson correlation coefficients**.** All variables are defined as described in the Appendix. Bold face indicates correlation is significant at 5% level**.**

**Table 6**: Multinomial logistic regression results on IFRS *Adoption and Mandatory Adoption*

*Panel A: Main Test of H1 and H2*

|  |  |  |
| --- | --- | --- |
|   | Adoption | Mandatory Adoption |
| Variables | Early Adopters | Early Majority | Late Majority | Laggards | Early Adopters | Early Majority | Late Majority | Laggards |
| Control of Corruption | 1.856\*\*\* | 2.395\*\*\* | 1.665\*\*\* | 1.404\*\*\* | .683\*\*\* | .023 | 1.396\*\*\* | -0.069 |
| LNGDP | -0.280\*\* | -0.045 | .138 | .294\*\* | -0.966\*\*\* | -0.605\*\*\* | -0.108 | .548\*\*\* |
| Net Lending % of GDP | .017 | -0.048 | -0.062\* | -0.101\* | .118\*\*\* | .070\*\* | -0.049 | .133\*\*\* |
| BOP % of GDP | .038\* | .033 | .025 | .080\*\*\* | -0.009 | -0.011 | -0.044\* | -0.095\*\*\* |
| Change in Inflation % | .023 | .029 | .043 | -0.018 | -0.011 | .007 | .022 | -0.006 |
| Change in imports % | -0.011 | .000 | .001 | .000 | -0.007 | .006 | .011 | -0.013 |
| Change in exports % | -0.008 | -0.017 | .004 | -0.004 | -0.020\* | -0.002 | .011 | -0.005 |
| Disclosure | -0.013 | -0.108 | .094 | -0.018 | -0.171\*\*\* | .050 | -0.194\*\*\* | -0.209\*\*\* |
| Legal-UK | 3.977 | 20.814 | 2.078 | 3.205 | 20.661 | 18.164 | 18.695\*\*\* | -0.513 |
| Legal-French | -12.178\*\*\* | 3.124 | -13.451\*\*\* | -14.28\*\*\* | 19.445 | 2.039 | 18.916\*\*\* | 0.073 |
| Legal-Socialist | -11.028 | 6.647 | -10.738\*\*\* | -11.12\*\*\* | 3.784 | 17.046 | 20.067 | 0.202 |
| Audit | 3.125\*\*\* | 6.658\*\*\* | 3.191\*\*\* | 2.331\*\*\* | 2.619\*\*\* | 4.371\*\*\* | 1.134\*\* | 15.717 |
| Chi Squares | 983.678\*\*\* |   |   |   | 956.567\*\*\* |   |   |   |
| Cox and Snell R Square | .603 |  |  |  | .592 |  |  |  |
| Nagelkerke R square | .632 |  |  |  | .630 |  |  |  |
| N | 1,066 |   |   |   | 1,066 |   |   |   |

*Panel B: Controlling for the Rule of Law*

|  |  |  |
| --- | --- | --- |
|   | Adoption | Mandatory Adoption |
| Variables | Early Adopters | Early Majority | Late Majority | Laggards | Early Adopters | Early Majority | Late Majority | Laggards |
| AVGKAUF | 2.827\*\*\* | 3.330\*\*\* | 2.300\*\*\* | 2.298\*\*\* | .827\*\*\* | .192 | 1.531\*\*\* | .100 |
| LNGDP | -0.354\*\*\* | -0.125 | .084 | .228 | -0.993\*\*\* | -0.614\*\*\* | -0.117 | .542\*\*\* |
| Net Lending % of GDP | .016 | -0.039 | -0.060 | -0.107\*\*\* | .124\*\*\* | .064\*\* | -0.027 | .129\*\*\* |
| BOP % of GDP | .048\*\* | .038 | .036\* | .092\*\*\* | -0.012 | -0.007 | -0.048\*\*\* | -0.094 |
| Change in Inflation % | .050\* | .052 | .060 | .011 | -0.010 | .013 | .030 | -0.001 |
| Change in imports % | -0.008 | .002 | .002 | .002 | -0.007 | .008 | .012 | -0.012 |
| Change in exports % | -0.013 | -0.021 | .001 | -0.008 | -0.020\*\* | -0.003 | .011 | -0.004 |
| Disclosure | -0.057 | -0.151\*\* | .060 | -0.052 | -0.174\*\*\* | .024 | -0.214\*\*\* | -0.215\*\*\* |
| Legal-UK | 5.338 | 22.081 | 3.131 | 4.447 | 20.721 | 18.525 | 18.757\*\*\* | -0.433 |
| Legal-French | -10.37\*\*\* | 4.45 | -12.40\*\*\* | -12.97\*\*\* | 19.548 | 2.458 | 18.592\*\*\* | 0.277 |
| Legal-Socialist | -9.534 | 7.933 | -9.715\*\*\* | -9.274\*\*\* | 3.838 | 17.516 | 19.973 | 0.452 |
| Audit | 2.842\*\*\* | 6.263\*\*\* | 2.893\*\*\* | 2.008\*\*\* | 2.558\*\*\* | 4.297\*\*\* | 1.041\*\*\* | 15.658 |
| Chi Squares | 943.843\*\*\* |   |   |   | 943.843\*\*\* |   |   |   |
| Cox and Snell R Square | 0.587 |  |  |  | .587 |  |  |  |
| Nagelkerke R square | 0.624 |  |  |  | .624 |  |  |  |
| N | 1,066 |   |   |   | 1,066 |   |   |   |

This table presents the multinomial logistic regressions results of the main variables of interest on IFRS *Adoption* (speed) and *Mandatory Adoption* (extent).Countries that did not adopt IFRS till the end of 2014 are the reference group in this model. All variables are defined as described in the Appendix. Panel A shows the results of the main regression models in equations (1) and (2). Panel B re-estimates the same regressions while controlling for *AVGKAUF*.

\*, \*\*, \*\*\* indicate significance at the 0.1, 0.05 and 0.01 levels.

**Table 7**: OLS and Binary Logistic Regressions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | OLS | OLS with Rule of Law | Binary Logistic  | Binary Logistic with Rule of Law |
| Variables | Adoption | MandatoryAdoption | Adoption | MandatoryAdoption | Adoption | MandatoryAdoption | Adoption | MandatoryAdoption |
| Control of Corruption | .265\*\*\* | .171\*\*\* | - | - | 1.773\*\*\* | .298\*\*\* | - | - |
| AVGKAUF | - | - | .376\*\*\* | .208\*\*\* | - | - | 2.650\*\*\* | .400\*\*\* |
| LNGDP | -0.152\*\*\* | -0.267\*\*\* | -0.161\*\*\* | -0.270\*\*\* | -0.050 | -0.104 | -0.109 | -0.113\*\* |
| Net Lending % of GDP | .035\*\*\* | .050\*\*\* | .035\*\*\* | .051\*\*\* | -0.008 | .079\*\*\* | -0.009 | .080\*\*\* |
| BOP % of GDP | .001 | -0.008 | 0.000 | -0.009 | .033 | -0.042\*\*\* | .042\* | -0.043\*\*\* |
| Change in Inflation % | .007 | .009 | .010 | .010 | .027 | .003 | .052\* | .006 |
| Change in imports % | -0.004 | -0.004 | -0.004 | -0.004 | -0.007 | -0.005 | -0.005 | -0.005 |
| Change in exports % | -0.005 | -0.002 | -0.006\* | -0.002 | -0.003 | .001 | -0.007 | .000 |
| Disclosure | -0.035\*\* | -0.053\* | -0.040\*\* | -0.055\*\*\* | .009 | -0.111\*\*\* | -0.030 | -0.117\*\*\* |
| Legal-UK | .541\*\*\* | .815\*\*\* | .496\*\*\* | .804\*\*\* | 3.851 | 1.918\*\*\* | 5.030 | 2.002\*\*\* |
| Legal-French | .000 | .000 | 0 | .000 | -16.77\*\*\* | 1.085\*\* | -15.494 | 1.207\*\*\* |
| Legal-Socialist | -0.021 | -0.277\*\* | -0.024 | -0.287\*\* | -14.640 | 1.368\*\* | -13.314 | 1.483\*\*\* |
| Legal-German | -0.400\* | -0.911\*\*\* | -0.523\*\* | -0.947\*\* | 0.000 | 0 | 0.000 | 0.000 |
| Audit | 1.595\*\*\* | 1.325 | 1.529\*\*\* | 1.298\*\*\* | 3.198 | 2.235\*\*\* | 2.834\*\*\* | 2.184\*\*\* |
| Cox and Snell R Square | - | - | - | - | .394 | .215 | .404 | .217 |
| Nagelkerke R square | - | - | - | - | .677 | .287 | .695 | .290 |
|  Adj R Square | .297 | .296 | .306 | .296 | - | - | - | - |
| N  | 1,066 | 1,066 | 1,066 | 1,066 | 1,066 | 1,066 | 1,066 | 1,066 |

This table presents the OLS and binary logistic regressions results of equations (1) and (2). Columns (1) and (2) report the results of equations (1) and (2) using OLS. Columns (3) and (4) show the results of the same regressions while controlling for *AVGKAUF.* Columns (3) -(6) report the results of the models similar to columns (1) -(4) but using binary logistic regressions.

All variables are defined as described in the Appendix.

\*, \*\*, \*\*\* indicate significance at the 0.1, 0.05 and 0.01 levels.

**Appendix: Variable Definitions**

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | Measure | Description | Data Source |
| Dependent Variable |
| IFRS Adoption | *Adoption* | The ordinal variable is created based on the time (speed of IFRS adoption) of first IFRS adoption for a country. The variable receives the value of 4 for all observations of a country that adopted IFRS in 2003; 3 for all observations of a country that adopted IFRS between 2004 and 2006; 2 for all observations of a country that adopted IFRS between 2007 and 2010; 1 for all observations of a country that adopted IFRS after 2010; and zero for all observations for non-adopters. | Ramanna and Sletten (2014)Deloitte IASplusWebsite (2015) |
| IFRS MandatoryAdoption | *MandatoryAdoption* | The ordinal variable is created based on the time of first IFRS mandatory adoption (extent of IFRS adoption) for a country. It receives the value of 4 for all observations of a country that mandated IFRS in 2003; 3 for all observations of a country that mandated IFRS between 2004 and 2006; 2 for all observations of a country that mandated IFRS between 2007 and 2010; 1 for all observations of a country that mandated IFRS after 2010; and Zero for all observations for non-mandatory adopters. | Ramanna and Sletten (2014)Deloitte IASplusWebsite (2015) |
| Independent Variables |   |   |   |
| Corruption | *Controlof Corruption* | Control of corruption index score. This measure reflects the perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. The index score ranges from approximately -2.5 to 2.5, with a higher score indicating less corruption and vice-versa.  | Kaufmann et al.(2014) |
| Rule of Law | *Rule of Law* | Rule of law index score. This score reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of the occurrence of crime and violence. The index score ranges from approximately -2.5 to 2.5, with a higher score indicating less corruption and vice-versa. | Kaufmann et al.(2014) |
| Average of Corruption and Rule of Law | *AVGKAUF* | The average score of the control of corruption index and the rule of law index from Kaufmann et al. (2014). | Kaufmann et al. (2014) |
| Corruption | *CPI*  | Corruption perception index score (CPI). The CPI is a corruption perception index reported by Transparency International (TI). TI ranks countries by their perceived corruption as determined by experts’ assessments and opinion surveys. The index score ranges from 0 to 100, with a higher score indicating less corruption and vice-versa.  | TransparencyInternationalWebsite |
| Extent of BusinessDisclosure | *Disclosure* | The World Bank’s extent of business disclosure index score. This measures the extent of business disclosure in a country. The index score ranges from 0 to 10, with a higher score indicating a better extent of business disclosure. | World Bank WDI |
| Legal Origin | *Legal-UKLegal-FrenchLegal-GermanLegal-Socialist* | Each variable is a dummy variable that takes the value of one for observations of a country following the specified legal system and zero otherwise. | La Porta et al., (1999) |
| Audit Environment | *Audit* | A Dummy variable that receives the value of one for countries where 3 out of the Big 4 audit firms (Deloitte and Touche, Ernst and Young, KPMG and PWC) have offices located in the country**.**  | Manually Collected |
| Economic Controls |   |   |   |
| Natural Log of GDP | *LNGDP* | Natural logarithm of the gross domestic product in USD current prices. | World Bank (2014) |
| General Government net lending/Borrowing | *Net Lending% of GDP* | General government net lending/borrowing as a percentage of GDP. | World Bank (2014) |
| Balance of Payment | *BOP % of GDP* | Current account balance as a percentage of GDP. | World Bank (2014) |
| Inflation | *Inflation* | Percentage change in inflation. | World Bank (2014) |
| Imports | *Change in Imports* | Percentage change in imports. | World Bank (2014) |
| Exports | *Change in Exports* | Percentage change in exports. | World Bank (2014) |
| Variables for Sensitivity Analysis |  |   |   |
| Market Capitalization | *Market Capitalization % of GDP* | Total market capitalization as a percentage of GDP. | World Bank (2014) |
| Share Value Traded | *Share Value Traded % of GDP* | Total value of shares traded as a percentage of GDP. | World Bank (2014) |
| Portfolio inflows to stock market | *Portfolio Inflows % of GDP* | Portfolio inflows as a percentage of GDP. | World Bank (2014) |
| Securities Regulation | *SECREG* | The strength of securities regulations in mandating and enforcing disclosures. This is the measured as the mean of the disclosure index, the liability standard index, and the public enforcement index. | La Porta et al., (2006) |
| Investor Protection | *ANTIDIR* | This captures the investor protection environment as measured by the anti-director index. | La Porta et al., (2006) |

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2. We note that others have articulated the potential negative consequences of IFRs adoption, including impeding the development of local accounting standards and professions; ignoring the differences in national cultures and levels of economic development among countries and in the extent of application, implementation and enforcement of IFRS rules; and IFRS adoption being inherently favorable to the economies of developed countries, among others (Soderstrom & Sun, 2007; Ball, 2006, 2016; De George et al., 2016). [↑](#footnote-ref-2)
3. Othman and Kossentini (2015) investigate the relationship between IFRS adoption and emerging stock markets development. [↑](#footnote-ref-3)
4. Indeed, as previously noted, a number of past studies provide empirical evidence that high levels of corruption could reduce the quality of post-IFRS accounting and disclosure (Zaidi & Huerta, 2014; Kythreotis, 2015; Agyei-Mensah, 2017; Mazzi et al., 2018). [↑](#footnote-ref-4)
5. As the adoption of IFRS in the EU in 2005 was a mandatory act, we exclude them from our analyses in order to avoid confounding our findings. [↑](#footnote-ref-5)
6. See Soderstorm and Sun (2007) and De George et al. (2016) for comprehensive reviews of this literature. [↑](#footnote-ref-6)
7. As suggested by an anonymous reviewer, an important issue that needs to be considered is the role that enforcement plays. If a country has a weak enforcement regime (weak governance and legal and institutional factors), corrupt officials may be less concerned about the adoption of IFRS as the adoption and application can be fundamentally different. Adoption without enforcement and strong oversight may not decrease the risk of shareholder expropriation and illegitimate extraction of benefits. Thus, firms classified as early adopters may not actually be implementing IFRS as required. For example, the World Bank Reports on the Observance of Standards and Codes (ROSCs) note that countries, such as Zimbabwe, have much non-compliance despite being listed as early adopters in 2003. As noted further by Ball (2016), the two major sources of slippage between formal adoption and reporting practice are: (i) the uneven adoption of IFRS as issued by the IASB; and (ii) the uneven implementation of the adopted standards. Hence, the simple fact that most economic and political forces remain local rather than global lead one to expect considerable slippage: that is, to expect substantial variation across jurisdictions, at the coal face, in terms of the actual reporting. However, due to high levels of multicollinearity between “enforcement” and “corruption” variables, we could not control separately for enforcement. We have, therefore, acknowledged this as part of the study’s limitations in the conclusion section. [↑](#footnote-ref-7)
8. See Ball (2016) and De George et al. (2016) for recent literature reviews. [↑](#footnote-ref-8)
9. We also run an additional test using the year of adoption as the dependent variable, instead of our categorical variables, and the results do not change (not reported, but available upon request). [↑](#footnote-ref-9)
10. We also run additional tests that include both the *Control of Corruption* and the *Rule of Law* in the model and the results do not change. When both variables are included in the same regression, only the *Control of Corruption* is significant (not reported, but available upon request). [↑](#footnote-ref-10)