**The Role of National Culture in the Adoption of International Financial Reporting Standards**

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**Abstract**

We examine the relation between four cultural dimensions and countries’ decisions to adopt International Financial Reporting Standards (IFRS) around the world. Using a sample of 76 non-EU countries, we analyze IFRS adoption decisions during the period 2003-2014 to test the hypothesis that country differences in cultural traits can explain parts of the variation in countries’ decisions to adopt IFRS. We find that countries with higher levels of uncertainty avoidance are more likely to adopt IFRS. Additionally, they are more likely to commit to early adoption largely on a voluntary rather than mandatory basis. On the other hand, countries with higher values of masculinity are more likely to adopt IFRS early, but the extent (whether voluntary or mandatory adoption) of adoption is not significantly related to masculinity. The results, which are robust to a number of alternative explanations and specifications, suggest that differences in national culture had a significant role in countries’ reaction to the introduction of IFRS as a set of unified accounting standards targeting the harmonization of accounting standards adopted across different jurisdictions.

Keywords: Culture, IFRS, Institutions, macroeconomic factors.

JEL Classifications: M41, M48

1. **Introduction**

International Financial Reporting Standards (IFRS) refers to the accounting standards issued by the IASB from 2003 onwards**.** Prior to 2003, the standards for financial reporting were referred to as International Accounting Standards (IASs). IASs are accounting standards stating how transactions should be reflected and presented in the financial statements**.** The IASs were issued by the International Accounting Standards Committee (IASC) in 1975**.** On the 1st of April 2001, the IASC was replaced by the IASB, which took over the role of setting international accounting standards; standards issued by IASB are called the International Financial Reporting Standards (IFRS). The IASB reshaped the map of financial reporting on an international level**.** This is evidenced by the large number of countries that have adopted the IFRS since 2001**.**

An important moment in the history of IFRS development was in 2002, whereby the European Commission of the EU pronouncement made the use of IFRS mandatory for all listed firms in their jurisdictions with the effective date in 2005 (EC, 2002). Following on and over the past decade, the adoption of IFRS/IAS has gained considerable momentum around the world (Barth, 2008). In particular, over 100 countries require or permit IFRS adoption for locally listed firms (Daske et al., 2013). Other countries are considering mandating or allowing IFRS adoption for reporting of financial statements by listed firms (Daske et al., 2013).

The importance of accounting standards’ harmonisation has recently been recognised and largely accepted due to the quick development of international capital markets, as well as increased the importance of capital markets’ economic role**.** On the other hand, several multinational corporations are usually listed in more than one stock exchange**.** This creates a need to develop an internationally accepted set of accounting standards (Ding et al., 2005).

To reduce information asymmetry and the variations in accounting quality and economic efficiency across countries, IFRS was 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, of great benefit to investors (EC Regulation No**.** 1606/2002).

International accounting literature provides evidence on the economic consequences of accounting quality[[1]](#footnote-1)**.** The economic consequences include effects on cost of capital, 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 financial performance for firms listed in different countries (Parther-Kinsey, 2006). Therefore, this variation leaves some investors or users of financial statements at an unfavourable position**.** Supporters of IFRS argue that the standards reduce information costs and make it easier for capital market participants to become familiar with one set of global standards than with several local standards (Leuz, 2003).

Despite the importance of IFRS adoption in the context of the harmonisation of accounting standards, very little is known about the country-level determinants of IFRS adoption (Hope et al., 2006). With a better understanding on the country-level characteristics that are associated with a country’s decision whether to adopt IFRS or otherwise, the International Accounting Standards Board (IASB) might be able to promote IFRS more effectively, or help countries with specific institutional settings that might be impairing the countries’ ability to adopt and apply IFRS with the possibility of reaping its full benefits (Hope et al., 2006).

However, this stream of literature is subject to an inherent limitation that the vast majority of the existing evidence has focused almost exclusively on the economic consequences/effects of IFRS adoption at the firm-level (Daske et al., 2008; Armstrong et al., 2010; Daske et al., 2013; Florou and Kosi, 2015). Past studies have, for example, examined IFRS adoption on a wide range of financial outcomes, such as financial reporting quality (Ahmed et al., 2013), analysts forecast accuracy (Cotter et al., 2012), cost of capital (Li, 2010), stock liquidity (Christensen et al., 2013), corporate decisions, such as cross-listing, dividend and investment policies (Hail et al., 2010), executive compensation (Bergstresser and Philippon, 2006), stock market development (Bruggemann et al., 2012) and cross-border capital inflows (DeFond et al., 2011), amongst others. Further, a small number of studies have analysed the effects of voluntary versus mandatory IFRS adoptions (Daske et al., 2013).

By contrast, studies examining why and how countries adopt IFRS or the national and institutional characteristics of the countries adopting IFRS are very rare. In this case, studies by Hope et al. (2006), Judge et al. (2010), and Ramanna and Sletten (2014) are considered to be exceptional**.** For example, Hope et al. (2006) find that disclosure practices, accessibility and size of equity markets and investor protection are associated with IFRS adoption decisions**.** Similarly, Ramanna and Sletten (2014) find evidence that IFRS adoption decisions are systematically related to the perceived benefits that a country can be gain from its network of countries that adopted IFRS**.** Finally, Judge et al. (2010) find that foreign aid, import penetration and level of education achieved within a national economy are significant determinants IFRS adoption decision in 132 countries. Observably, none of these studies examine the extent to which national culture may explain variations in IFRS adoption decisions by different countries. Given the prior evidence on the role of culture in shaping accounting environments and adopting accounting systems (Gray, 1988; Salter and Niswander, 1995), it is surprising that up to this date there is no evidence on the relationship between cultural values and IFRS adoption.

We complement this research by developing and testing the hypothesis that IFRS adoption decisions by different countries can be explained by variations in national cultural values, even when other significant determinants of IFRS[[2]](#footnote-2) adoption are taken into consideration to avoid omitted correlated variable bias.

The reaction of non-EU countries to the introduction of IFRS as a unified set of accounting standards and to its widespread in a relatively short time-period vary significantly. Variations in response to IFRS expansion are two-fold. First, the time of IFRS adoption (the speed of adoption) and what extent will the country adopt IFRS. IFRS adoption within a jurisdiction can be in different forms. Some countries mandated IFRS for listed firms from the first adoption, others only allowed voluntary adoption and in between are countries that allowed voluntary adoption for few years then mandated IFRS reporting to all listed firms within its jurisdiction. Thus, we argue that the varying responses of countries to IFRS adoption can partially be due to how culture, as a determinant of human behaviour, affects the decision of a country to adopt IFRS. For example, according to Hofstede (1980), the main issue underlying uncertainty avoidance is whether a society, or its members, will try to control the future or let it happen. Therefore, it can be argued that countries with high levels of uncertainty avoidance may adopt IFRS to avoid potential negative outcomes that might occur from, failing to adopt IFRS and follow major countries like EU member states or international trade partners, especially that as more countries with economic ties to a particular country, the perceived benefits from IFRS adoption increase (Ramanna and Sletten, 2014). On the other hand, masculinity refers to a preference in a society for achievement and material success (Doupink, 2008). This implies that looking for material success and heroism could encourage a country to adopt IFRS regardless of the extent or quality of adoption since more masculine societies are concerned with material success and not the underlying quality. Therefore, we hypothesize that a country’s adoption of IFRS is likely to be related to its cultural beliefs and values.

We use IFRS adoption data between 2003 and 2014 covering 76 non-EU countries. We measure cultural dimensions (uncertainty avoidance, masculinity, individualism and power distance) using Hofstede (1980) cultural dimensions and data from World Bank (2014) to measure economic and capital market indicators for each country.

Our findings are as follows. First, we find that countries with high *uncertainty avoidance* values are more likely to adopt IFRS earlier and to a larger extent (voluntary vs mandatory adoption). Second, we document that *power distance* is associated with the extent of IFRS adoption. Finally, we find evidence that *masculinity* is positively linked with earlier adoption of IFRS. Our results are robust to the inclusion of observable factors that could be associated with IFR adoption.

Our findings complement the findings of Hope et al. (2006), Judge et al. (2010) and Ramanna and Sletten (2014), who focus on country-level determinants of IFRS adoption. Our evidence informs IASB on a potential factor that might impede or facilitate a country’s decision to adopt IFRS. We argue that our contribution to the literature investigating *ex ante* determinants of IFRS adoption is important for the following reasons. First, the decision of a country whether to allow or mandate IFRS determines whether firms can use IFRS for financial reporting purposes or not. Therefore, it is crucial to understand the factors that explain why countries allow or mandate IFRS. Second, our evidence shows that even though a country’s accounting environment, which includes the set of accounting standards adopted, accounting enforcement, investor protection, disclosure regulation, litigation risks and other factors is a function of a country’s economic, political and legal conditions, other variables like culture can still be important in explaining variations in accounting environments across countries. This is also supported by evidence on how cultural factors influence earnings management even post-IFRS adoption (Gray et al., 2015).

The remainder of this paper is organized as follows. Section 2 develops our main hypotheses. Section 3 presents our research design and descriptive statistics. Section 4 describes the results. Section 5 illustrates our additional and robustness tests. Section 6 concludes.

1. **Hypothesis Development**

Several studies have investigated the association between cultural dimensions and accounting related outcomes. For example, past empirical studies have demonstrated that national culture matters in explaining discernible differences in CEO/executive pay (Bryan et al., 2014; Haynes, 2014; Schuler & Rogovsky, 1998; Tosi & Greckhamer, 2004; Grenness, 2011), voluntary disclosure (Gray, 1988; Hope et al., 2003), divergence of local accounting standards from IAS (Ding et al., 2005), accounting professionalism (Belkaoui, 1989), development of local accounting systems and reforms (Chow et al., 1995; Perera, 1989), corporate social responsibility (Haniffa & Cooke, 2005), earnings management (Han et al., 2010; Gray et al., 2015), internal auditing (Kachelmeier and Shehata, 1997), reporting of questionable acts (Schultz et al., 1993) and corporate governance practices across different countries (Licht et al., 2005; Haxhi & van Ees, 2010; Daniel et al., 2012). Moreover, at a macro-level, Cieslewicz (2014) provides evidence that culture influences the supporting institutions that shape accounting practices in different countries. This evidence is in line with the arguments of the theory of cultural influence on the development of accounting standards. Gray (1988) argues that cultural characteristics shared across a country or a society leads to shared accounting values that influences the nation’s accounting system. We, therefore, draw inspiration from these studies in conjecturing that the various dimensions of national culture can influence the decision of a nation towards IFRS adoption.

Hofstede’s seminal work on explaining human and corporate attitudes from a cultural perspective have been widely received (Hofstede, 1980, 1983, 1991, 2001). In this case, Hofstede defined culture as “*…collective programming of the mind; it manifests itself not only in values, but in more superficial ways: in symbols, heroes and rituals* (Hofstede, 2001, p.1). Originally based on an attitude survey of IBM employees in 66 countries during the 1970s, Hofstede developed country-based indices corresponding to four dimensions of national culture for each country surveyed. With the help of this model, cultural differences between countries can be described in detail (Ding et al., 2005). The definitions of these dimensions are as follows: *Uncertainty avoidance*: The extent to which people feel threatened by uncertain or unknown situations. This is expressed in a need for formality, predictability, and clear rules.[[3]](#footnote-3)

*Individualism*: In individualistic societies, there are few ties beyond those of nuclear family, whereas in collectivist societies, people belong to strong, cohesive in-group units. *Power Distance*: The extent to which less powerful members of society accept that power is unequally distributed. *Masculinity*: In masculine societies men are assertive, tough and concerned with material success, whereas women are more modest, tender and interested in the quality of life. In feminine societies, both are equally concerned with the quality of life.

Gray (1988) made a significant contribution to the accounting literature by extending the cultural dimensions and linking them to accounting practices. Based on Hofstede’s model, he developed four accounting values, *Professionalism, uniformity, conservatism* and *secrecy*. *Professionalism:* The extent of preference given to the exercise of professional judgement and self-regulation rather than the compliance with perspective legal requirements and statutory control. *Uniformity:* a preference for uniform accounting practices across different companies and less tolerance for flexible accounting practices that could suit the circumstances of individual companies. *Conservatism:* A preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to more optimistic and risk-taking approach (Ding et al., 2005). *Secrecy:* A preference for confidentiality and the restriction of disclosing information about the business to external stakeholders.

We develop our hypotheses based on the relationship between Hofstede’s cultural dimensions and Gray’s accounting values. We mainly focus on two main accounting values – *conservatism* and *Uniformity –* for two reasons. First, *secrecy,* is closely related to *conservatism* in that both values imply a cautious approach in financial reporting, yet *secrecy* is related to the disclosure dimension rather than the measurement dimension. Therefore, we believe that it is difficult to attribute IFRS adoption decisions to *secrecy* as it is related to the quality and content of disclosures *de-facto* rather than disclosures required by accounting standards *de-jure.* Additionally, the relationship between Hofstede’s cultural dimensions and *conservatism* is identical to the relationship between the former and *secrecy.* Second, we exclude *professionalism* as its implications are more related to the institutions and regulations governing financial reporting process rather than the set of accounting standards adopted.

According to Gray (1988), countries that are highly uncertainty avoidant are more likely prefer uniformity of accounting standards as this uniformity leads to consistency within companies and comparability of financial statements between companies (Gray, 1988). The fundamental characteristic of an uncertainty avoidant society is that it tries to control the future rather than let it happen (Hofstede, 1980). Following this reasoning, uncertainty avoidance could be positively associated with IFRS adoption for two reasons. First, as mentioned earlier, a flexible set of standards that grant managers more discretion over reported earnings could prevail in these societies and gain preference because it provides managers with tools to exercise discretion in order to *avoid* the *uncertainty* that could arise from negative outcomes, such as missing analysts’ forecasts or violating debt covenants (Doupnik, 2008). Second, several studies on the *ex post* consequences of IFRS adoption 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 increased following by foreign analysts**.** Daske et al. (2008), Daske et al. (2013) and Florou and Kosi (2015) report an overall increase in market liquidity and decrease in cost of capital associated with IFRS adoption**.** IFRS adoption is also associated with more foreign debt and equity investments in firms residing in an IFRS-adopting jurisdiction (DeFond et al., 2011). Given the *ex post* positive consequences that could be expected from a country’s adoption of IFRS, it is reasonable that a country adopts IFRS due to the uncertainty associated with the consequences of failing to adopt IFRS. This reasoning is consistent with the idea that perceived network benefits increase the possibility of IFRS adoption (Ramanna and Sletten, 2014). In this case, a country with high uncertainty avoidance would prefer IFRS adoption so that they can have control over the future of those perceived benefits. This is supported by evidence that IFRS adoption is associated with other *ex post* positive consequences like lower cost of trade (Marquez-Ramos, 2008).

However, prior empirical evidence shows that countries with a higher level of uncertainty avoidance is less likely to prefer uniformity (Salter and Niswander, 1995) and, thus equally less likely to adopt IFRS (Ding et al, 2005). Given this we present our hypothesis in null form:

**Hypothesis 1:** IFRS adoption is unrelated to the uncertainty avoidance dimension of national culture.

Individualism refers to a preference of society members to take care of themselves and their immediate families only (Salter and Niswander, 1995). Since the fundamental issue addressed by this dimension is the degree of interdependence that a society maintains, individualism could influence IFRS adoption in two ways. First, compared to a collective society, nations with high levels of individualism are self-oriented (Hofstede, 2001). This implies that maintaining a degree of independence from other countries could result in lower levels of interaction in terms of trade and other types of connections. Therefore, this could decrease the expected benefits of IFRS adoption. Additionally, individualistic nations are expected to value their local accounting standards and resist IFRS because adopting IFRS could reduce the emphasis on the nation’s individual achievements represented by the local accounting standards the nation developed and accepted for itself. Second, according to Gray (1988) *individualism* is negatively related to *uniformity*. Therefore, it could be argued that countries with higher values of *individualism* who are, in turn, tend to have less preference for uniformity, are less likely to adopt IFRS. However, there is no empirical evidence to justify a directional hypothesis. Therefore, we present our second hypothesis in the null form:

**Hypothesis 2:** IFRS adoption is unrelated to the individualism dimension of national culture.

Next, we explore the relation between power distance and IFRS adoption. It is assumed that power distance has a negative effect on a nation’s accounting environment (Cieslewicz, 2014). In cross-country studies, reported evidence suggests that power distance is associated with higher levels of earnings management (Kanagaretnam et al., 2011; Kinnunen and Koksela, 2003). This reasoning is supported by the fact that power distance is usually associated with lower levels of control of corruption, voice and accountability and regulatory quality (Cieslewicz, 2014). In large power-distance countries, accounting systems are used as a tool to present the desired image (Doupnik, 2008). This implies that from a financial reporting perspective, large power distance countries could be in favour of IFRS adoption as managers in those societies can influence financial reporting choices for opportunistic reasons (Kanagaretnam et al., 2011). This is supported by the evidence that firms in large power distance societies are more likely to engage in “cosmetic earnings management” (Kinnunen and Koksela, 2003). This intuition also could be valid at the country level as a country might opt to adopt IFRS as a “cosmetic fix” to the accounting environment in the nation and adopt the label of IFRS. Additionally, Gray (1988) argues that countries with higher *power distance* are more likely to prefer *uniformity* accounting standards. The notion behind this relationship is that uniformity is more easily facilitated in a large power-distance society. In such societies, the imposition of uniform laws and codes are more likely to be accepted. Due to the lack of empirical evidence, we present the hypothesis in the null form:

**Hypothesis 3:** IFRS adoption is unrelated to the power distance dimension of national culture.

Finally, we explore the relation between masculinity dimension of national culture and IFRS adoption. Masculinity refers to the preference in a society for achievement, assertiveness and material success (Doupnik, 2008). High masculine societies focus on risk-taking and achieving performance targets (Hofsetde, 2001). In masculine societies, men are assertive, tough and concerned with material success, whereas women are more modest, tender and interested in the quality of life. In feminine societies, both are equally concerned with the quality of life.This implies that countries with high masculinity are more likely to prefer IFRS adoption, and earlier than other countries, to have a sense of achievement and heroism. This further implies that masculine nations are more likely to focus on the event of adopting IFRS and not the extent or the quality to which those standards are adopted. Moreover, Gray (1988) argues that masculine societies are less likely to prefer a cautious approach to measurement (*conservatism*) due to the emphasis on heroism and individual achievements. Therefore, it could be argued that IFRS, as a set of accounting standards that could offer a less conservative approach to measurement (Lu and Trabelsi, 2013) could be preferred by countries with higher values of *masculinity.* However, there is no sufficient empirical evidence that suggests a clear relationship between masculinity and IFRS adoption. We present our last hypothesis in the null form.

**Hypothesis 4:** IFRS adoption is unrelated to the masculinity dimension of national culture.

**3. Research Design**

*3****.****1 Measuring variation in IFRS Adoption*

Countries vary with regards to IFRS adoption in terms of time (year of adoption) and extent of IFRS adoption (voluntary or mandatory). To have a comprehensive view on the relationship between cultural dimensions and IFRS adoption, we intend to capture different dimensions of IFRS adoption.

Our first variable is (*Adoption Year)*, which simply refers to the year of the first IFRS adoption in a given country regardless of whether this adoption is voluntary or mandatory. In other words, it represents the first year in which IFRS was allowed or mandated in a given country. We assign the value of 2017 to countries that did not allow or mandate IFRS till 2017[[4]](#footnote-4). Second, *(Extent of Adoption)*, which considers “how” a specific country adopts IFRS. This variable classifies countries based on how their adoption status changed during the period 2003 to 2014. Countries who did not at all adopt IFRS are classified as non-adopters and receive a value of 0. Countries that allowed voluntary adoption, yet did not mandate IFRS adoption later, receive the value of 1. Next, countries that allowed voluntary IFRS adoption, before subsequently mandating IFRS receive the value of 2. Finally, countries that mandated IFRS adoption from the first adoption event receive the value of 3[[5]](#footnote-5). Finally, we include an indicator variable (*Adopted*) that takes the value of 0 for non-adopters and the value of one for all countries that allowed or mandated IFRS adoption between 2003 and 2014. This variable serves two main objectives. First, to show that our results are robust across different regression models. Second, since several independent variables are binary variables, it is worth investigating whether this affects our results or not.

*3****.****2 Independent Variables*

The primary independent variables that we are investigating are the country-level scores of the four cultural dimensions from the Hofstede Index. The cultural dimensions are uncertainty avoidance *(UA)*, masculinity *(MAS)*, power distance *(PDI)* and individualism *(IDV)*. The index assigns a score for each country in each cultural dimension, where a higher score shows higher presence in the prescribed cultural dimension as defined in Section 2. Each dimension is scored based on a scale from 0 to 100, and higher scores (i.e., scores above 50) on each dimension shows a country that is more individualistic, masculine, power distant and exhibit higher uncertainty avoidance and vice-versa (i.e., scores below 50).

*3.3 Control Variables*

To ensure that we have valid results, we include a set of relevant control variables**.** First, we control country level variables that potentially relate to the decision to adopt IFRS**.** In particular, we control for the legal origin (*Legal Origin)* of each country by adding a dummy variable for each legal origin as it is a valid proxy for investor protection (Leuz et al., 2003). Additionally, we control for the audit environment as it might drive the county’s decision to adopt IFRS (Ramanna and Sletten, 2014). We proxy audit environment by the variable (*Audit)* that takes the value of one for countries, where three out of the Big 4 audit firms (Delloite and Touche, Ernst and Young, KPMG and PWC) have offices located in the country**.**

Second, we address concerns about potentially correlated omitted variables. IFRS adoption might be associated with the size of the capital market, stock market activity and country’s financing orientation. Therefore, we control for market capitalization, value of shares traded on the stock market and bank claims by the private sector for each country as a percentage of the country’s GDP. For each variable, we use the mean value for years 2003 and 2014.

Third, larger and more economically successful countries (e.g., US, China and India) are more likely to rely on their local accounting standards compared with small and less economically successful countries (e.g., Botswana, Gambia, and Ghana). Therefore, we control for the economic development of the country-year by including the natural logarithm of GDP *(LNGDP*), percentage of change in inflation, the percentage of change in imports and the percentage of change in exports**.** For each economic control, we take the average of each economic indicator for the country for years 2003-2014.

Finally, we control for political and regional ties as they could influence countries’ decisions towards IFRS adoption. Prior studies show evidence that IFRS adoption decisions are significantly explained by the existence of networks across different countries (Ramanna and Sletten, 2014). Therefore, a group of countries that belong to a specific body could have similar reaction to IFRS adoption. Therefore, there might be an unobservable agreement to adopt or not to adopt IFRS. Therefore, we control for political, regional and geographical relationship. Precisely, we control for several attributes by creating an indicator variable for each of the following OECD, G20, Africa, Asia, Europe, North America and South America. A description of all variables, definitions and data sources is detailed in Appendix A.

*3****.****4 Model and Sample*

Our primary tests are OLS regressions of the categories of adoption that capture the diffusion in IFRS adoption on the cultural dimension as shown in equations (1) and (2). Additionally, since the *Adopted* measure is a binary variable, we estimate the coefficients of equation (3) using binary logistic regression.[[6]](#footnote-6)

*Adoption Year= β0+β1\*UA+ β2\*IDV+β3\*MAS + β\*PDI +* $∑βn Controlsn +ε$ *(1)*

*Adoption Extent= β0+β1\*UA+ β2\*IDV+β3\*MAS + β\*PDI +* $∑βn Controlsn +ε$ *(2)*

*Adopted (0, 1) = β0+β1\*UA+ β2\*IDV+β3\*MAS + β\*PDI +* $∑βn Controlsn +ε$ *(3)*

We are able to obtain the information about the adoption status for 93 non-EU countries**.** We exclude nine countries with missing data for the cultural variables**.** Out of those 84 countries we drop additional nine countries with missing data for our control variables. The final sample is based on 76 non-EU countries. Data on IFRS adoption dates by different countries are presented in Appendix B.

*3****.****5 Descriptive Statistics*

Table 1 provides descriptive statistics for the measures of cultural dimensions. In Panel (A) countries are clustered by *(Adoption Extent),* while in Panel (B) countries are clustered to adopters and non-adopters corresponding to the dependent variable of Equation (3) *(Adopted).* IFRS adoption and cultural dimensions data are available for a total of 84 countries. While Panel (A) does not show a consistent or a monotonic pattern that draws attention that one of the cultural dimensions exhibits large differences than others, Panel (B) shows that uncertainty avoidance (*UA)* is the only cultural dimension that exhibits a mean for adopters that is sufficiently different from the mean for non-adopters. Otherwise, other cultural dimensions exhibits almost equal means when we compare between adopters and non-adopters.

**(Insert Table 1)**

In Table 2, we provide descriptive statistics for our control variables. Table 3 presents the correlations for the main variables of interest. The correlations between the variables are averagely low (even the correlations between the cultural variables) not to pose multicollinearity concerns, with a variance inflation factor below 2.0 for the main variables of interest in an OLS regression. The correlation coefficients show that the variables *UA, AUDIT and Legal-UK[[7]](#footnote-7)* have positive and significant correlation coefficients with IFRS adoption variables. Therefore, the correlation coefficients provides a moderate indication that cultural dimensions could be associated with IFRS adoption. However, in the reported correlations, this is only valid for uncertainty avoidance (*UA).* To adequately draw conclusions on the association between cultural dimensions and IFRS adoption, we will draw our inferences from the regression analysis conducted in the next section.

**(Insert Table 2)**

**(Insert Table 3)**

1. **Empirical Results and Discussion**

Table 4 presents the results of our main regressions of our IFRS adoption variables on cultural dimensions. There are three models in Table 4. In Table 4, the first two models are the results of the OLS regressions specified in equations (1) and (2), respectively. The third model is the results of the binary logistic regression specified in equation (3).

**(Insert Table 4)**

In all models, the coefficient of *uncertainty avoidance (UA)* is positive and statistically significant. The interpretation is that the cultural dimension *uncertainty avoidance* is associated with earlier IFRS adoption and that countries with higher values of *uncertainty avoidance* are more likely to exhibit a greater extent of IFRS adoption. This result is in line with the arguments of Gray (1988) that the preference of uniformity, indicated by adopting a uniform set of standards like IFRS, is consistent with the preference of strong uncertainty avoidance. It also supports the argument that countries with higher values of uncertainty avoidance are more likely to adopt IFRS in order to avoid the uncertainty of losing the *ex post* benefits that are associated with IFRS adoption.

In Table 4, the coefficient of *Individualism (IDV)* is insignificant in all three models. *Power distance (PDI)* although insignificant in models (1) and (3), it shows a positive and significant association with *Extent of Adoption.* The interpretation is that as a cultural dimension, *PDI* does not explain sufficient variation in the time of adoption measured by *Extent of Adoption* and *Adopted,* yet it is positively associated with the variation in the degree of adoption. This means that countries with higher *power distance* values are not likely to adopt IFRS earlier than other countries, yet they are more likely mandate IFRS for companies residing in their jurisdiction. This result falls within the predictions of Gray (1988) since mandating IFRS after local GAAP is more likely to require law, order and rigid codes. This is supported by the fact that IFRS adoption is associated with changes in enforcement in most of the countries that adopted IFRS. This enforcement should be more successful in countries with higher values of *power distance*. Therefore, those countries have the ability to mandate IFRS and issue relevant rules and regulations and the society is more likely to accept and comply with the prescriptive legal requirements and statutory control. On the contrary, *Masculinity* is positive and significant with *Adoption Year* only. This is also in line with the predictions of Gray (1988) and shows that masculine societies are more likely to be concerned with material success and hence, are more likely to rush into IFRS adoption regardless of the extent or the quality of this adoption. It also supports the argument that in masculine societies, less conservative accounting standards could be preferred due to the emphasis on individual achievements and material success.

Finally, Table 4 also shows that *Market Capitalization, Audit* and *Legal-UK* are positive and significant determinants of IFRS adoption variables. The interpretation is that countries with larger capital markets, higher presence of Big-4 auditors and stronger legal systems are more likely to adopt IFRS. This is in line with extant theory and evidence on the role of investor protection, capital market development and the audit environment on IFRS adoption (Ramanna and Sltetten, 2014).

**5. Sensitivity Analyses**

In this section, we conduct some additional tests to ascertain the robustness of our findings. First, we observe from the results in Table 4, that the variables *Legal-UK* and *Market Capitalization* are positively and significantly associated with our IFRS adoption variables. To ensure that those variables are not biasing our results, we run our main regressions after excluding three countries that are considered to have the most developed capital markets and the strongest legal environment. In particular, we repeat the analysis in Table 4 after excluding Australia, Canada and USA. The results of this test are presented in Table 5.

**(Insert Table 5)**

The results in Table 5 support our prior findings for *uncertainty avoidance (UA).* Similar to Table 4, all coefficients of *uncertainty avoidance* are positive and significant. *Individualism (IDV)* shows a negative and moderately significant association with *Adopted.* Although the significance is relatively weak, yet this negative association is in line with the predictions of Gray (1988) that individualistic societies do not prefer uniformity and hence, are less likely to adopt IFRS. Also, the findings in Table 5 support our prior findings for *power distance (PDI)*. Similar to Table 4, *PDI* is positive and significant only when *Extent of Adoption* is the dependent variable. Finally, in *masculinity* does not show any significant association with IFRS adoption variables in Table 4.

Finally, we acknowledge that our results might be subject to omitted correlated variable bias. In particular, Ramanna and Sletten (2014) find evidence that perceived network benefits are a significant determinant of IFRS adoption. Additionally, they control for the rule of law in each country using Kaufmann et al. (2014) *Rule of Law*. Their evidence also suggests that countries with higher *Rule of Law* are more likely to adopt IFRS[[8]](#footnote-8). Therefore, controlling for network effects and rule of law is crucial to identify the reliability and the robustness of our findings. Following Ramanna and Sletten (2014), the perceived network benefits are measured using two variables, *Network Predict* and *Network Raw. Network Predict* is the predicted ratio of a country’s trade with all countries where IFRS is mandated relative to their GDP, where trade and GDP as year *t*-3 predict the ratio in the adoption year t. *Network Raw* is the ratio of a country’s trade with all countries that mandated IFRS relative to the country’s GDP, where trade and GDP are measured as of year *t*-3. We also include *Rule of Law* measured as the average of Kaufmann et al. (2014) rule of law index for each country. The results of these tests are reported in Table 6.

**(Insert Table 6)**

Table 6 presents the results of our main regressions specified in equations (1)-(3) while controlling for network effects and rule of law. However, for each equation there are two models, the first uses (columns 1,3 and 5) *Network Predict* as a proxy for network effects and the other (columns 2, 4 and 6) uses *Network Raw* as a proxy for network effects. We maintain all observations and variables used in Table 3.

The results in Table 6 confirm our findings as follows. First, *uncertainty avoidance* is positively and significantly associated with IFRS adoption variables. This indicates that countries with higher values of *uncertainty avoidance* adopted IFRS earlier and with a larger extent than other countries. We conclude that this evidence is sufficient to support the arguments of Gray (1988) that uncertainty avoidance is associated with the demand for uniformity and contradicts the findings of Salter and Niswander (1995) and Ding et al. (2005). Second, there is no sufficient evidence to conclude that *individualism* is related to countries’ IFRS adoption decisions. Third, the results confirm our findings about *power distance*. *Power distant* societies are more likely to exhibit a larger extent of adoption, given that in such societies issuing rules to mandate IFRS coupled with regulations and rules to ensure a strict implementation of the standards will be accepted by the members of the society. Finally, we show that *masculinity* is associated with earlier adoption of IFRS, regardless whether this early adoption will be followed with more serious efforts to reach a full adoption status (mandatory adoption) of IFRS or not. *Masculine* societies are more likely to be concerned with material success that could be achieved by adopting the label of “IFRS adopter”.

**7. Summary and conclusion**

The primary research question addressed in this study is whether and how various dimensions of national culture influence countries’ decisions towards IFRS adoption. Given the importance of the country-level determinants of IFRS adoption, and the importance of differences in national culture to the institutional and accounting environments, it is surprising that there is no prior evidence on the implications of national culture for IFRS adoption decisions.

We conduct our main analysis using a sample of 76 non-EU countries and IFRS adoption decisions during the period 2003-2014. We examine the relation between four dimensions of national culture and three IFRS adoption proxies. We find that countries with high *uncertainty avoidance* values adopt IFRS earlier and with a larger extent. Additionally, we find that *Power distance (masculinity)* exhibits a positive and significant association only with *Extent of Adoption (Adoption Year).*

Our findings have several important implications for academics, policy-makers, regulatory authorities, accounting standards-setters and enforcement bodies. For regulatory bodies, accounting standard-setters and enforcement bodies, our evidence that national culture matters provides them with additional impetus to carefully consider culture and accordingly make appropriate adjustments when setting, implementing, enforcing and assessing the effectiveness IFRS adoption, especially that prior empirical evidence shows that cultural values are more capable in explaining cross-country variations in earnings management even after IFRS adoption (Gray et al., 2015). For accounting academics, our evidence shows that and confirms that Gray’s theory of accounting values can offer rich and new theoretical insights when employed in empirical analyses, and thus, future accounting researchers may employ the theory to analyze different sets of accounting issues, such as the adoption and diffusion of auditing and governance standards around the world. Future researchers may be able to offer rich qualitative insights by conducting in-depth interviews with companies, managers, standard-setters, investors and regulatory authorities focusing on the issues that we have strived to address through a quantitative means.

Finally, our study is subject to the following limitations. First, due to mandatory adoption of IFRS in the EU, we have excluded EU countries from our sample and thereby, relatively reducing our sample size. As more countries adopt the IFRS and more data becomes available in the future, researchers may be able to offer further insights by replicating our analyses. Second, Hofstede’s cultural values are constant over time. Therefore, we are not able to address our research question by adopting a time-series or a panel data research design similar to Ramanna and Sletten (2014). However, we adjust our dependent variables to adequately resolve this issue. Third, while we control for all variables that could possibly influence IFRS adoption, there might be other unobservable factors that are not controlled for. Finally, we note that the reported results are observed associations. Therefore, we caution that our findings are interpreted as a claim for the presence of a causal relationship between cultural dimensions and IFRS adoption.

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**Table 1: Descriptive Statistics for measures of cultural dimensions**

|  |  |
| --- | --- |
| Panel (A)IFRS Adoption=Adoption Extent | Panel (B) IFRS Adoption=Adopted (0,1) |
| CulturalDimension |   | UA | IND | PDI | MAS | CulturalDimension |   | UA | IND | PDI | MAS |
| AdoptionExtent |   |   |   |   |   | Adopted |   |   |   |   |   |
| Non Adopter=0N=16 | Mean | 61.792 | 27.896 | 70.219 | 47.323 | No=0N=43 | Mean | 62.209 | 31.868 | 70.686 | 50.752 |
|  | Median | 54.000 | 20.000 | 77.000 | 46.000 |  | Median | 60.000 | 29.000 | 77.000 | 48.000 |
|  | SD | 14.795 | 18.988 | 14.532 | 10.726 |  | SD | 20.988 | 16.768 | 16.579 | 12.039 |
|  | Min | 41.333 | 12.000 | 35.000 | 21.000 |  | Min | 8.000 | 11.000 | 22.000 | 21.000 |
|  | Max | 86.333 | 91.000 | 81.000 | 73.000 |  | Max | 96.333 | 91.000 | 104.000 | 95.000 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Voluntary Adopter=1N=27 | Mean | 62.457 | 34.222 | 70.963 | 52.784 | Yes=1N=41 | Mean | 69.671 | 31.817 | 70.341 | 49.085 |
|  | Median | 68.000 | 34.000 | 74.000 | 53.000 |  | Median | 68.000 | 29.500 | 75.000 | 47.000 |
|  | SD | 24.189 | 15.189 | 17.943 | 12.499 |  | SD | 19.058 | 16.041 | 16.905 | 11.108 |
|  | Min | 8.000 | 11.000 | 22.000 | 34.000 |  | Min | 13.000 | 6.000 | 13.000 | 28.000 |
|  | Max | 96.333 | 79.000 | 104.000 | 95.000 |  | Max | 101.000 | 90.000 | 95.000 | 69.000 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Voluntary then Mandatory=2N=14 | Mean | 71.893 | 37.107 | 65.464 | 52.393 |  |  |  |  |  |  |
|  | Median | 71.500 | 30.000 | 67.000 | 50.500 |  |  |  |  |  |  |
|  | SD | 19.088 | 23.445 | 22.576 | 12.213 |  |  |  |  |  |  |
|  | Min | 45.000 | 8.000 | 13.000 | 36.000 |  |  |  |  |  |  |
|  | Max | 100.000 | 90.000 | 93.000 | 69.000 |  |  |  |  |  |  |
| Mandatory=3N=27 | Mean | 68.519 | 29.074 | 72.870 | 47.370 |  |  |  |  |  |  |
|  | Median | 68.000 | 27.000 | 77.000 | 44.000 |  |  |  |  |  |  |
|  | SD | 19.302 | 9.908 | 12.859 | 10.310 |  |  |  |  |  |  |
|  | Min | 13.000 | 6.000 | 45.000 | 28.000 |  |  |  |  |  |  |
|  | Max | 101.000 | 39.000 | 95.000 | 68.000 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total N=84 | Mean | 65.851 | 31.843 | 70.518 | 49.938 | Total N=84 | Mean | 65.851 | 31.843 | 70.518 | 49.938 |
|  | Median | 68.000 | 29.500 | 77.000 | 47.500 |  | Median | 68.000 | 29.500 | 77.000 | 47.500 |
|  | SD | 20.298 | 16.318 | 16.638 | 11.555 |  | SD | 20.298 | 16.318 | 16.638 | 11.555 |
|  | Min | 8.000 | 6.000 | 13.000 | 21.000 |  | Min | 8.000 | 6.000 | 13.000 | 21.000 |
|   | Max | 101.000 | 91.000 | 104.000 | 95.000 |   | Max | 101.000 | 91.000 | 104.000 | 95.000 |

This table provides descriptive statistics for the cultural dimensions clustered by Adoption categories. UA= Uncertainty Avoidance, IND=Individualism, PDI= Power Distance and MAS=Masculinity.

**Table 2: Descriptive Statistics for other independent variables**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Variable | Mean | Median | SD | Min | Max |
| Market Capitalization | 50.035 | 24.307 | 109.103 | 0.000 | 897.045 |
| Value Traded | 27.387 | 1.850 | 67.251 | 0.000 | 496.246 |
| Bank Claims | 46.569 | 37.080 | 36.578 | 2.451 | 170.109 |
| OECD | 0.122 | 0.000 | 0.329 | 0.000 | 1.000 |
| G 20 | 0.183 | 0.000 | 0.389 | 0.000 | 1.000 |
| North America | 0.134 | 0.000 | 0.343 | 0.000 | 1.000 |
| South America | 0.134 | 0.000 | 0.343 | 0.000 | 1.000 |
| Africa | 0.220 | 0.000 | 0.416 | 0.000 | 1.000 |
| Asia | 0.378 | 0.000 | 0.488 | 0.000 | 1.000 |
| Europe | 0.110 | 0.000 | 0.315 | 0.000 | 1.000 |
| Audit | 0.798 | 1.000 | 0.404 | 0.000 | 1.000 |
| Legal-UK | 0.321 | 0.000 | 0.470 | 0.000 | 1.000 |
| Legal-French | 0.464 | 0.000 | 0.502 | 0.000 | 1.000 |
| Legal-German | 0.036 | 0.000 | 0.187 | 0.000 | 1.000 |
| LNGDP | 3.369 | 3.038 | 1.950 | 0.176 | 9.318 |
| Inflation | 5.861 | 3.709 | 7.235 | -5.009 | 42.655 |
| Imports  | 7.293 | 5.073 | 12.094 | -20.883 | 52.255 |
| Exports | 8.013 | 6.731 | 10.368 | -16.647 | 40.028 |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|   | Adoption Year | Adoption Extent | Adopted | UA | IND | PDI | MAS | Market Capitalization | Value Traded | Bank Claims | Audit | Legal-UK | Legal-French | Legal-German | LNGDP | Inflation | Imports  | Exports |
| Adoption Year | 1.000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adoption Extent | 0.644\*\*\* | 1.000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adopted | 0.507\*\*\* | 0.904\*\*\* | 1.000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| UA | 0.105 | 0.154 | 0.185\* | 1.000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| IND | 0.145 | -0.008 | -0.002 | -0.114 | 1.000 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| PDI | -0.051 | 0.039 | -0.010 | 0.123 | -0.482\*\*\* | 1.000 |  |  |  |  |  |  |  |  |  |  |  |  |
| MAS | 0.051 | -0.058 | -0.073 | -0.330\*\*\* | 0.277 | -0.068 | 1.000 |  |  |  |  |  |  |  |  |  |  |  |
| Market Capitalization | 0.193\* | -0.005 | -0.064 | -0.264\*\* | 0.152 | -0.123 | 0.137 | 1.000 |  |  |  |  |  |  |  |  |  |  |
| Value Traded | 0.102 | -0.087 | -0.142 | -0.257\*\* | 0.268 | -0.202 | 0.213\* | 0.900\*\*\* | 1.000 |  |  |  |  |  |  |  |  |  |
| Bank Claims | 0.199\* | 0.036 | -0.068 | -0.168 | 0.400\*\*\* | -0.298\*\*\* | 0.201\* | 0.627\*\*\* | 0.627\*\*\* | 1.000 |  |  |  |  |  |  |  |  |
| Audit | 0.391\*\*\* | 0.304\*\*\* | 0.255\*\* | 0.075 | 0.175 | -0.128 | -0.093 | -0.075 | -0.051 | 0.116 | 1.000 |  |  |  |  |  |  |  |
| Legal-UK | 0.187\* | 0.188\* | 0.093 | -0.521\*\*\* | 0.238 | -0.319\*\*\* | 0.093 | 0.269\*\* | 0.293\*\* | 0.234\*\* | 0.030 | 1.000 |  |  |  |  |  |  |
| Legal-French | -0.202\* | -0.216\*\* | -0.097 | 0.263\*\* | -0.300 | 0.149 | -0.112 | -0.178 | -0.262\*\* | -0.280\*\* | -0.185\* | -0.641\*\*\* | 1.000 |  |  |  |  |  |
| Legal-German | 0.000 | 0.008 | -0.060 | 0.119 | 0.144 | -0.247\*\* | 0.303\*\*\* | 0.137 | 0.257\*\* | 0.467\*\*\* | 0.097 | -0.133 | -0.179 | 1.000 |  |  |  |  |
| LNGDP | -0.037 | -0.130 | -0.107 | -0.049 | 0.343 | -0.198\* | 0.267\*\* | 0.289\*\* | 0.455\*\*\* | 0.441\*\*\* | 0.256\*\* | 0.178 | -0.075 | 0.176 | 1.000 |  |  |  |
| Inflation | 0.067 | 0.130 | 0.164 | 0.050 | -0.089 | 0.093 | 0.008 | -0.260\*\* | -0.239\*\* | -0.354\*\*\* | 0.019 | -0.106 | 0.015 | -0.124 | -0.127 | 1.000 |  |  |
| Imports  | -0.070 | -0.023 | -0.079 | 0.053 | 0.170 | 0.037 | -0.210\* | -0.011 | 0.003 | -0.081 | -0.142 | -0.089 | -0.115 | -0.033 | -0.074 | -0.079 | 1.000 |  |
| Exports | -0.013 | 0.143 | 0.147 | -0.127 | -0.117 | 0.070 | -0.085 | -0.015 | 0.020 | -0.086 | -0.055 | 0.052 | -0.163 | -0.006 | -0.082 | 0.050 | 0.4224 | 1.000 |

**Table 3: Correlation Table**

This table presents Pearson’s Correlation coefficients for our main variables of interest. All variables are defined in the Appendix. \*, \*\* and \*\*\* indicate significance at the 1%, 5% and 10% levels, respectively. All variables are defined in Appendix A.

**Table 4: Cultural Dimensions and IFRS Adoption**

|  |  |  |  |
| --- | --- | --- | --- |
|  | OLS(1) | OLS(2) | Binary Logistic(3) |
| IFRS Adoption = | Adoption Year | Extent of Adoption | Adopted (0,1) |
| Variables | Coefficient | Sig | Coefficient | Sig | Coefficient | Sig |
| UA | 0.144\*\*\* | 0.006 | 0.031\*\*\* | 0.003 | 0.278\*\*\* | 0.009 |
| IDV | 0.015 | 0.769 | 0.007 | 0.492 | -0.053 | 0.377 |
| PDI | 0.023 | 0.634 | 0.020\*\* | 0.038 | 0.064 | 0.168 |
| MAS | 0.122\* | 0.080 | 0.005 | 0.732 | 0.042 | 0.504 |
| Market Capitalization | 0.029\* | 0.057 | 0.006\* | 0.056 | 0.051\*\* | 0.030 |
| Value Traded | -0.033 | 0.192 | -0.010\* | 0.051 | -0.116\*\* | 0.017 |
| Bank Claims | 0.038 | 0.247 | 0.007 | 0.250 | 0.069 | 0.103 |
| OECD | -0.650 | 0.794 | 0.849\* | 0.088 | 10.907\*\* | 0.027 |
| G 20 | 2.284 | 0.326 | 0.380 | 0.408 | 7.983\*\* | 0.043 |
| North America | 0.387 | 0.934 | 0.800 | 0.390 | 2.124 | 0.520 |
| South America | -1.949 | 0.699 | 1.120 | 0.264 | 7.664\* | 0.087 |
| Africa | -0.143 | 0.978 | 0.763 | 0.451 | 7.510\* | 0.088 |
| Asia | 0.342 | 0.942 | 0.742 | 0.430 | 5.662 | 0.171 |
| Europe | -2.019 | 0.690 | -0.620 | 0.536 | -8.602\*\* | 0.059 |
| Audit | 6.547\*\*\* | 0.000 | 0.875\*\*\* | 0.007 | 5.329\*\* | 0.017 |
| Legal-UK | 4.817\*\* | 0.039 | 0.883\* | 0.055 | 0.481 | 0.855 |
| Legal-French | 0.682 | 0.754 | -0.483 | 0.263 | -7.213\*\* | 0.029 |
| Legal-German | -3.525 | 0.473 | -0.007 | 0.994 | -18.243\*\* | 0.043 |
| LNGDP | -1.035\* | 0.073 | -0.238\*\* | 0.038 | -1.428\* | 0.055 |
| Inflation | 0.156\* | 0.081 | 0.040\*\* | 0.025 | 0.322\*\* | 0.016 |
| Imports  | -0.003 | 0.964 | -0.005 | 0.698 | -0.119\* | 0.079 |
| Exports | 0.081 | 0.191 | 0.032\*\* | 0.011 | 0.349\*\*\* | 0.007 |
| N | 76 |   |   | 76 |   | 76 |
| Adjusted R2 | 0.307 |   |   | 0.362 |   |   |
| Pseudo R2 |   |   |   |   |   | 0.612 |

This table reports the results of our main regressions specified in Equation (1). Model (1) reports the results for regressing independent variables on Adoption Year using OLS. Model (2) reports the results for regressing independent variables on the extent of IFRS adoption using OLS. Model (3) reports the results of regressing independent variables on the indicator variable Adopted using Binary logistic regression. All variables are defined in Appendix A. \*, \*\* and \*\*\* indicate significance at the 1%, 5% and 10% levels, respectively.

**Table 5: Sensitivity Analysis (excluding Australia, Canada and USA)**

|  |  |  |  |
| --- | --- | --- | --- |
|   | OLS(1) | OLS(2) | Binary Logistic(3) |
| IFRS Adoption = | Adoption Year | Extent of Adoption | Adopted (0,1) |
| Variables | Coefficient | Sig | Coefficient | Sig | Coefficient | Sig |
| UA | 0.119\*\* | 0.044 | 0.033\*\*\* | 0.005 | 0.808\* | 0.061 |
| IDV | 0.063 | 0.411 | -0.001 | 0.971 | -0.357\* | 0.077 |
| PDI | 0.036 | 0.477 | 0.018\* | 0.086 | 0.088 | 0.502 |
| MAS | 0.103 | 0.166 | 0.008 | 0.587 | 0.254 | 0.157 |
| Market Capitalization | 0.018 | 0.354 | 0.007\* | 0.058 | 0.096 | 0.100 |
| Value Traded | -0.009 | 0.787 | -0.013\* | 0.055 | -0.388\*\* | 0.048 |
| Bank Claims | 0.027 | 0.454 | 0.009 | 0.208 | 0.258 | 0.112 |
| OECD | -0.190 | 0.944 | 0.797 | 0.137 | 14.764 | 0.555 |
| G 20 | 1.084 | 0.684 | 0.424 | 0.420 | 23.741\*\* | 0.036 |
| North America | 3.191 | 0.687 | 1.029 | 0.510 | 1.819 | 0.999 |
| South America | 0.476 | 0.951 | 1.400 | 0.365 | 17.698 | 0.994 |
| Africa | 1.376 | 0.852 | 1.171 | 0.423 | 21.362 | 0.993 |
| Asia | 1.370 | 0.841 | 1.221 | 0.368 | 23.376 | 0.993 |
| Europe | -0.635 | 0.930 | -0.160 | 0.910 | -11.640 | 0.996 |
| Audit | 6.467\*\*\* | 0.000 | 0.902\*\*\* | 0.007 | 16.261\* | 0.073 |
| Legal-UK | 4.330\* | 0.076 | 0.941\* | 0.051 | 9.716 | 0.675 |
| Legal-French | 0.137 | 0.953 | -0.406 | 0.382 | -8.852 | 0.701 |
| Legal-German | -3.755 | 0.470 | 0.035 | 0.973 | -32.789 | 0.456 |
| LNGDP | -0.829 | 0.180 | -0.252\*\* | 0.041 | -4.108\* | 0.094 |
| Inflation | 0.122 | 0.207 | 0.044\*\* | 0.022 | 1.022\* | 0.059 |
| Imports  | -0.003 | 0.954 | -0.004 | 0.752 | -0.205\* | 0.071 |
| Exports | 0.068 | 0.298 | 0.034\*\*\* | 0.010 | 1.055\* | 0.065 |
| N | 73 |   | 73 |   | 73 |   |
| Adjusted R2 | 0.2789 |   | 0.3496 |   |  |   |
| Pseudo R2 |   |   |   |   | 0.7523 |   |

This table reports the results of our main regressions specified in Equation (1), excluding countries with strong accounting enforcement and high quality local accounting standards (Australia, Canada and USA). Model (1) reports the results for regressing independent variables on Adoption Year using OLS. Model (2) reports the results for regressing independent variables on the extent of IFRS adoption using OLS. Model (3) reports the results of regressing independent variables on the indicator variable Adopted using Binary logistic regression. All variables are defined in Appendix A. \*, \*\* and \*\*\* indicate significance at the 1%, 5% and 10% levels, respectively

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | OLS(1) | OLS(2) | OLS(3) | OLS(4) | Binary Logistic(5) | Binary Logistic(6) |
| IFRS Adoption= | Adoption Year | Extent of Adoption | Adopted (0,1) |
| Network= | Network Predict | Network Raw | Network Predict | Network Raw | Network Predict | Network Raw |
| Variables | Coefficient | Sig | Coefficient | Sig | Coefficient | Sig | Coefficient | Sig | Coefficient | Sig | Coefficient | Sig |
| UA | 0.148\*\*\* | 0.004 | 0.150\*\*\* | 0.007 | 0.031\*\*\* | 0.003 | 0.029\*\*\* | 0.008 | 0.269\*\* | 0.023 | 0.261\*\* | 0.020 |
| IDV | 0.039 | 0.518 | 0.019 | 0.766 | 0.017 | 0.167 | 0.012 | 0.319 | 0.052 | 0.557 | -0.021 | 0.763 |
| PDI | 0.043 | 0.375 | 0.024 | 0.635 | 0.023\*\* | 0.016 | 0.020\*\* | 0.046 | 0.106 | 0.115 | 0.065 | 0.203 |
| MAS | 0.147\*\* | 0.038 | 0.125\* | 0.087 | 0.007 | 0.591 | 0.002 | 0.886 | 0.085 | 0.267 | 0.040 | 0.584 |
| Market Capitalization | 0.028\* | 0.068 | 0.030\* | 0.060 | 0.006\*\* | 0.041 | 0.007\*\* | 0.037 | 0.056\*\* | 0.036 | 0.055\*\* | 0.022 |
| Value Traded | -0.028 | 0.255 | -0.033 | 0.200 | -0.009\* | 0.061 | -0.010\*\* | 0.044 | -0.106\* | 0.063 | -0.111\*\* | 0.025 |
| Bank Claims | 0.029 | 0.402 | 0.038 | 0.302 | 0.007 | 0.325 | 0.007 | 0.300 | 0.068 | 0.170 | 0.067 | 0.179 |
| OECD | 1.989 | 0.497 | -0.834 | 0.765 | 1.476\*\* | 0.012 | 1.004\* | 0.070 | 16.048\*\* | 0.023 | 12.500\*\* | 0.037 |
| G 20 | 2.118 | 0.359 | 2.163 | 0.370 | 0.289 | 0.521 | 0.321 | 0.495 | 6.051 | 0.217 | 6.705 | 0.102 |
| North America | -1.596 | 0.736 | 0.425 | 0.930 | 0.439 | 0.635 | 0.746 | 0.434 | 2.451 | 0.503 | 2.263 | 0.515 |
| South America | -2.010 | 0.689 | -2.215 | 0.673 | 1.093 | 0.269 | 1.053 | 0.306 | 9.583\* | 0.061 | 7.235 | 0.122 |
| Africa | -1.237 | 0.808 | 0.307 | 0.956 | 0.434 | 0.664 | 0.475 | 0.659 | 7.358 | 0.143 | 5.954 | 0.232 |
| Asia | -0.969 | 0.837 | 0.544 | 0.913 | 0.472 | 0.610 | 0.630 | 0.516 | 5.792 | 0.193 | 5.145 | 0.230 |
| Europe | -6.450 | 0.233 | -1.034 | 0.855 | -1.455 | 0.170 | -0.810 | 0.465 | -10.716\* | 0.068 | -9.364\* | 0.077 |
| Audit | 6.795\*\*\* | 0.000 | 6.586\*\*\* | 0.000 | 0.951\*\*\* | 0.004 | 0.885\*\*\* | 0.009 | 6.047\*\* | 0.011 | 5.133\*\* | 0.023 |
| Legal-UK | 3.687 | 0.157 | 4.496\* | 0.097 | 0.796 | 0.119 | 1.002\*\* | 0.059 | 1.402 | 0.730 | 1.796 | 0.607 |
| Legal-French | 0.415 | 0.858 | 0.442 | 0.857 | -0.398 | 0.382 | -0.319 | 0.507 | -6.085 | 0.159 | -5.905\* | 0.098 |
| Legal-German | -5.934 | 0.254 | -3.902 | 0.468 | -0.177 | 0.861 | 0.371 | 0.723 | -16.449 | 0.144 | -16.161\* | 0.091 |
| LNGDP | -1.536\*\* | 0.017 | -1.083\* | 0.084 | -0.332\*\*\* | 0.008 | -0.225\* | 0.066 | -2.014\*\* | 0.032 | -1.200 | 0.181 |
| Inflation | 0.150\* | 0.098 | 0.158\* | 0.096 | 0.035\*\* | 0.048 | 0.036\* | 0.055 | 0.258\* | 0.056 | 0.283\*\* | 0.040 |
| Imports  | -0.012 | 0.842 | -0.004 | 0.951 | -0.007 | 0.519 | -0.006 | 0.617 | -0.129\* | 0.093 | -0.120\* | 0.068 |
| Exports | 0.097 | 0.139 | 0.078 | 0.256 | 0.038\*\*\* | 0.004 | 0.037\*\*\* | 0.007 | 0.385\*\*\* | 0.010 | 0.371\*\*\* | 0.009 |
| Rule of Law | -0.386 | 0.824 | 0.039 | 0.983 | -0.316 | 0.354 | -0.249 | 0.482 | -3.055 | 0.235 | -1.878 | 0.411 |
| Network  | 47.186 | 0.032\*\* | -4.913 | 0.589 | 8.667\*\* | 0.044 | 0.539 | 0.761 | 39.105 | 0.140 | 4.350 | 0.682 |
| N | 75 |   | 75 |   | 75 |   | 75 |   | 75 |   | 75 |   |
| Adjusted R2 | 0.338 |   | 0.278 |   | 0.392 |   | 0.341 |   |   |   |   |   |
| Pseudo R2 |   |   |   |   |   |   |   |   | 0.644 |   | 0.616 |   |

**Table 6: Alternative Explanations (Controlling for Network Effects and Rule of Law)**

This table reports the results of our main regressions specified in Equation (1), while controlling for Rule of Law (Kaufmann et al. 2014) and Network Effects (Ramanna and Sletten, 2014). Models (1), (3) and (5) use Network Predict as a proxy for network effects, while models (2), (4) and (6) use Network Raw as a proxy for Network Effects All variables are defined in Appendix A. \*, \*\* and \*\*\* indicate significance at the 1%, 5% and 10% levels, respectively.

**Appendix A: Variable Definitions**

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | Measure | Description | Data Source |
| Dependent Variable |
| Time of Adoption | *Adoption Year* | The year of first IFRS adoption as stated in Table 1. This date refers to the first adoption of IFRS by the country regardless of the extent of adoption (voluntary or mandatory). The *Adoption Year* value is multiplied by -1 in regressions so that higher values indicate earlier adoption so that this variable is consistent with *Adoption Extent* and *Adopted* and for ease of interpreting regression coefficients.  | Ramanna and Sletten (2014)Deloitte IASplus Website (2015) |
| Extent of IFRS Adoption | *Extent of Adoption* | Ordinal Variable created based on the extent of IFRS Adoption for a Country. Receives the value of 3 for a country that mandated IFRS in the first adoption, 2 for countries that allowed voluntary adoption then mandated IFRS, 1 for a country that allowed voluntary IFRS adoption but never mandated IFRS, 0 for a country that never allowed or mandated IFRS. | Ramanna and Sletten (2014)Deloitte IASplus Website (2015) |
| Adopted (0,1) | *Adopted* | An indicator variable that takes the value of 1 in the country mandated IFRS adoption between 2003 and 2014, otherwise 0.  | Ramanna and Sletten (2014)Deloitte IASplus Website (2015) |
| Independent Variables |   |   |   |
| Culture (*UncertaintyAvoidance)* | *UA* | The extent to which people feel threatened by uncertain or unknown situations. This is expressed in a need for formality, predictability, and clear rules.  | Hofstede (1980) |
| Culture (*Individualism)* | *IDV* | In individualistic societies, there are few ties beyond those of nuclear family, whereas in collectivist societies people belong to strong, cohesive in-groups.  | Hofstede (1980) |
| Culture (*Power Distance)* | *PDI* | The extent to which less powerful members of society accept that power is unequally distributed. | Hofstede (1980) |
| Culture *(Masculinity)* | *MAS* | In masculine societies men are assertive, tough and concerned with material success, whereas women are more modest, tender and interested in the quality of life. In feminine societies, both are equally concerned with the quality of life. | Hofstede (1980) |
| Legal Origin | *Legal-UKLegal FrenchLegal German* | 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 three out of the Big 4 audit firms (Delloite and Touche, Ernst and Young, KPMG and PWC) have offices located in the country**.**  | Manually Collected |
| Other Country Controls |  |   |   |
| Natural Log of GDP | *LNGDP* | Natural logarithm of the gross domestic product in USD current Prices. | 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) |
| Market Capitalization | *Market Capitalization % of GDP* | Total market capitalization as a percentage of the GDP. | World Bank (2014) |
| Share Value Traded | *Share Value Traded % of GDP* | Total value of shares traded as a percentage of the GDP. | World Bank (2014) |
| Financing Orientation | *Bank Claims* | Domestic Credit to Private Sector by Banks | World Bank (2014) |
| Rule of Law | *Rule of Law* | Rule of law index 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 crime and violence. Index score ranges from approximately -2.5 to 2.5, with a higher score indicating less corruption and vice-versa. | Kaufmann et al.(2014) |
| Network  | *Network Predict* | Predicted ratio of a country’s trade with IFRS adopters relative to the country’s GDP. | Ramanna and Sltetten (2014) |
| Network  | *Network Raw* | Ratio of a country’s trade with IFRS adopters relative to the country’s GDP | Ramanna and Sltetten (2014) |

**Appendix B**: **List of Countries in the Dataset and IFRS Adoption Dates**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | 2010 | 2c  | 2009 | 2a | 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 the 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, or 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

1. A number of literature reviews of the effects and drivers of IFRS adoption exist (e.g., Ball, 2016; De George et al., 2016; Soderstorm & Sun, 2007). [↑](#footnote-ref-1)
2. Among others, we control for rule of law, capital market size, economic development, network effects to validate our contribution. Our results are robust and significant even when controlling for all other determinants of IFRS adoption. [↑](#footnote-ref-2)
3. It is worthy to note that following academic criticisms (e.g., Baskerville, 2003) of Hofstede’s original four cultural dimensions (Hofstede, 1980, 1983) that have been briefly explained above, extensions (Hofstede, 1991, 2001) have been incorporated in subsequent studies. For example, Hofstede introduced two new dimensions, namely long-term versus short-term orientation and indulgence versus restraint societies following further analysis in China. Notable criticism of, and extension to, Hofstede’s work has been by the GLOBE team (Global Leadership and Organizational Behavior Effectiveness Research). Conceived and led by House et al. (2004), the conducted a large scale study following Hofstede’s original work and identified nine major cultural values. However, differences in the measures and classifications are very small and largely center on Hofstede’s original work. Additionally, Doupnik (2008) argues that the use of Hofstede’s dimensions is beneficial because they have been linked theoretically to accounting (Gray, 1988). Also, empirical studies provide evidence that Hofstede’s cultural dimensions are related to cross-national differences in accounting practices (Doupnik and Tsakumis 2004; Tsakumis, 2007). Finally, no other better alternative measures of cultural dimensions has been developed and accepted to-date by cross-cultural researchers (Doupnik, 2008). We did not run additional tests using GLOBE as when we matched our sample with GLOBE data, we lost more than 50% of our sampled countries. [↑](#footnote-ref-3)
4. In regressions, we multiply (*Adoption Year)* by -1 so that higher values indicate earlier IFRS adoption for two reasons: (i)this is to help render the year of adoption (*Adoption Year*) to be consistent with the extent of adoption (*Adoption Extent*) and (*Adopted)*; and (ii) to also facilitate the interpretation of the relationship between culture and IFRS adoption. [↑](#footnote-ref-4)
5. Since we are investigating the effect of culture on variations in IFRS adoption across countries, we think that including the EU countries in the study is not possible for two reasons. First, all EU countries mandated IFRS in 2005, and hence this group of countries does not exhibit variation in response to IFRS. Second, it is not possible to treat all EU member states as one country since the EU member states are diversified in terms of cultural dimensions. [↑](#footnote-ref-5)
6. The dependent variable (*Adoption Extent)* is an ordinal variable with four distinct categories and hence, the coefficients could be estimated using multinomial logistic regression. Due to the limited sample size, the number of observations in each category is not sufficient to run a multinomial logistic regression. However, in additional tests (not reported), our results do not change when multinomial logistic regression is used to estimate Equation (2). [↑](#footnote-ref-6)
7. We observe a high correlation coefficient between *UA* and *Legal-UK*. Therefore, we perform some additional tests (not reported) to ensure that the high correlation is not affecting our estimates. *Legal-UK* only shows a significant association with IFRS adoption variables when *UA* is controlled for in our regressions. However, *UA* is significantly associated with IFRS adoption whether *Legal-UK* is controlled for or otherwise. In other words, our tests confirm that *UA* and *Legal-UK* are not explaining the same variation in our IFRS adoption variables. [↑](#footnote-ref-7)
8. We also control for Rule of law as it is highly correlated with disclosure practices, securities regulations and investor protection. Those variables can explain variations in IFRS adoption decisions (Hope et al., 2006). [↑](#footnote-ref-8)