

Original Paper

Determinants of IFRS for SMES Adoption Worldwide

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Abstract

The main purpose of this study is to analyze whether there is a relationship between macroeconomic factors and the adoption of IFRS for SMEs in order to help answer the question of why some countries adopt IFRS for SMEs while others do not. We used logistic regression analysis to investigate 150 countries, including 85 jurisdictions that have adopted IFRS for SMEs. The main results indicate that a country is more likely to adopt IFRS for SMEs if it has an unfavorable political climate and a non-Anglo-Saxon culture. Nonetheless, there is no evidence that the country's economic growth, the existence of a capital market, the educational level, and the legal system are associated with the decision to adopt IFRS for SMEs.

This study contributes to a better understanding of the factors influencing the adoption of IFRS for SMEs on a country level and could be used to predict a country's decision to adopt this standard. It also adds to the literature on international accounting harmonization by examining country-level determinants that influence the adoption of IFRS for SMEs by all companies.

Keywords

IFRS, IFRS for SMEs, macroeconomic factors, country-level, adoption, Accounting harmonization

JEL Classification: M410; M480; M160; F230.

1. Introduction

In today's globalized business landscape, firms are increasingly seeking international business opportunities and financial markets. National financial accounting standards can no longer fully meet their needs (Barth, 2008; Judge et al., 2010; Kılıç et al., 2014). Therefore, it is imperative to establish a harmonized set of accounting standards, not only for listed companies but also for non-listed ones (Bonito & Pais, 2018, p. 118).

To address this need, the IFRS Foundation introduced IFRS for SMEs in July 2009. This standalone standard consists of five sections, significantly reducing the number of disclosures to around 300, compared to the full IFRS with 3000 disclosures and reduced guidance (Perera & Chand, 2015). Since then, this standard has gained recognition among national standard setters, leading to its adoption by many countries on an international scale. In fact, the definition of SMEs within the standard (IFRS Foundation, 2015, p. 10) makes it applicable to even larger companies. This is one of the primary reasons why it can be seen as a simplified version of full IFRS rather than a core set of standards solely for SMEs. Some researchers even refer to it as “IFRS for unlisted private companies” (Damak et al., 2020). Currently, nearly one hundred jurisdictions have adopted or are considering adopting this set of standards in the near future.

However, a significant distinction arises when comparing the adoption of Simplified and full IFRS, primarily based on the standard’s target audience. While IFRS for SMEs is exclusively intended for companies without public accountability, full IFRS is specifically designed for listed companies with public accountability. This fundamental difference reflects varying needs among financial information stakeholders, such as users, investors, and preparers, and, consequently, countries with different economic ecosystems.

IFRS for SMEs can be considered a solution for countries looking to align with international accounting standards, especially as most of the companies in such countries are not public entities. Despite its independence and clear importance in terms of Accounting Standardisation and Harmonization, this standard is not limited to SMEs, as it does not set quantitative criteria (Benhayoun & Marghich, 2017, p. 539). Its adoption, according to the IASB, implies increased international exposure and access to international funds (IFRS Foundation, 2009), particularly for non-listed large companies that perceive full IFRS as a set of complexes, burdensome, and costly standards (Perera & Chand, 2015).

Previous studies have emphasized the importance of IFRS adoption, whether full or IFRS for SMEs. The latter helps achieve several objectives advocated by key stakeholders. These objectives include facilitating communication by reducing information asymmetry among shareholders, managers, lenders, and other stakeholders (Bushman & Smith, 2001), thereby reducing agency costs (Healy & Palepu, 2001) and lowering capital costs (Botosan & Plumlee, 2002; El-Gazzar et al., 1999). Additionally, it enhances comparability, reduces transaction costs, and promotes international openness (Sefsaf, 2012). By offering more transparency and predictive information (i.e., Conceptual Framework) and better addressing corporate risks (i.e., IAS 32 and IFRS 7), these standards also improve the presentation of corporate performance.

Nonetheless, research papers on IFRS for SMEs adoption are scarce, especially those addressing adoption determinants. While most studies on IFRS for SMEs have focused on stakeholders’ perceptions of the costs and benefits of adoption (Albu et al., 2013; Kılıç et al., 2014; Litjens & Bissessur, 2012; Uyar & Güngörmüş, 2013), few have delved into more complex adoption matters (Benhayoun & Marghich, 2018-a, p. 591).

These considerations lead us to emphasize the influence of macroeconomic determinants on the worldwide adoption of IFRS for SMEs. We aim to provide an explanatory model applicable to countries contemplating the adoption of this set of standards. Our study, therefore, strives to shed light on important aspects overlooked in previous research, including the nature of the standard under study (most prior studies on Accounting Standardisation and Harmonization have focused on full IFRS adoption determinants, with only a few considering IFRS for SMEs adoption determinants, despite its independence and significance in Accounting Standardisation and Harmonization), the size and composition of our sample (previous studies typically included a maximum of 116 developed countries, while ours encompasses 150 countries, both developed and developing), and the variables under study (prior studies on IFRS for SMEs adoption often examined only economic growth and culture). Given the inconclusive and controversial evidence in this field, our study seeks to address the following research question: What are the main determinants influencing the adoption of IFRS for SMEs across countries? To address this question, we employ a logistic regression model to examine whether macroeconomic determinants influence a country's decision to adopt IFRS for SMEs. Our sample comprises 150 jurisdictions, including 85 adopters and 65 non-adopters as of the end of 2016. Information regarding the adoption status of each country was obtained from the IFRS Foundation profile webpage, indicating whether a country has adopted IFRS for SMEs. We analyze several macroeconomic factors, including economic growth, the presence of a capital market, educational levels, international openness, political factors, culture, and legal systems. While additional macroeconomic determinants may exist, it's worth noting that, as emphasized by Isidro et al. (2016), adding more factors provides little incremental explanatory power. Our expectations include that countries are more likely to adopt IFRS for SMEs if they exhibit higher economic growth, possess a developed capital market, have a higher educational level, display greater international openness, maintain political stability, possess an Anglo-Saxon culture, and adhere to a common law legal system.

Our motivation for conducting this study stems from the dearth of research on IFRS for SMEs adoption. To our knowledge, only three papers (Bonito & Pais, 2018; Damak et al., 2020; Kaya & Koch, 2015) have examined IFRS for SMEs by analyzing the relationship between macroeconomic factors and its adoption at a country level. These studies, however, used different variables and sample compositions. Additionally, our study aims to underscore the importance for countries to evaluate the favorability of the macroeconomic context for adopting this standard before delving into microeconomic perspectives involving stakeholders. Lastly, our study aims to identify the primary factors influencing the adoption of IFRS for SMEs at a country level, as this could guide countries considering its adoption based on our findings.

The main results indicate that a country is more likely to adopt IFRS for SMEs if it exhibits an unfavorable political environment and a non-Anglo-Saxon culture. Nevertheless, there is no significant evidence to suggest that a country's economic growth, the presence of a capital market, educational levels, and the legal system are associated with the decision to adopt IFRS for SMEs.

This study contributes on multiple fronts. Firstly, it expands on the work of Kaya and Koch (2015), Bonito and Pais (2018), and Damak et al. (2020) by including a broader set of variables in our model and a more diverse sample comprising both developed and developing countries. Secondly, it highlights that macroeconomic determinants can influence the adoption of IFRS for SMEs at the country level. Understanding whether these determinants are connected to IFRS for SMEs adoption benefits not only researchers but also users, preparers, investors, financial market regulators, governments, accounting standards setters, and, most importantly, the IFRS Foundation, which can leverage our findings to further promote the global adoption of IFRS for SMEs.

The remainder of this paper is structured as follows: Firstly, we will present a review of research papers covering variables related to IFRS for SMEs adoption and develop hypotheses. Next, we will outline the methodology employed for our logistic regression analysis. Lastly, we will analyze the collected data, its interpretation, and discuss our results.

2. Literature Review and Hypotheses Development

The primary objective of this literature review is to identify the key macroeconomic variables associated with the adoption of IFRS for SMEs. However, research papers addressing the determinants of IFRS adoption, particularly those related to developing countries, are limited (Zehri & Chouaibi, 2013, p. 57). To overcome this limitation, we relied on Google Scholar as our primary tool for collecting research papers because it offers broader coverage compared to Web of Science or Scopus (Harzing, 2016, p. 15), enabling us to access a greater number of papers on the determinants of IFRS for SMEs adoption.

Indeed, we can distinguish between two main streams of research: papers focusing on macroeconomic determinants, often considered the less explored area, and papers examining microeconomic determinants, which concentrate on entity-specific characteristics and are more prevalent (Zehri & Chouaibi, 2013, p. 57). Francis et al. (2008) discovered that macroeconomic factors are more influential in developing countries, whereas microeconomic factors take precedence in developed countries. Therefore, this paper will primarily emphasize the significant macroeconomic determinants applicable to both developed and developing countries, which will serve as the basis for our research hypotheses:

2.1 Country's Economic Growth

According to Arpan and Radebaugh (1985), a country's economic growth plays a pivotal role in the development of its accounting framework because it influences various aspects of society. Consequently, Zeghal and Mhedhbi (2006) demonstrated that countries with higher economic growth rates exhibit a greater propensity to adopt IFRS compared to those with lower rates (Al-Akra et al., 2009; Larson, 1993). Similar findings were reported by Zehri and Chouaibi (2013, p. 61), who concluded that countries experiencing higher economic growth rates are more likely to adopt IFRS, as well as by the study of Shima and Yang (2012), which highlighted a positive correlation between economic growth and IFRS adoption. Additionally, Archambault and Archambault (2009) found that economically less developed countries are more inclined to adopt IFRS. Nevertheless, only a few studies have examined the

relationship between IFRS for SMEs and a country's economic growth. One such study, conducted by Damak et al. (2020), revealed a strong link between economic growth and the adoption of IFRS for SMEs, suggesting that countries with higher economic growth rates are more likely to adopt IFRS for SMEs compared to those with lower levels of economic growth. Based on these findings, we can formulate the following hypothesis:

Hypothesis #1: Countries with higher economic growth are more inclined to adopt IFRS for SMEs than countries with lower economic growth.

2.2 The Existence of a Capital Market

Chamisa (2000) has demonstrated, by studying the role of international accounting standards in developing the quality of financial information, that these standards are very important in economies with an active capital market (Benhayoun & Marghich, 2020, p. 1198) because investors have a constant need of complex and sophisticated financial information in comparison to those provided by national standard setters (Gray & Radebaugh, 1997). In fact, and as proved by Jermakowicz and Gornik-Tomaszewski (2006), countries with an open capital market are more willing to adopt IFRS compared to others. Zehri and Chouaibi (2013) haven't found any significant impact of this variable on the decision to adopt IFRS. As far as we know, the existence of a capital market hasn't been tested yet by scholars for the subject at hand. The following hypothesis could be formulated:

Hypothesis # 2: Countries having a capital market are more likely to adopt IFRS for SMEs rather countries not having capital market.

2.3 Educational Level

Because IFRS adoption is considered as a socially strategic decision and because it involves many components to take into consideration (Doupnik & Salter, 1995; Street, 2002), Zeghal and Mhedhbi (2006) proved that countries with an advanced level in education have more chance to adopt IFRS than the others. On the other hand, Zehri and Chouaibi (2013, p. 61) demonstrated that when a country is having a strong educational system it is more willing to adopt IFRS. In other words, this proves the strong relationship between education level and the competence of accountants (Mueller et al., 1987), accounting practices (Mueller, 1968; Radebaugh, 1975; Benhayoun, 2022) and accountants' expertise (Carus, 2002; Choi & Meek, 2008). In their study on 120 countries around the world, Archambault and Archambault (2009) found that IFRS adoption is positively associated with literacy rate as corroborated with the findings of Judge et al. (2010) within a sample of 132 countries (developed, transitional, and developing). Kaya and Koch's study (2015) confirms that the education level influences the likelihood of adopting IFRS for SMEs. In fact, on the microeconomic perspective, accountants' lack of training in applying IFRS for SMEs is one of the main impediments to implement the standard (Albu et al., 2013; Albu et al., 2014; Kılıc et al., 2014; Perera & Chand, 2015; Roberts & Sian, 2006; Uyar & Güngörmüş, 2013). Thereby, we can formulate our next hypothesis as follows:

Hypothesis # 3: Countries with higher educational level are more likely to adopt IFRS for SMEs rather than countries with lower educational level.

2.4 International Openness

According to Cooke and Wallace (1990) international openness of a country is a preponderant factor is the adoption process of international accounting standards. According to them, the more a country is exposed to the world, the more it is under pressure to comply with international standards and more it is willing to adopt an international accounting core standard. International exposure is another determinant of voluntary adoption of IFRS. Moreover, Young and Guenther (2003) found that international exposure is another determinant of voluntary adoption of IFRS. Besides, Şenyiğit (2014) found that exports is significantly one of the main factors of the adoption of IFRS by Turkish companies because firms with high export shares of sales face new demands for accounting information and are likely to experience a faster growth, require higher external capital needs. Judge et al. (2010) found, within a sample of 132 countries, that IFRS adoption is positively associated import penetration. In their study over 102 Non-European Union Ramanna and Sletten (2009) found IFRS adoption decision is positively associated with the existence of IFRS-adopters trade partners within the same geographical region. It is reasonable that more international orientation should be associated with more benefits from using IFRS than operations only on a national level (André et al., 2012). Previous studies (Cuijpers & Buijink, 2005; Dumontier & Raffournier, 1998; El-Gazzar et al., 1999; Gassen & Sellhorn, 2006; Murphy, 1999; Tarca, 2004; Wu & Zhang, 2009) supports as well that international exposure acts as an important driver in accounting standards choice and reveals positive results. Furthermore, Damak et al. (2020) found that IFRS for SMEs adoption is significantly related to trading networks (international openness).

Hypothesis # 4: Countries with higher international openness are more likely to adopt IFRS for SMEs rather than countries with lower international openness.

2.5 Political Factor

According to Zehri and Chouaibi (2013, p. 59) the political factor would influence IFRS adoption because, firstly in an emergent economy context, it is strongly related to political decisions as far as the government and public authorities are very important stakeholders in the economy as corroborated with the findings of previous studies (Hassab Elnaby et al., 2003; Larson & Kenny, 1995). In their study over 73 Countries around the world Shima and Yang (2012) found a positive influence of the political factor (British colonialism) on IFRS adoption. Conversely, Sellami and Gafsi (2018) found that IFRS for SMEs is likely to be less attractive four countries with a stable political environment due to high switching and opportunity costs as corroborated with the findings of Ramanna and Sletten (2009) and Kaya and Koch (2015). Thus, another hypothesis could be presented:

Hypothesis # 5: Countries with an unfavourable political factor are more likely to adopt IFRS for SMEs rather than countries with a favourable political factor.

2.6 Culture

Research have demonstrated that social factors could be having considerable consequences on international accounting standard adoption's process (Chamisa, 2000; Hove, 1986; Zeghal & Mhedhbi, 2006; Zehri & Chouaibi, 2013). Culture has been measured in various ways, for instance, through

language, religion and patterns of human behaviour (Frank, 1979; Stulz & Williamson, 2003). In fact, countries with the same cultural values are more willing to adopt the same accounting standard core (Nobes, 1998) and that countries with an Anglo-Saxon culture have influenced many countries during the last two decades (Zeff, 1998). While some studies found a negative impact of culture (uncertainty avoidance) on IFRS adoption (Shima & Yang, 2012) or concluded that countries with a culture other than Anglo-Saxon are facing difficulties regarding IFRS implementation process (McGee, 1999), other studies established the existence of a significant and positive effect of cultural factors (e.g., Anglo-Saxon Colonisation, Christianity, the English language and familiarity with IASB) on the adoption of international standards (Abdelsalam & Weetman, 2003; Bensalem et al., 2014; Zeghal & Mhedhbi, 2006), by countries undertaking different strategies of standardisation. Furthermore, in their study, Damak et al. (2020) confirm that the adoption of IFRS for SMEs is significantly related to culture. Based on these findings, the sixth hypothesis could be presented as the following:

Hypothesis # 6: Countries with an Anglo-Saxon culture are more likely to adopt IFRS for SMEs than countries with a non-Anglo-Saxon culture.

2.7 Legal System

According to Standish (2003), the dominance, inside IASB's process, of the American or Anglo-Saxon legal system plays a very important role in the influence of international accounting standard setting. As corroborated by the findings of Felski (2015), Kolsi and Zehri (2013) Kossentini and Othman (2014), Shima and Yang (2012) and Zehri and Chouaibi (2013), the legal system could influence IFRS Adoption. The Anglo-Saxon legal system, as distinguished by Nobes (1998) from the Continental European system, predominates in the international arena of accounting standard setting. Shima and Yang (2012) found a positive influence of the legal system (common law) on IFRS adoption in their study over 73 Countries around the world. Thereby, a hypothesis could be formulated as follow:

Hypothesis # 7: Countries with a Common Law legal system are more likely to adopt IFRS for SMEs rather than countries with a Code Law legal system.

3. Methodology

3.1 Sample

Table 1. Sample of IFRS for SMEs' Worldwide Adoption

COUNTRIES ADOPTING IFRS FOR SMES					COUNTRIES NOT ADOPTING IFRS FOR SMES			
The standard is Required or Permitted					The standard is not used neither under consideration			The standard is not used neither under consideration
Anguilla	Chile	Ireland	Namibia	Sri Lanka	Afghanistan	Finland	Montenegro	Albania
Antigua and Barbuda	Colombia	Israel	Nicaragua	Nevis	Angola	France	Nepal	Denmark

Argentina	Costa Rica	Jamaica	Nigeria	St Vincent and the Grenadines	Australia	Germany	New Zealand	Guinea-B
Armenia	Dominica	Jordan	Pakistan	Suriname	Austria	Greece	Niger	Hungary
Azerbaijan	Dominican Republic	Kazakhstan	Palestine	Swaziland	Belarus	India	Poland	Iceland
Bahamas	Ecuador	Kenya	Panama	Switzerland	Belgium	Indonesia	Portugal	Iran
Bahrain	El Salvador	Kosovo	Paraguay	Tanzania	Bolivia	Italy	Romania	Liechten
Bangladesh	Fiji	Lesotho	Peru	Trinidad and Tobago	Brunei	Japan	Russia	Netherl
Barbados	Gambia	Liberia	Philippines	Uganda	Bulgaria	Korea South	Slovakia	Norw
Belize	Georgia	Macedonia	Qatar	Ukraine	Canada	Kuwait	Slovenia	Oma
Bermuda	Ghana	Madagascar	Rwanda	United Arab Emirates	China	Latvia	Spain	Thaila
Bhutan	Grenada	Malawi	Saint Lucia	United Kingdom	Chinese- Taipei	Lithuania	Sweden	
Bosnia and Herzegovina	Guatemala	Malaysia	Saudi Arabia	Uruguay	Croatia	Luxembourg	Syria	
Botswana	Guyana	Maldives	Serbia	Venezuela	Cyprus	Macao	Timor- Leste	
Brazil	Honduras	Mauritius	Sierra Leone	Yemen	Czech Republic	Malta	Turkey	
Cambodia	Hong Kong	Montserrat	Singapore	Zambia	Egypt	Mexico	United States	
Cayman Islands	Iraq	Myanmar	South Africa	Zimbabwe	Estonia	Moldova	Uzbekistan	
					European Union	Mongolia	Vietnam	
		85 countries (57%)				54 countries (36%)		11 coun (7%)

Our study is performed on a sample of 150 jurisdictions collected from the IFRS Foundation's official website on worldwide IFRS and IFRS for SMEs application containing country profiles. From different geographic areas with different economic, social, and political characteristics, the sample includes two groups of countries one group of 85 countries that have adopted IFRS for SMEs with or without changes, and another group of 65 countries, non-adopters until 2016.

3.2 Regression Model

The goal of our paper is to model the relationship between IFRS for SMEs adoption by jurisdictions and a set of macro-economic determinants. In other words, explaining the influence of our determinants (hypothesis) on IFRS for SMEs adoption worldwide. Knowing that other statistical techniques might be used to explain a dummy variable, logistic regression remains the most suitable for this subject matter. For instance, if we manage to apply a discriminate analysis, which consists on distinguishing two groups or plus based on a set of variables, it will be limited by submitting those variables to normality applicability conditions that could be applied only on continuous data. Moreover, multivariate analysis could be also used to explain a dummy variable but only if it is a discrete variable.

Table 2. Our Model'S Variables

	CONCEPTS	VARIABLES	SPSS CODES	SOURCE	
DEPENDENT	IFRS for SMEs adoption	<u>Dummy</u>	Adopt_IFRS_PM Es	IFRS.org	
		1: The country is adoption IFRS for SMEs			
		0: The country is not adoption IFRS for SMEs			
	Economic growth	<u>Economic growth rate</u>	Dvp_Eco	World Bank (2016)	
INDEPENDENT VARIABLES	Capital market existence	<u>Dummy</u>	Marché_K	Country-specific statistics (2016)	
		1: The jurisdiction is having a capital market			
			0: The jurisdiction is not having a capital market		
	Educational level	<u>Illiteracy rate</u>	Niv_educ	Unesco + CIA Factbook (2016)	
	International openness	<u>The average share of FDI's inflows and outflows in GDP</u>	Ouv_Int	World Bank (2016)	
	Political factor	<u>Political stability</u> according to the World Governance Indicators	Fact_Polit	World Bank (2016)	
	Culture	<u>Dummy</u>	Culture	Country-specific statistics (2016)	
		1: The jurisdictions is of an Anglo-Saxon culture			
		0: The jurisdictions is not of an Anglo-Saxon culture			
Legal system	<u>Dummy</u>		Syst_lég	Juriglobe (2016)	
		1: The jurisdictions is a Common Law country			
		0: The jurisdictions is a Code Law country			

We used logistic regression because, firstly, the dependant variable is dummy, as it can solely take two occurrences: 1 if the jurisdiction is adopting IFRS for SMEs and 0 if not. And secondly because the independent variables are both continuous and dummy. Also, this technique doesn't require a linear or normal distribution of predictors, neither an equal variance within every group (Desjardins, 2005, p. 35). The model was used in several studies on full IFRS adoption (Archambault & Archambault, 2009; Clements et al., 2010; Hope et al., 2006; Kaya & Koch, 2015; Lasmin, 2011; Zeghal & Mhedhbi, 2006; Zehri & Chouaibi, 2013) and lately on IFRS for SMEs adoption worldwide (Bonito & Pais, 2018; Damak et al., 2020):

$$\begin{aligned} \text{Our model could be presented as follow: } \textit{Logit}(P) &= \ln\left(\frac{P_i}{1-P_i}\right) \\ &= \beta_0 + \beta_1 \textit{Dvp}_{Eco_i} + \beta_2 \textit{Mark_K}_i + \beta_3 \textit{Educ_lev}_i + \beta_4 \textit{Int_Op}_i + \beta_5 \textit{Polit_fac}_i + \beta_6 \textit{Culture}_i + \beta_7 \textit{Leg_sys}_i \\ &\quad + \varepsilon \end{aligned}$$

Where:

P_i , IFRS for SMEs adoption probability

β_0 , as the constant coefficient

β_1 , as the jurisdiction's economic growth coefficient

β_2 , as the capital market's existence coefficient

β_3 , as the jurisdiction's educational level coefficient

β_4 , as the jurisdiction's international openness coefficient

β_5 , as the jurisdiction's political factor coefficient

β_6 , as the jurisdiction's culture coefficient

β_7 , as the jurisdiction's legal system coefficient

and ε as the margin of error.

3.3 Variables' Measurements

3.3.1 The Dependand Variable

The dependant variable is IFRS for SMEs adoption. It is a dummy variable that only takes two values: 1 if the jurisdiction adopts IFRS for SMEs and 0 otherwise (Archambault & Archambault, 2009; Bonito & Pais, 2018; Clements et al., 2010; Damak et al., 2020; Hope et al., 2006; Lasmin, 2011; Zeghal & Mhedhbi, 2006; Zehri & Chouaibi, 2013). Two other measures (Judge et al., 2010; Kossentini & Othman, 2014; Ramanna & Sletten, 2009, 2014; Shima & Yang, 2012) are possible: a) if the adoption is for all the companies or dedicated for a precise group and b) if the adoption is mandatory or voluntary. As the matter of fact, both measures have limitations because the reason for adopting IFRS for SMEs is different over time and between countries (Bonito & Pais, 2020). We consider adoption of IFRS for SMEs both if adoption is voluntary and mandatory. Despite the use of the previous studies of the Deloitte IAS plus database in the classification of full IFRS adopters and non-adopters (Archambault & Archambault, 2009;

Clements et al., 2010; Hope et al., 2006; Lasmin, 2011; Ramanna & Sletten, 2014; Shima & Yang, 2012; Zehri & Chouaibi, 2013), the information on IFRS for SMEs is not updated. For this purpose, the data were collected from the IFRS Foundation official website whether a country is adopting IFRS for SMEs or not at the date of 2016 (last update).

3.3.2 Independent Variables

As for independent variables' choice, made in the light of our literature review, our model includes two types of variables:

3.3.2.1 Continuous Variables

Economic growth rate is considered as one of the main factors of IFRS and IFRS for SMEs adoption across countries (Felski, 2015; Hope et al., 2006; Judge et al., 2010; Kaya & Koch, 2015). Economic growth could be measured by gross domestic product per capita (Hope et al., 2006), the log of gross domestic product (Kaya & Koch, 2015) or the log of gross domestic product for a certain period (Bonito & Pais, 2018). In our study we used the economic growth rate from the 2016 World Bank Database as it is considered as the official and most common measure for a country's economic growth.

As for the educational level, its role in IFRS and IFRS for SMEs is confirmed by several studies (Archambault & Archambault, 2009; Judge et al., 2010; Kaya & Koch, 2015; Kolsi & Zehri, 2013; Shima & Yang, 2012; Zeghal & Mhedhbi, 2006; Zehri & Chouaibi, 2013). Illiteracy rate as used by other studies (Archambault & Archambault, 2009; Shima & Yang, 2012; Zeghal & Mhedhbi, 2006; Zehri & Chouaibi, 2013) is the measure chosen for our study for educational level at the year of 2016. It is defined, according to UNESCO and CIA Factbook, as the percentage of the population aged 15 years and over who cannot both read and write with understanding a short simple statement on his/her everyday life.

International openness is of one of the main factors defended by previous studies in the Adoption process of IFRS and IFRS for SMEs. Contrary to the study of Judge et al. (2010) or Şenyiğit (2014) who choose a jurisdiction's imports and exports as a measure, we have taken into consideration the average share of FDI's inflows and outflows in GDP as a measure for international openness in our study at the year 2016. The objective behind such measure, is to include the investor's orientation spirit of IFRS and IFRS for SMEs.

Finally, for the political factor, Hassab Elnaby et al. (2003), Larson and Kenny (1995) and Zehri and Chouaibi (2013) have assessed the importance of the political factor in the influence of IFRS adoption. In our study, we have chosen as a measure for it the World Governance Indicators from the World Bank's Data at the year of 2016. This indicator measures the political stability and no violence of a jurisdiction, which is defined as the Political Stability and Absence of Violence/Terrorism measuring perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. It estimates the political stability on a range from approximately -2.5 (weak) to 2.5 (strong).

3.3.2.2 Dummy Variables

Previous studies proved the importance of the existence of a capital market within a country in IFRS adoption (Chamisa, 2000; Gray & Radebaugh, 1997; Jermakowicz & Gornik-Tomaszewski, 2006; Zehri

& Chouaibi, 2013). However, it still hasn't been tested for IFRS for SMEs. In our study, it is a dummy variable that takes 1 if the jurisdiction has a capital market and 0 if not.

According to Alhashim and Arpan (1992), one of the most important factors influencing accounting is culture. We will use the same measure as Zehri and Chouaibi (2013) for this variable, that is a 1 value if the jurisdiction has an Anglo-Saxon culture and 0 otherwise. Based on previous studies (Archambault & Archambault, 2009; Bonito & Pais, 2018; Hope et al., 2006; Kaya & Koch, 2015; Shima & Yang, 2012; Zehri & Chouaibi, 2013), researchers considered the legal system as a dichotomous variable that takes the value of 1 for common law countries and 0 for code law countries. We will use the same measure in our study.

4. Results

4.1 Descriptive Statistics and Multivariate Analysis

Table 3. Descriptive Statistics of Dummy Variables

OBSER.	CULT.	%	LEGAL SYST.	%	CAPITAL MARKET EXISTENCE	%
0	114	76%	93	62%	18	12%
1	36	24%	57	38%	132	88%
TOTAL	150	100%	150	100%	150	100%

Table 3 reports that 76% of the population studied is not of an Anglo-Saxon Culture and that 62% do not have a Common Law legal system. In addition, 88% of countries do have a capital market. Also, while some countries are having growth rates culminating at 26%, like Ireland, others have some very low levels at -28%, like Yemen. The average growth rate is around 3% with standard deviation of 5%, considered quite high compared to the growth rate indicator.

Table 4. Descriptive Statistics of Continuous Variables

	DVP_ECO	NIV_ED	OUV_IN	FACT_PO
AVERAGE	0,03	0,88	1,03	0,07
MEDIAN	0,03	0,95	0,02	0,17
MAXIMUM	0,26	1,00	62,39	1,53
MINIMUM	-0,28	0,19	-0,17	-2,91
STANDARD- DEVIATION	0,05	0,16	5,74	0,92

As for the level of education, we find that the average literacy rate is 88%, which proves that the countries under study have a much larger literate population than illiterate one. But the dispersion remains quite high with a standard deviation of 16%. Respecting International Openness, we can say that our population

is internationally quite open because on average, the mean of inflows and outflows of their FDI exceeds by 3% their average GDP. However, this variable has the highest dispersion level with a standard deviation of 5.74. Finally, the average political stability, measured on a scale between -2.5 and +2.5, is 0.07 which suggests that the countries under study are moderately stable on the political level with a standard deviation of 0.92, considered reasonable from our point of view.

Table 5. Regional trends (Note 1) to Adopt IFRS for SMEs

<i>Regions</i>	<i>The jurisdiction is adopting IFRS for SMEs</i>	<i>The jurisdiction is not adopting IFRS for SMEs</i>	<i>Total</i>	<i>Weight-Trend Index (WTI)</i>
<i>South America</i>	11	1	12	+0,83
<i>North America</i>	22	3	25	+0,76
<i>Africa</i>	18	4	22	+0,64
<i>Western Asia</i>	10	5	15	+0,33
<i>South Asia</i>	5	3	8	+0,25
<i>Central Asia</i>	1	1	2	0,00
<i>Southeast Asia</i>	5	5	10	0,00
<i>Eastern Europe</i>	7	8	15	-0,07
<i>Oceania</i>	1	2	3	-0,33
<i>East Asia</i>	2	6	8	-0,50
<i>Northern Europe</i>	1	7	8	-0,75
<i>Western Europe</i>	1	7	8	-0,75
<i>Central Europe</i>	1	8	9	-0,78
<i>Southern Europe</i>		4	4	-1,00
<i>European Union</i>		1	1	-1,00
<i>TOTAL</i>	85	65	150	+0,13

The preliminary lecture of the collected data might permit us to notice that the Weight-Trend Index is +0,13, which means a slight trend to adopting IFRS for SMEs by jurisdictions by region, while 57% of jurisdictions are adopting IFRS for SMEs. This allows us to conclude that our sample is scoring higher in terms of adopting this set of accounting standards with certainly some promising prospects. Regions that adopt the most IFRS for SMEs are North and South America, Africa, South and Western Asia. They also record remarkable scores in WTI conversely to Europe that records the lower trends of IFRS for SMEs adoption.

Table 6. Matrix of Bi-varied Correlations

	GR	CPE	IR	IO	PS	CL	LS
GR	Pearson correlation	1	-	-	-	-	-
	Correlation level		-	-	-	-	-
	Sig. (bilateral)		-	-	-	-	-
	N	150	-	-	-	-	-
CPE	Pearson correlation	,193*	1	-	-	-	-
	Correlation level	Low		-	-	-	-
	Sig. (bilateral)	,018		-	-	-	-
	N	150	150	-	-	-	-
IR	Pearson correlation	,020	,221**	1	-	-	-
	Correlation level	Low	Moderate.		-	-	-
	Sig. (bilateral)	,809	,007		-	-	-
	N	150	150	150	-	-	-
IO	Pearson correlation	,050	,059	-,063	1	-	-
	Correlation level	Low	Low	Low		-	-
	Sig. (bilateral)	,547	,476	,443		-	-
	N	150	150	150	150	-	-
PS	Pearson correlation	,087	-,069	0,484	-,101	1	-
	Correlation level	Low	Low	Moderate.	Low		-
	Sig. (bilateral)	,291	,399	,000	,219		-
	N	150	150	150	150	150	-
CL	Pearson correlation	-,030	-,177*	,043	-,092	,338**	1
	Correlation level	Low	Low	Low	Low	Moderate.	
							-

	Sig. (bilateral)	,718	,030	,603	,262	,000		-
	N	150	150	150	150	150	150	-
	Pearson correlation	,076	,205*	,006	,200*	,000	-,022	1
LS	Correlation level	Low	Moderate.	Low	Low	Low	Low	
	Sig. (bilateral)	,357	,012	,941	,014	,995	,791	
	N	150	150	150	150	150	150	150

*. **THE CORRELATION IS SIGNIFICANT AT THE 0.05 LEVEL (BILATERAL).**

****. THE CORRELATION IS SIGNIFICANT AT THE 0.01 LEVEL (BILATERAL).**

WHERE

GR: GROWTH RATE

CPE: CAPITAL MARKET EXISTENCE

IO: INTERNATIONAL OPENNESS

IR: ILLETRACY RATE

PS: POLITICAL STABILITY

CL: CULTURE

LS: LEGAL SYSTEM

Before starting the logistic regression analysis, it was necessary first to carry out a correlation test to check the multicollinearity of the variables so that the ones with strong correlations cannot all be included in the model. In other words, we have only to keep those with lower correlation levels since the technique requires the inclusion of variables belonging to different groups in order to avoid instability of the estimation of regression coefficients (Gueguen, 2001, p. 374).

This test led to the conclusion, according to the data in table 6, that almost all the correlations between the variables are not significant with a significance level much higher than the desired level, except for the following seven pairs:

- The growth rate and the existence of a capital market
- The illiteracy rate and the existence of a capital market
- Political stability and illiteracy rate
- The jurisdiction's culture and the existence of a capital market
- Political stability and culture of the country
- The legal system and the existence of a capital market; and finally
- International openness and the legal system.

However, none of these variables correlates strongly with another, which demonstrates their independence and is thus meaning the preservation of all the explanatory variables in our model, which allows us, according to Malhotra (2004, p. 460), to avoid:

- That the variance of the estimation of the parameters tends to be very strong
- That the confidence interval around the parameters widens considerably
- That the “t” tests tend to become insignificant, but that despite this, the coefficient of determination can be very high
- That the estimation of the parameters is very sensitive to the constitution of the sample
- It becomes difficult to evaluate the proportion in which the explanatory variables measure the variation of the variable to be explained.

4.2 Robustness and Additional Tests

To assess the quality of the model, we checked its strength of association. To do this, we relied on a set of tests and statistics provided by SPSS, such as the Cox & Snell R Square or Nagelkerke, but also other tests, such as Hosmer and Lemeshow. For our case, the Nagelkerke R Square is 0.170, which is satisfactory for our study given its newness. Thus, the model explains 17% of the variance of the dependent variable.

Table 7. Model Summary

<i>Step</i>	<i>-2 Log likelihood</i>	<i>Cox & Snell R Square</i>	<i>Nagelkerke R Square</i>
<i>1</i>	184,987 ^a	,126	,170

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than ,001.

Then, reading the table “Hosmer and Lemeshow test” allows to conclude that there is no significant difference between the predicted and observed values and therefore the latter are coherent since their level of significance is at 0.105, which is altogether greater than 0.05, and that Chi-square is 13.218.

Table 8. Hosmer and Lemeshow Test

<i>Step</i>	<i>Chi-square</i>	<i>df</i>	<i>Sig.</i>
<i>1</i>	13,218	8	,105

In our case, the “Classification Table” went from 56.7% in the initial model to 66.7% in the model adopted by logistic regression, a 10-point improvement in its predictive capacity. In other words, the model is true in 66.7% of cases, which is a high percentage regarding other studies. For instance, Bonito and Pais (2018, p. 123) established their results based on a 63,3% prediction capacity and Zehri and Chouaibi (2013, p. 61) based on 75,14%.

Table 9. Classification Table^{a,b}

		<i>Observations</i>	<i>Previsions</i>		
			IFRS for SMEs adoption Not adopting	Adopting	correct Percentage
<i>Step 0</i>	IFRS for SMEs adoption	Not adopting	0	65	,0
		Adopting	0	85	100,0
	Overall Percentage				56,7
<i>Step 1</i>	IFRS for SMEs adoption	Not adopting	39	26	60,0
		Adopting	24	61	71,8
	Overall Percentage				66,7

a. The constant is included in the model.
b. The cut value is ,005

Once again, our model has a quite strong predictive capacity that will be confirmed by the ‘Contingency table for Hosmer and Lemeshow test’ which displays, in its last box, a very small difference between the Observed, with 13, and what is Expected, with 12.972, a very slight difference of 0.028. In other words, the observed number of jurisdictions adopting IFRS for SMEs is 13 and our model predicts 12,972, almost the same number, of jurisdictions that will adopt IFRS for SMEs.

Table 10. Contingency Table for Hosmer and Lemeshow Test

	<i>IFRS for SMEs adoption</i> = Not adopting		<i>IFRS for SMEs adoption</i> = Adopting		<i>Total</i>
	Observed	Expected	Observed	Expected	
	<i>Step 1</i>				
1	11	10,395	4	4,605	15
2	11	9,436	4	5,564	15
3	10	8,763	5	6,237	15
4	5	8,042	10	6,958	15
5	6	7,214	9	7,786	15
6	3	6,241	12	8,759	15
7	7	5,373	8	9,627	15
8	8	4,195	7	10,805	15
9	2	3,313	13	11,687	15
10	2	2,028	13	12,972	15

In the ‘model specification table’, we find that the significance level is less than 0.05, which proves that our model is a significant model and has a strong predictability. So, the explanatory variables will have

an important role in the prediction of the subject at hand. And then we go to the stage of predictor meaning and dimension interpretation. Thus, the variables that best predict the adoption (or not) of IFRS for SMEs are first those that are most significant, that is, that have a significance level less than or equal to 0.05, and second that have the most important Wald coefficient.

Table 11. Omnibus Tests of Model Coefficients

	<i>Chi-square</i>	<i>df</i>	<i>Sig.</i>
Step	20,283	7	,005
<i>Step</i> Bloc	20,283	7	,005
Model	20,283	7	,005

Finally comes the interpretation of the Odds Ratio [Exp (b)]. We may mention as an example the level of education that at 1 additional point, the country will be less likely to adopt IFRS for SMEs.

Table 12. Logit Regression Model

	<i>A</i>	<i>E.S.</i>	<i>Wald</i>	<i>ddl</i>	<i>Sig.</i>	<i>Exp(B)</i>	<i>IC pour Exp(B) 95%</i>	
							<i>Inférieur</i>	<i>Supérieur</i>
Dvp_Eco	2,931	3,969	,545	1	,460	18,754	,008	44861,600
Marché_K(1)	,177	,640	,077	1	,782	1,194	,341	4,181
Niv_éduc	-1,292	1,406	,844	1	,358	,275	,017	4,322
Ouv_int	,084	,075	1,258	1	,262	1,088	,939	1,260
Fact_polit	-,483	,249	3,754	1	,050	,617	,378	1,006
Culture(1)	-1,533	,481	10,147	1	,001	,216	,084	,555
Syst_lég(1)	,410	,378	1,177	1	,278	1,506	,719	3,157
Constante	2,251	1,328	2,871	1	,090	9,495		

a. Variable(s) entrées à l'étape 1 : Dvp_Eco, Marché_K, Niv_éduc, Ouv_int, Fact_polit, Culture, Syst_lég.

4.3 Regression Model

Our results suggest that countries with an unfavourable political factor and a non-Anglo-Saxon culture are more likely to adopt IFRS for SMEs, which is in line with the fifth and the sixth hypothesis in terms of significance, since the coefficients are statistically significant at least at a 5% level.

Table 13. Validation of Hypothesis

	<i>Variables</i>	<i>Expected sign</i>	<i>Found sign</i>	<i>Hypothesis' status</i>
<i>H1</i>	Economic growth	+	+	Rejected
<i>H2</i>	The existence of a capital market	+	+	Rejected

<i>H3</i>	Educational level	+	-	Rejected
<i>H4</i>	International Openness	+	+	Rejected
<i>H5</i>	Political factor	+	-	Rejected
<i>H6</i>	Culture	+	-	Rejected
<i>H7</i>	Legal system	+	+	Rejected

5. Discussion

Having presented the results, we will now shift the focus to our discussion. Culture plays a vital role in accounting and IFRS adoption (Bensalem et al., 2014; Chamisa, 2000; Damak et al., 2020; Hove, 1986; Nobes, 1998; Shima & Yang, 2012; Zeff, 1998; Zeghal & Mhedhbi, 2006; Benhayoun & Zejjari, 2022). Our study reaffirms that culture is a significant determinant of IFRS for SMEs adoption, consistent with the findings of Zehri and Chouaibi (2013), who observed culture's marginal effect on the decision to adopt IFRS, particularly in emerging countries where accounting traditions or an established accounting culture may be lacking.

It may seem paradoxical that a country with a non-Anglo-Saxon culture is more inclined to adopt IFRS for SMEs. For example, Argentina, a Latin American country, has adopted IFRS for SMEs with only minor modifications in separate company financial statements, while Brazil, also in Latin America, imposes quantitative conditions for micro-entities. The Argentinean Accounting and Auditing Standards Board (Consejo Emisor de Normas de Contabilidad y de Auditoría - CENCyA) allows all companies, except those with securities trading publicly, to use IFRS for SMEs, demonstrating its applicability to both small and large companies. Conversely, Canada, an Anglo-Saxon country, has rejected the adoption of IFRS for SMEs in favor of developing a separate financial reporting framework for private enterprises. This suggests that Anglo-Saxon countries, including the USA, tend to view SMEs as part of a broader category of private entities.

Another possible explanation for the influence of culture on IFRS for SMEs adoption is the perception that IFRS originates from the United States. However, this is not entirely accurate, as the IASB and the FASB have been working to converge IFRS and US GAAP since 2002, suggesting that countries with an Anglo-Saxon culture may prefer to adopt US GAAP, while those with a non-Anglo-Saxon culture opt for IFRS for SMEs.

Our findings also highlight the significance of the political factor as a determinant of IFRS for SMEs adoption. Countries with unstable political environments are more likely to adopt IFRS for SMEs than those with political stability. For example, Yemen, with a -2.79 WGI political stability factor, is considered one of the most politically unstable countries due to civil unrest. Although IFRS for SMEs has not been formally adopted in Yemen, it is allowed, with the Yemeni Association of Certified Public Accountants (YACPA) suggesting that it is more appropriate and relevant for Yemeni entities, particularly family-oriented and medium-sized businesses. In contrast, New Zealand, a politically stable country with a 1.49 WGI political stability factor, does not adopt IFRS for SMEs. The External Reporting

Board (XRB) in New Zealand allows non-publicly accountable entities or non-large for-profit public sector entities to use Tier 2 standards (RDR), which closely align with IFRS Standards but feature substantially reduced disclosures.

The significant influence of political instability on IFRS for SMEs adoption can be attributed to the perceived high switching and opportunity costs associated with adopting IFRS for SMEs in stable political environments. In such countries, substantial efforts and costs have been invested in developing robust local accounting standards, which market participants have already grown accustomed to. Additionally, the adoption of IFRS for SMEs may stifle any potential innovation within the local GAAP, which is often considered more compatible with the local economy.

Moreover, politically stable countries are less susceptible to external pressures for changes in their national accounting policies (Alon & Dwyer, 2014). This is consistent with Saucke's (2015) findings, which suggest that countries adopt IFRS for SMEs primarily due to cost-benefit considerations.

However, the coefficients for other variables are not statistically significant, indicating that it is not possible to confirm the other hypotheses. Specifically, economic growth, the presence of a capital market, educational level, international openness, and legal system do not appear to significantly influence the likelihood of adopting IFRS for SMEs.

Notably, while previous studies (Al-Akra et al., 2009; Damak et al., 2020; Larson, 1993; Zeghal & Mhedhbi, 2006; Zehri & Chouaibi, 2013) have suggested that economic growth is a key determinant of international accounting standards adoption, our study finds no significant relationship between economic growth and IFRS for SMEs adoption. This discrepancy may arise from the fact that most prior studies primarily focused on full IFRS adoption, whereas countries with higher economic growth tend to adopt full IFRS as a first choice (Bonito & Pais, 2020). In contrast, the adoption of IFRS for SMEs may be driven by different factors unrelated to economic growth.

Similarly, the presence of a capital market within a jurisdiction does not appear to be a significant factor in IFRS for SMEs adoption. This can be attributed to the fact that IFRS for SMEs is not designed for listed companies and, therefore, does not cater to the needs of financial market stakeholders. Additionally, the limited significance of this variable may be due to the relative youth of most capital markets in emerging countries, where these markets remain secondary sources of financing compared to debt financing (Zehri & Chouaibi, 2013).

Educational levels also do not show a significant relationship with IFRS for SMEs adoption. This may be explained by the fact that highly educated professional accountants have the capability to develop their own financial accounting standards (Ding et al., 2007). In cases where a lack of qualified accounting professionals exists, the adoption of an established set of accounting standards like IFRS for SMEs becomes a more straightforward choice (Kossentini & Othman, 2014).

Contrary to previous research on the role of international openness in accounting standards adoption (Cuijpers & Buijink, 2005; Dumontier & Raffournier, 1998; El-Gazzar et al., 1999; Gassen & Sellhorn, 2006; Murphy, 1999; Tarca, 2004; Wu & Zhang, 2009), and the findings of Damak et al. (2020) regarding

IFRS for SMEs adoption, our study reveals that international openness is not a statistically significant determinant of the decision to adopt IFRS for SMEs. This could be attributed to the limited scale of adoption of IFRS for SMEs, with only 85 countries having adopted it. The absence of adoption may be viewed as a hindrance by international stakeholders, as they may perceive national standards as divergent from IFRS for SMEs, requiring additional training and knowledge to invest in such countries.

Previous studies have indicated that countries with a common legal system are more likely to adopt IFRS. In the case of IFRS for SMEs, however, no prior research has examined the relationship with this variable. Our findings suggest that a country's legal system does not significantly impact IFRS for SMEs adoption, in contrast to Zehri and Chouaibi's (2013) findings regarding full IFRS adoption. Their study suggested that the implementation of IFRS would be more feasible in developing countries with a common law legal system. The influence of a legal system on IFRS adoption implies a coercive form of isomorphism driven by legal pressure, which does not necessarily apply to IFRS for SMEs.

6. Conclusion

Studying the determinants of IFRS for SMEs adoption is of great importance (Benhayoun & Marghich, 2018-b, p. 1) because it has the potential to be adopted by all companies, except for those with public accountability. This is especially relevant given the lack of dedicated research on this topic (Bonito & Pais, 2018; Damak et al., 2020; Kaya & Koch, 2015). The primary objective of this study is to analyze whether there is a relationship between macroeconomic factors and the adoption of IFRS for SMEs in order to shed light on why some countries choose to adopt it while others do not.

In conclusion, this study has uncovered evidence suggesting that countries with an unfavorable political environment and a non-Anglo-Saxon cultural background are more inclined to adopt IFRS for SMEs. However, other variables such as economic growth, the presence of a capital market, educational levels, legal systems, and international openness do not exert a significant influence on IFRS for SMEs adoption. These findings hold significance for national standard setters in their development of accounting standards, as well as for the IASB in its pursuit of accounting harmonization. The study can also be utilized to predict a country's decision regarding the adoption of this standard. Furthermore, it provides researchers and practitioners with a comprehensive overview of the IFRS for SMEs landscape, encompassing both developing and developed countries, which constitutes a primary contribution of this research. Another contribution lies in enhancing the literature on international accounting harmonization by identifying macroeconomic determinants that affect the adoption of IFRS for SMEs by all companies except for listed and financial firms.

Like all studies, ours has its limitations. Specifically, the dynamics of IFRS for SMEs adoption are subject to constant change as more countries consider its adoption. Additionally, there may be other variables that could be included in the model to enhance its explanatory power.

Looking ahead, there are several promising avenues for further research. These include studying IFRS for SMEs while considering diffusion of innovation factors, exploring the perspectives of companies on

IFRS for SMEs, conducting case studies to examine the behavior of practitioners regarding its adoption as a new concept, and investigating the consequences of the adoption of these standards on both a national and corporate level, as well as from an individual perspective.

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Note

Note 1. The weight-trend index (WTI) means, once positive that this unit of analysis tends to be adopting IFRS for SMEs and once negative tends to not be adopting IFRS for SMEs. It is calculated according the next formula:

$$IPT = \frac{UA \text{ (Jurisdiction adopting IFRS for SMEs)} - UA \text{ (Jurisdiction not adopting IFRS for SMEs)}}{UA \text{ (Jurisdiction adopting IFRS for SMEs)} + UA \text{ (Jurisdiction not adopting IFRS for SMEs)}}$$