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An Investigation of the Challenges in International Financial Reporting Standards’ Adoption: Evidence from Nigerian Publicly Accountable Companies

A thesis submitted in partial fulfilment of the requirements for the Degree of Doctor of Philosophy at Lincoln University by Jude Ehiokhihen Edeigba

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Abstract of a thesis submitted in partial fulfilment of the requirements for the Degree of Doctor of Philosophy.

Abstract

An Investigation of the Challenges in International Financial Reporting Standards’ Adoption: Evidence from Nigerian Companies

by

Jude Ehiokhihen Edeigba

In search of a global accounting framework, International Financial Reporting Standards (IFRS) have been implemented by over 140 countries around the world. There are different motivations for the adoption of IFRS by national accounting standards setters. These include the perceived benefits associated with IFRS adoption. Withal the worldwide adoption, the adoption of IFRS by companies has been successful in some countries and unsuccessful in other countries. Whether or not IFRS adoption will be successful depends on the challenges companies face in the adoption. The challenges in IFRS adoption are heterogeneous and different challenges have been reported in countries that have implemented IFRS such as Australia, New Zealand, Romania, Turkey, South Africa and Kenya among others. However, the international accounting systems have continued to shift from national accounting practices to IFRS.

Following the World Bank Report on the Observance of Standards and Codes (ROSC), the Financial Reporting Council of Nigeria (FRC) implemented IFRS in 2010 for both listed and non-listed companies. The three types of IFRS (i.e. IFRS for publicly accountable companies, IFRS for SMEs and International Public Sector Accounting Standards) were implemented. In the first year of filing IFRS financial statements by publicly accountable companies, most companies required to adopt IFRS could not produce IFRS financial statements as required. This failure is attributed to the challenges in IFRS adoption. However, these challenges were not reported. Therefore, it was not clear what type of challenges Nigerian companies faced in the adoption
of IFRS. There is a limited understanding of the challenges in IFRS adoption as a result of the inconsistency in previous research findings.

Therefore, this study examined the challenges Nigerian companies face in IFRS adoption by investigating different factors that inhibit the adoption of IFRS. Specifically, companies’ cultural factors, practical difficulties in IFRS application and the effects of industry were examined. A survey instrument was used to collect data from the preparers of financial statements which resulted in 519 usable questionnaires. The study applied chi-square test, t-test, and Exploratory Factor Analysis (EFA) to identify different factors associated with IFRS adoption. Further analysis was conducted to test the hypotheses using the logistic regression models.

First, it was found that companies’ cultural factors were significant in explaining the challenges in IFRS adoption. Specifically, transparency, statutory control, secrecy, flexibility, and professionalism were found to inhibit IFRS adoption. The empirical results indicated that as the transparency in financial reporting increases by using IFRS, the greater the likelihood companies will not adopt IFRS. In the practical difficulties model, the majority of the companies considered the cost of IFRS adoption prohibitive and the lack of an internal control system was also a significant factor that influenced IFRS adoption. The study also identified variations in the industry effects. Companies in the financial services industry had a greater likelihood of IFRS adoption, while companies in the agricultural industry were least likely to adopt IFRS. Other industries included in the study varied considerably in terms of the likelihood of IFRS non-adoption. Some of the findings were consistent with the challenges identified in other countries such as Australia, New Zealand, Romania, Turkey, South Africa, and Kenya, while some were specific to the case of Nigeria.

The research contributes to the Nigerian accounting practice and international accounting research. Further, the influences of companies’ cultural factors on IFRS adoption have not been empirically investigated in the international accounting literature. Therefore, the research provided empirical evidence of the influences of companies’ cultural factors on IFRS adoption in the case of Nigeria. Areas for future research have been identified for international accounting researchers.

**Keywords:** Cultural Influences on IFRS Adoption, FRC, Industry Effects on IFRS Adoption, Nigeria IFRS Adoption, Practical Difficulties in IFRS Adoption
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<td>CAC</td>
<td>Corporate Affairs Commission</td>
</tr>
<tr>
<td>CAMA</td>
<td>Companies and Allied Matters Act</td>
</tr>
<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
</tr>
<tr>
<td>EFA</td>
<td>Exploratory Factor Analysis</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>FRC</td>
<td>Financial Reporting Council of Nigeria</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IASC</td>
<td>International Accounting Standards Committee</td>
</tr>
<tr>
<td>ICAN</td>
<td>Institute of Chartered Accountants of Nigeria</td>
</tr>
<tr>
<td>IOSCO</td>
<td>International Organisation of Securities Commissions</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
</tr>
<tr>
<td>NASB</td>
<td>Nigerian Accounting Standards Board</td>
</tr>
<tr>
<td>NSE</td>
<td>Nigerian Stock Exchange</td>
</tr>
<tr>
<td>SEC</td>
<td>Security and Exchange Commission</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Sized Enterprises</td>
</tr>
<tr>
<td>SAS</td>
<td>Statement of Accounting Standards</td>
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Chapter 1
Introduction

This chapter discusses the overview of the research. Section 1.1 consists of the research background with a discussion on International Financial Reporting Standards (IFRS) adoption. The section further describes the aspects of the challenges in IFRS adoption this research investigated. Section 1.2 presents the problem statement of the research. This includes the curiosity of the research, the importance and the problem the study investigated. The objectives of the study are also discussed in this section. Section 1.3 discusses the research questions the study set out to address and the related hypotheses. A brief summary of the theoretical framework is presented in Section 1.4, followed by a summary of the research design in Section 1.5. The significance of the study is discussed in Section 1.6. The expected contribution of the study is presented in Section 1.7, while Section 1.8 discusses the structure of the research.

1.1. Background

Accounting standards have undergone significant changes in many countries in recent times (Horton, Serafeim, & Serafeim, 2012), specifically from 2005 when the European Union (EU) adopted International Financial Reporting Standards (IFRS). From the International Accounting Standards Board (IASB), over 140 countries were known to have implemented IFRS as at September, 2015 (International Accounting Standards Board, 2016).

Tsunogaya, Hellmann, and Scagnelli (2015) suggest that, as more countries implement IFRS for financial reporting, the convergence of accounting practice has become an irrevocable facet of business globalisation. Despite the adoption of IFRS across the globe, different challenges from different countries are reported by companies (Outa, 2013). These challenges are an interaction between country factors and the introduction of foreign accounting standards (Gernon & Wallace, 1995; Outa, 2013). Adoption of international accounting standards became an important topic of interest after 1973 when variations in accounting practices and financial information asymmetry became concerns for accounting professionals and investors (Carlson, 1997). These concerns have deepened as the globalisation of businesses has continued to evolve.

Following the EU adoption of IFRS, other countries such as Australia, New Zealand, Canada, South Africa and Nigeria have made similar changes to their accounting systems at the national level (Cai, Rahman, & Courtenay, 2014; Nobes & Zeff, 2015; Olamide & Ajibade, 2016). However, there have been controversies, such as practical difficulties in IFRS application among the companies required to
adopt IFRS and among international accounting researchers about the changes in accounting systems across the countries complying with IFRS requirements (Ball, 2006; Lin, 2012; Outa, 2013). The adoption of IFRS is often justified by the expected economic benefits for preparers of financial statements (Brüggemann, Hitz, & Sellhorn, 2013; Isenmila & Adeyemo, 2013a; Madawaki, 2012). Notwithstanding the benefits, accounting researchers are concerned whether the adoption of IFRS, a product of a monopolistic accounting standards setter is the right decision towards global accounting practice, since accounting is related to culture, (Sunder, 2009) and culture is dynamic around the world.

Countries adopting IFRS have considered the opportunities available to domestic companies aiming to attract foreign investors. Thus, the adoption of IFRS requires a process of being internationally competitive in the quality of IFRS financial statements (Oheneba, Ali, & Ahmed, 2011; Perumpral, Evans, Agarwal, & Amenkhienan, 2009). This is one of the reasons the Financial Reporting Council of Nigeria (FRC) considers IFRS as favourable accounting standards to ensure quality and comparable financial statements are produced by companies in Nigeria (Isenmila & Adeyemo, 2013a; Madawaki, 2012; Oheneba et al., 2011).

However, the adoption of IFRS by accounting regulators and government agencies has experienced different resistance from companies due to challenges in IFRS adoption. These challenges are identified from different perspectives which include cultural mismatches with IFRS accounting orientation, incompatibility with some industry accounting information systems and practical difficulties related to accounting items recognition, measurement and disclosure (Bakre & Lauwo, 2016; Isenmila & Adeyemo, 2013a; Odia & Ogiedu, 2013). The changes in the Nigerian accounting system which include IFRS adoption, similarly experienced resistance by the companies (Odia & Ogiedu, 2013).

1.1.1. The Nigerian Accounting System

The FRC has an oversight of financial reporting and accounting practice in Nigeria (Herbert, Anyahara, Okoroafor, & Onyilo, 2016). Other financial reporting and accounting practice oversight bodies include the Institute of Chartered Accountants of Nigeria (ICAN), Central Bank of Nigeria (CBN), Security and Exchange Commission (SEC), Nigeria Stock Exchange (NSE) and industry regulators.

Prior to 1965, there was no legal financial reporting framework in Nigeria (Uche, 2002). The draft of the 1957 Constitution provided an opportunity for the ICAN to present a set of legal accounting requirements to the Parliament as part of the 1957 Constitution. The set of accounting standards presented in the 1957 Constitution became the guiding principles for financial reporting in 1965 (Uche, 2002).
From 1965 to 2011, the Statements of Accounting Standards (SAS) were used as a statutory financial reporting framework. The enforcement of these standards was primarily the duty of the FRC (Saidu & Dauda, 2014). In 2010, the Nigerian accounting system was restructured to replace SAS (Josiah, Okoye, Adediran, & Samson, 2013; Uche, 2002; Uwalomwa, Emeni, Uwuigbe, & Oyeleke, 2016). Therefore, IFRS was adopted for all Nigerian publicly accountable companies with effect from January 2012. Following the adoption of IFRS in Nigeria, there was support for and criticism of IFRS adoption by different stakeholders (Taiwo & Adejare, 2014).

### 1.1.2. Adoption of International Financial Reporting Standards in Nigeria

In 2010, the FRC implemented IFRS for all Nigerian companies (Deloitte, 2013; Nigeria Stock Exchange, 2013a, 2013c). The adoption of IFRS in Nigeria includes all accounting standards developed by IASB namely: IFRS for publicly accountable companies, IFRS for Small and Medium-Sized Enterprises (SMEs) and the International Public Sector Accounting Standards (IPSAS) which are developed in partnership with the External Reporting Board of New Zealand. However, there are different issues in the adoption of the three sets of accounting standards (i.e. IFRS, IFRS for SMEs and IPSAS) which in most cases contradict the national financial reporting environment with evidence from Nigeria, Kenya, South Africa, Australia and Romania (Bova & Pereira, 2012; Edwards, Schelluch, Du Plessis, Struweg, & West, 2007; Istrate, 2015; Jones & Higgins, 2006; Lena, 2013; Odia & Ogiedu, 2013; Uwadiae, 2013; Uwalomwa et al., 2016).

The adoption of IFRS in Nigeria was meant to address the shortcomings in the financial reporting environment based on the recommendation of the World Bank (2011). Contrarily, the non-adoption of IFRS revealed unintended consequences of IFRS adoption in Nigeria similar to other countries’ adoption of IFRS (Ibrahim, 2014; Pran, 2006).

Nigerian listed and non-listed companies were required to adopt IFRS for publicly accountable companies from January 2012 (Ayuba, 2012). As at 2013, only a handful of the companies had adopted IFRS while others resist conforming to the changes in the accounting system. The non-adoption is attributed to some challenges such as practical difficulties in IFRS application for disclosure, recognition and measurement of accounting items and the effects of industry type (Nigeria Stock Exchange, 2013a, 2013c). These challenges have resulted in the removal of some companies from the NSE (Nigeria Stock Exchange, 2013c).

### 1.1.3. Reports on the Challenges in IFRS Adoption

Media reports have documented that challenges in the Nigerian financial reporting system are associated with the inadequate supply of accounting professionals for local businesses (Uwadiae, 2012b; World Bank, 2011). However, prior to IFRS adoption, Wallace (1987) found that compliance
with accounting standards in Nigeria was associated with the type of management system, which influences adoption of accounting standards. Wallace (1987) identified that some companies were transparent in their financial statements while others preferred to conceal their financial information. The management system as a determinant in adopting accounting standards can be expressed within Gray (1988) culture traits (personality and expectant behaviour) of the managers of the companies that adopt and those that do not adopt (Steyer, Schmitt, & Eid, 1999).

Reports from different media investigations are inconsistent on the challenges in IFRS adoption. Thus, it is unclear what challenges are associated with IFRS adoption among Nigerian companies. The World Bank (2011) and Adetoso & Oladejo (2013) highlighted possible challenges in the adoption of IFRS such as weak enforcement mechanisms, an inadequate supply of certified accountants, secrecy among financial statements preparers, incompatibility with industry accounting information systems and the lack of IFRS knowledge.

Other challenges observed from media reports include cultural influences on disclosure and measurement such as secrecy and conservatism (Bakre & Lauwo, 2016; Odia & Ogiedu, 2013; Uwadiae, 2012b). Ball (2016) documented that the lack of awareness of the consequences of persistent failure in setting the accounting standards can lead to challenges in the development of an accounting system. Ball (2016) did not discuss the challenges that can emerge from the application of IFRS as opposed to GAAPs and the issues arising from enforcement of IFRS due to financial statement preparers’ perceptions of accounting value.

There is no clear definition of the word challenge. The Oxford Dictionary has however defined a challenge as (i) a call to someone to participate in a competitive situation or fight to decide who is superior in terms of ability or strength, (ii) a task or situation that tests someone’s abilities and (iii) a call to prove or justify something. The last two definitions are more consistent with that which previous studies referred to as challenges in IFRS adoption.

The extant literature on the challenges in IFRS adoption focuses on factors that inhibit preparers of financial statements’ ability to meet the regulatory requirements. Such factors include companies’ characteristics (Shammari, Brown, & Tarca, 2008), industry effects (Christensen, Lee, & Walker, 2007; Cooke, 1992; Ibrahim, 2014; Tsunogaya et al., 2015), theoretical assumptions (Borker, 2013b; Deegan, 2006; Gray, 1988) and practical difficulties such as recognition, measurement and disclosures in applying accounting standards to financial statements (Ibrahim, 2014; Jones & Higgins, 2006; Uwadiae, 2012a, 2012b, 2013). These factors are the focus of what accounting researchers considered as the challenges in accounting standards’ adoption. Therefore, these factors form the basis for this present study.
Contrary to the general belief that there are challenges in IFRS adoption, the FRC Chairman has rejected the claim by Nigerian companies that there are challenges in the adoption of IFRS (Lena, 2013). However, no study has comprehensively investigated the challenges in IFRS adoption among listed and non-listed companies in Nigeria which focuses on IFRS for publicly accountable companies.

1.1.4. Theoretical Assumption of the Challenges in IFRS Adoption

In addition to the media reports, some of the challenges in IFRS adoption among the Nigerian companies have not been specifically investigated to explain the factors influencing IFRS adoption. Further, the industry accounting information system is one of the challenges in IFRS adoption (Christensen et al., 2007; Shamhari et al., 2008). This has not been clearly investigated in the case of IFRS adoption in Nigeria. Therefore, it is an unproven fact that industry type has significant impacts on IFRS adoption in the case of Nigeria. However, Ibrahim (2014) has identified the critical challenges IFRS pose to the extractive industry in Iraq.

The industry factors such as companies operating business activities in the oil and gas industry, agricultural industry or construction industry have been commonly referred to as some of the industries with which IFRS are incompatible and further studies are required among the countries that have implemented IFRS (Ibrahim, 2014; Kurniawan, Mulawarman, & Kamayanti, 2014). Other assumptions of the challenges in IFRS adoption include the influences of companies’ cultural factors (Borker, 2013b). For example, Gray (1988) documented factors that determine accounting systems in different countries and Borker (2013) extended Gray (1988) cultural factors that influence accounting systems as the determinants of success or failure in IFRS adoption. The constructs of the cultural theory indicate the possibilities of challenges in IFRS adoption in some different business environments.

Considering the impacts of companies’ cultural factors on IFRS adoption, FRC adoption of IFRS calls for a debate on whether the adoption is the right decision for the convergence of the Nigerian accounting system (Isenmila & Adeyemo, 2013a; Madawaki, 2012). Accounting standards are supposed to be developed based on a country’s socioeconomic environment, specifically the cultural, political and economic setting (Gray, 1988; McCartney, 2004). Asiyaban & Abdoli (2012) described culture as a common perception, as a means of satisfying man’s mental needs, a system of common symbols and a projection of man’s thought and unconscious infrastructure. This definition contributes to accounting practice as an interaction between society and a social structure (Asiyaban & Abdoli, 2012).

Consequently, an effort to increase accounting information quality and comparability through a single set of accounting standards around the world has not been achieved (Brüggemann et al., 2013). It
implies there are several challenges that need to be identified and addressed within and across the countries using IFRS. A cross-country analysis of the challenges of IFRS adoption has been suggested as a way forward towards sustainable globalisation of accounting practice (Gernon & Wallace, 1995; Gordon, Greiner, Kohlbeck, Lin, & Skaife, 2013). It is hoped this will provide country specific and cross country perspectives of the challenges in IFRS adoption.

1.2. Problem Statement

The problem addressed in this study is the challenges associated with the transition from national GAAPs to IFRS among Nigerian companies. It addressed the issues of why companies respond to IFRS adoption differently in Nigeria. The impacts of industry type, practical difficulties and the influences of cultural factors on IFRS adoption are examined to forge a link to the challenges inhibiting IFRS adoption. An aspect of the companies’ cultural influences on the convergence of international accounting standards that have been alienated by extant studies is investigated in this research to provide an answer to what inhibits IFRS adoption.

The challenges in IFRS adoption vary across previous studies that have attempted to identify the issues in adopting IFRS. Most of the studies examining these challenges identified legal systems, companies’ characteristics such as listing status, companies’ size, ownership structure and enforcement mechanism as the factors inhibiting IFRS adoption (Pricope, 2016; Shammari et al., 2008). Other factors include practical difficulties such as recognition, measurement and disclosure of accounting items (Ibrahim, 2014; Jones & Higgins, 2006; Uwadiae, 2012a, 2012b, 2013). Further, these challenges are often linked to different theories in accounting practice such as regulatory theory, agency theory, institutional theory and legitimacy theory (Deegan, 2006; Epstein & Jermakowicz, 2008; Khliif & Chalmers, 2015).

However, Hofstede (1984, 2001) and Gray (1988) provided some insights into the influence of external, ecological and economic factors in the development of accounting standards. Gray (1988) and Borker (2013) further elucidated how cultural factors affect responses to changes in accounting standards. Despite the perceived economic benefits, companies’ cultural factors are known to be one of the challenges in international accounting standards’ convergence (Asiyaban & Abdoli, 2012; Nobes, 1990).

International Financial Reporting Standards were implemented in Nigeria in 2010 with the intention of providing legitimacy and economic benefits to companies. Nigerian companies both listed and non-listed are required by law to use IFRS beginning from 2012 and 2013, respectively. It is reported that companies mandated to adopt IFRS face various challenges that can hinder the purpose of IFRS adoption.
The challenges in IFRS adoption have not been identified across significant companies using IFRS in terms of the application of IFRS in Nigeria. Different challenges are reported among the countries implementing IFRS requirements and among preparers of financial statements (Khlif & Chalmers, 2015; Outa, 2013). In the case of Nigeria, the challenges and consequences encountered by companies have not been clearly identified in terms of cultural and practical difficulties and industry accounting information systems to support policies that can address the challenges.

Aljifri (2013) documented that without the necessary components that shape a country’s accounting system, the adoption of IFRS will be unsuccessful. There is evidence from the World Bank (2011) assessment of Nigerian financial reporting which documented that companies in Nigeria lack high quality financial statements in comparison with countries using IFRS. In view of this weakness in financial reporting, the adoption of IFRS is expected to serve as a remedy. However, without the identification of the challenges in IFRS adoption, the objectives of such adoption cannot be achieved successfully (Ali, 2005; Aljifri, 2013). This is consistent with Ball (2016) and Bradbury & van Zijl (2006) reports that the benefits of IFRS can only be achieved by the adoption of the complete list of IFRS issued by IASB without deviation. Thus the main objective of this study is to identify the challenges companies in Nigeria face in IFRS adoption. The investigation focuses on practical difficulties in IFRS application, effects of industry types and companies’ cultural factors inhibiting IFRS adoption.

This study aims to identify the challenges in adopting IFRS among listed and non-listed companies in Nigeria and their impacts on companies’ decisions to adopt IFRS. Specifically, the study examines how the companies’ cultural factors, industry type and practical difficulties in IFRS application impact the decisions of preparers of financial statements to adopt IFRS in Nigeria.

The findings of this study will support the financial reporting regulatory system in Nigeria and also identify the challenges in IFRS adoption from the Nigerian perspective into international accounting research. These will contribute to the existing literature and accounting practice. Further, the study will provide users of financial statements with the factors influencing financial reporting among Nigerian companies and how these factors influence the decisions of preparers of financial statements on whether to adopt IFRS requirements.

1.2.1. Research Objectives

The objectives of the study are:

1. To identify the companies’ cultural factors that inhibit IFRS adoption in the Nigerian financial reporting environment.
2. To examine the practical difficulties in preparing financial statements in accordance with IFRS requirements.

3. To examine the relevance of IFRS in the preparation of financial statements in different industries in Nigeria.

1.3. Research Questions

The aim of the research is to examine evidence of how companies’ cultural factors, industry types and practical difficulties in IFRS application impact preparers of financial statements’ decisions to adopt IFRS in Nigeria. In doing so, an effort is made to identify why some companies adopt IFRS whilst others do not adopt.

The adoption of IFRS was based on the recommendations from the World Bank analysis of the financial reporting system in Nigeria. The report enumerated several issues in the accounting system in Nigeria, such as the transparency and comparability of the financial statements prepared under the former accounting standards known as the Statement of Accounting Standards (SAS).

The SAS comprises 25 accounting standards developed by the Nigerian Accounting Standards Board (NASB) now known as the FRC. Considering the Nigerian political and socioeconomic environment, many questions have been raised about the consistency of IFRS requirements with accounting practice in Nigeria (Isenmila & Adeyemo, 2013a).

As Borker (2013) documented, accounting standards are developed in consideration of the perceived accounting values. These accounting values are influenced by cultural factors in the business environment. Therefore, the need to investigate the relationship between these cultural factors and IFRS adoption arises. From the literature, one aspect that has not been clearly investigated is the impacts of Gray (1988) cultural dimensions on IFRS adoption. The cultural factors were further developed by Borker (2013) as predictive challenges and success of IFRS adoption. This study assesses how these cultural dimensions pose challenges to companies’ IFRS adoption.

In addition to the cultural factors influencing IFRS adoption, previous studies on IFRS adoption have examined other challenges from different perspectives. These include practical difficulties in IFRS application to financial statements and the impacts of industries on IFRS adoption (Aljifri, 2013; Ibrahim, 2014; Uwadiae, 2013).

The following research questions will be investigated:

RQ1. To what extent do the company’s cultural factors have an impact on IFRS adoption?
RQ2. What are the practical difficulties companies face in applying IFRS requirements to financial statements in Nigeria?

RQ3. What are the effects of industry types on IFRS adoption in the Nigerian financial reporting environment?

1.3.1. Research Hypothesis

Cultural Factors

Borker (2013) argues cultural factors impact on IFRS adoption success or failure. These hypotheses were derived from Gray (1988) theory of accounting value dimensions. In consistency with the hypothesis specification in Gray (1988), the following hypotheses are developed to address the first research question (RQ1).

Drawing from accounting value studies by Gray (1988) and Borker (2013), the following relationships are hypothesised (hypotheses 1 – 4):

H1: The higher a company ranks in terms of professionalism and the lower it ranks in terms of statutory control the more likely it ranks highly in terms of IFRS adoption.

H2: The higher a company ranks in terms of optimism and the lower it ranks in terms of conservatism the more likely it ranks highly in terms of IFRS adoption.

H3: The higher a company ranks in terms of transparency and the lower it ranks in terms of secrecy the more likely it ranks highly in terms of IFRS adoption.

H4: The higher a company ranks in terms of flexibility and the lower it ranks in terms of uniformity the more likely it ranks highly in terms of IFRS adoption.

Practical Difficulties in IFRS Application to Financial Statements

As many media reports have indicated, prior to and during IFRS adoption in Nigeria, different practical difficulties were identified as possible factors inhibiting IFRS adoption (Barde, 2009; Uwadiae, 2013). However, FRC claims there are no challenges in IFRS adoption (Lena, 2013; Madawaki, 2012; Odia & Ogiedu, 2013). The claim by companies that practical difficulties hinder their abilities to adopt IFRS was perceived as false. This claim is empirically examined in this study to identify the relationship between some practical difficulties in IFRS application to financial statements and the likelihood of IFRS adoption. Therefore, the following relationship is hypothesised:
**H5.** There is no relationship between IFRS adoption and practical difficulties in IFRS application to financial statements

*Industry Factors*

Previous studies on accounting standards adoption found a significant difference between the extent companies adopt accounting standards and their industry types (Christensen et al., 2007; Cooke, 1989). The impacts of industry types and IFRS adoption are inconsistent across different studies. IFRS have been more favourable by some industries while others are less likely to adopt IFRS (Christensen et al., 2007; Hashemi, 2016; Uwadiae, 2013). Investigation of the relationship between the type of industry in which a company conducts business transactions and IFRS adoption is intended to contribute to an understanding of the industry for which IFRS adoption is more likely to be successful. Therefore, the following relationship is hypothesised:

**H6.** There is no significant difference in companies’ IFRS adoption in terms of industry types

**1.4. Theoretical Framework**

There are different theories explaining compliance with accounting regulations (Ibrahim, 2014). Findings from studies that have applied these theories are inconsistent (Deegan, 2006; Khlf & Chalmers, 2015; Shammari et al., 2008). However, these theories explain why accounting regulators require certain types of accounting practice and ways companies respond to those changes (Guerreiro, 2012; Oliver, 1991).

Accounting researchers believed that an accounting system is developed based on two schools of thought. These include positive accounting theory and normative accounting theory (Kabir, 2010; Watts & Zimmerman, 1986). The positive accounting theory views accounting from its current value, whilst the normative accounting theory perceives what accounting value should be (Watts & Zimmerman, 1978, 1986).

The positive and normative accounting theories dimensions can be found in most other accounting theories such as agency, legitimacy, institutional and regulatory accounting theories (Deegan, 2006). However, these theories attempt to predict the behaviour of financial statement preparers on how they respond to accounting regulations differently and their view of what accounting value is and should be. This behaviour is often referred as cultural factors which consist of common beliefs or perceptions that can be found among companies (Ogbenjuwa, 2016). It indicates that most of these theories are confined to preparers of financial statements’ behaviours and embedded in the cultural practices of companies (Harrison & McKinnon, 1986; Lewis, 2001; Perera, 1989).
One of these theories that has been consistently referred as enhancing or inhibiting accounting convergence, particularly IFRS adoption, is the cultural theory (Deegan, 2006; Ibrahim, 2014; Ogbenjuwa, 2016). From a theoretical perspective, Gray (1988) and Borker (2013) assumed that cultural and ecological factors make up the accounting system of a country which many researchers have identified as a major obstacle to adoption of international accounting standards (Perumpral et al., 2009).

The cultural theory developed by Gray (1988) and Borker (2013), which identified professionalism, statutory control, uniformity, flexibility, conservatism, optimism, transparency and secrecy, form the basis on which this research is conducted. This assumption is set to test how companies respond to IFRS adoption. Asiyaban & Abdoli (2012) identified the degree to which conservatism, secrecy, professionalism and uniformity influence accounting practice in a country. However, there is no evidence that the challenges in IFRS adoption in Nigeria are associated with these dimensions that interact with the country’s accounting practices. These dimensions are included in this study to investigate if they exist and their contribution to the challenges in adopting IFRS by Nigerian companies.

1.5. Research Design

A structured questionnaire is developed to obtain the data for analysis. A survey design is an appropriate method of investigation to meet the large and diverse population of the study to answer the research questions. Previous studies on the adoption of international accounting standards in Nigeria have applied survey research to elicit data from companies’ accountants (Ogbenjuwa, 2016; Wallace, 1987). This method was an effort to overcome the lack of availability of secondary data from Nigerian companies.

To develop the appropriate survey questions, archive documents such as the roadmap for IFRS adoption in Nigeria, accounting practitioners’ reports particularly from Deloitte, Ernst and Young, KPMG and some local audit firms, media reports, and reports from other agencies such as NSE, Corporate Affairs Commission (CAC), the World Bank and International Monetary Fund were used together with relevant literature. Some of the survey questions are derived from Chanchani and Willett (2004).

The group most involved in and affected by IFRS adoption are the preparers of financial statements who are the companies’ accountants. Consequently, the study collects data from the companies’ accountants responsible for IFRS adoption. The study uses chi-square test, independent sample t-test, Exploratory Factor Analysis (EFA) and logistics regression to answer the research questions and test the hypotheses.
1.6. Significance of the Study

The challenges in IFRS adoption have been investigated in previous studies through compliance with disclosure and measurement requirements within a limited number of IFRS and among listed companies (Aljifri, 2013). Previous research findings are inconsistent and vary across the countries investigated.

This study examines challenges inhibiting IFRS adoption in the context of Nigeria’s adoption of IFRS. Challenges faced by companies in adopting IFRS are different across IFRS jurisdictions and the case of Nigerian companies is not clearly understood due to the lack of comprehensive research that focuses on companies’ experiences in adopting IFRS. Identification of these challenges is important in developing accounting policies that enhance the financial reporting regulatory system in Nigeria. The central issues are what type of challenges do companies in Nigeria face in IFRS adoption? This research is set to answer this question by examining the factors that prohibit companies from IFRS adoption. The study takes into account the cultural theory discussed in Borker (2013b) which has not been examined in the case of IFRS adoption in Nigeria and countries with a similar economic environment.

1.7. Summary of the Findings

The contribution of the study is threefold. First, it identifies the challenges Nigerian companies face in IFRS adoption by identifying the factors that inhibit companies’ IFRS adoption. It examines the relationship of cultural factors and practical difficulties in IFRS adoption influencing companies’ decisions to adopt or not to adopt IFRS. The cultural factors that have not be applied in explaining challenges in IFRS adoption are explained in this study. This brings the Nigerian perspective of the challenges in IFRS adoption into the international context through the literature. From the findings, possible policy implications are hoped to emerge to enhance IFRS adoption and IFRS requirements compliance among the Nigerian companies and countries with similar economic environment.

Secondly, the study examines the impacts of industry type on IFRS adoption. Research investigating the difficulties in applying IFRS in some industries are very limited. Ibrahim (2014) is the most recent study that investigated IFRS adoption and industry type with a focus on only extractive industries in the Iraqi context. The industries listed on the Nigerian stock exchanges are examined in this research. An understanding of the compatibility of IFRS with these industries emerged from the research.

Thirdly, while this study focuses on Nigerian companies, the findings may reflect the experience of countries with similar cultural and socio-economic backgrounds around the world. It is more likely that the study will reflect similar countries such as Ghana, South Africa, Kenya and Tanzania which have partial or full IFRS adoption. More importantly, the study will provide FRC and users of financial
statements with some indicators that show the likelihood of Nigerian companies adopting IFRS adoption and some evidence that could be used to determine if a company will not adopt IFRS.

Finally, the study provides future research opportunities for accounting scholars interested in understanding the challenges in IFRS. The outcomes of the study could serve as a research model to researchers who are specifically interested in conducting similar research in African countries and countries with similar economic characteristics and environment. The study adds to the knowledge of the cultural theory as explanatory variables in IFRS adoption. Further, the relevance of IFRS to different industries in Nigeria is clearly understood.

1.8. Structure of the Research

The remainder of this thesis is organised as follows. Chapter 2 discusses the financial reporting environment in Nigeria and includes an overview of the accounting system and development of accounting standards in Nigeria. Chapter 3 consists of two sections. Section 1 reviews the relevant literature on international accounting standards development and IFRS adoption. Section 2 documents the relevant theories of accounting practice and international accounting standards’ adoption that shape the study. Chapter 4 describes the methods and data used in the study and Chapter 5 presents the descriptive analysis of the respondents who completed the questionnaire and the companies covered in the survey. Further, the information collected from the survey is summated in this chapter using EFA to identify the main factors. These factors are used in Chapter 6 to test the hypotheses. Chapter 6 presents the empirical results of the study and Chapter 7 concludes the research, identifying limitations and recommendations for future research.
Chapter 2
Nigerian Financial Reporting Environment and IFRS Adoption

This chapter provides the background to the Nigerian financial reporting environment and a discussion on the challenges in IFRS adoption in Nigeria. Section 2.1 describes the context of the study and Section 2.2 discusses the accounting system in Nigeria. The section includes a brief history of Nigerian accounting practice, the development of accounting standards, enforcement and monitoring of accounting standards’ adoption, FRC adoption of IFRS and the challenges experienced by Nigerian companies from media reports. Section 2.3 presents the summary of the Chapter.

The financial reporting system in this chapter refers to the accounting system being a polysemy of Nobes’ (1998) accounting system and financial reporting system.

2.1. Geographical, Political and Economic Boundaries of Nigeria

Nigeria is located in the Western African region above the equator and measures about 923,768 square kilometres in land size. It is bordered by Cameroon to the East, Chad and the Republic of Niger in the North, the Benin Republic in the West and the Atlantic Ocean in the South (see Figure 2.1).

![Nigerian Territorial Map](Figure 2.1 Nigerian Territorial Map adapted from Google Map, 2016)
From the World Bank 2015 population data, Nigeria has an estimated population of 182.2 million people sprawled across 36 states (World Bank, 2016). The four major cities include Lagos, Port Harcourt, Abuja and Kano and one historical modern city of the Benin Kingdom (Benin City) in Edo State. Nigeria is a democratic country with a common law legal system.

Economically, Nigeria’s revenue has been sourced from crude oil. The export of crude oil is estimated at 90% of total export revenue annually (World Bank, 2014). Other revenues are from agriculture and services. As the largest oil reserve and exporter in Africa, the country is endowed with human and natural resources. Nigeria has experienced some economic transformation from 2003 - 2014 with an average growth of 7.6% (World Bank, 2014) before the decline of crude oil prices from 2015 - 2016.

The Nigerian government is a key decision maker in international economic cooperation such as the Economic Cooperation of West Africa and the Organisation of Africa Unity. Nigeria is also a member of the International Monetary Fund since March 30, 1961 (International Monetary Fund, 2016). The country has complied with several international initiatives such as the Extractive Industries Transparency Initiative (EITI) and carried out other reforms, for example, electricity power sector reforms and adoption of IFRS. These efforts are to attract foreign investors and enhance economic growth.

Although Nigeria has made several economic reforms to attract foreign investors, the socioeconomic and political issues have not been completely addressed. These include widespread corruption which is reported in the media, crude oil theft and illegal bunkering and lack of infrastructure development (Idemudia, 2013; Odinwa & Nlerum, 2015; Olaseni & Alade, 2012).

Different regulations have been developed to ensure transparency and accountability in the economy. For example, the Independent Corrupt Practices and Other Related Offences Commission and the Economic and Financial Crime Commission were created to investigate and enforce laws related to corruption cases. From a business perspective, accounting regulations and a corporate governance code of practice have been introduced to ensure transparency in the corporate sectors.

According to Bakre and Lauwo (2016) and Iyoha and Oyerinde (2010), some of the reforms address the uncertainty in the financial reporting environment, misappropriation of funds by
some government officials and widespread corrupt practices by privately owned businesses as often reported in the media. These changes are significant reforms in the financial and economic environment affecting accountants, businesses and users of financial statements.

2.2. The History of Accounting System in Nigeria

The origin of accounting in Nigeria cannot be historically referred to due to the lack of documented literature related to the time accounting was first practised in Nigeria. It is believed that accounting practice existed in Nigeria before the invasion of the British in some ancient kingdoms and empires of Benin, Oyo, Kanem and Bornu of Nigeria (Kasum, 2011; Uche, 2002).

The development of the accounting profession suggests the regulation of the accounting system in Nigeria which began with the recognition of the accounting profession during the drafting of the Nigerian Constitution in 1957 in London during Nigeria’s independence from Britain (Uche, 2002). The recognition brought about a designation of the accounting profession in Nigeria known as the Association of Accountants of Nigeria, now known as the Institute of Chartered Accountants of Nigeria¹.

There is no specific literature to describe the type of accounting system that existed in Nigeria before the recognition of ICAN. Wallace (1987) stated that national accounting systems are often described across exogenous variables within and outside defined national environments, for example, country characteristics such as the legal system and regulation, the level of economic development, the culture and the political structure. The external variables such as internationalisation of goods and services, cross-border financing, international corporation (for example free trade agreements, bilateral relations and treaties) and colonialism can provide perspectives on the origin of accounting in a given jurisdiction. Some of these variables have been clearly identified and explained in Nobes & Paker (2012, pp. 27-76) and Wallace (1987, pp. 225-226) as factors indicating the types of accounting practice in a country. The traceability of accounting can be linked to these variables to identify the type of accounting standards that existed in Nigeria, particularly the Nigerian and British colonial experience.

¹ Institute of Chartered Accountants of Nigeria or ICAN is used for the remaining sections of this chapter.
Nigeria’s experience with the British leadership from 1851 - 1960 influences the fundamental principles of the Nigerian constitution (Frankema & Jerven, 2014). The British legal system which includes common and civil law was also practised in Nigeria during pre- and post-independence from the colonial regime (Seidler, 2014). The legal system may have influenced the type of accounting that was practised in Nigeria before official recognition of the accounting profession and the development of accounting standards from 1965 - 2010 in accordance with the Financial Reporting Act of 1965, amended in 2003. This suggests that the UK accounting system may have been practised in Nigeria before the legal recognition of the accounting practice.

Prior to 1965, there were no defined accounting standards in Nigeria until ICAN started to develop a set of accounting standards referred to as SAS in 1960 (Josiah et al., 2013). According to Uche (2002), SAS were used by companies prior to the statutory act of parliament to regulate the preparation of financial statements. The accounting standards required companies to apply book-keeping principles, measurement and disclosure requirements in SAS in preparing financial statements. The requirements were part of compliance with the Companies and Allied Matters Act (CAMA) of 2004 (Freemanbiz, 2016). From 1965 - 2010, SAS were used as legal accounting standards by companies until 2011 when the bill for the Financial Reporting Council of Nigeria Act was passed into law.

### 2.2.1. Development of Accounting Standards in Nigeria

The establishment of the FRC on September 9, 1982, was to develop accounting standards for Nigerian companies. The Financial Reporting Council of Nigeria was established by the ICAN previously known as the Nigerian Accounting Standards Board (NASB). It later became a government agency in 1992 (Ikpefan & Ochei, 2012). The first set of accounting standards were developed by FRC in 1960 (Josiah et al., 2013). Section 335 (1) of CAMA CAP C20 LFN 2004 requires preparers of financial statements in Nigeria to adopt the accounting standards developed by FRC for the preparation of financial statements. By this Act, companies were required to comply with the accounting standards developed by FRC.

The main objectives of the FRC include:
(i) To formulate and publish, in the public interest, accounting standards to be observed in the preparation of financial statements and to promote the general acceptance and adoption of such standards by preparers and users of financial statements;

(ii) To promote and sponsor legislation when necessary in order to ensure that statements developed and published by the Board receive nation-wide acceptance, adoption and compliance; and

(iii) To review, from time to time, the standards developed by the Board in the light of changes in the social, economic and political environments.

In some cases, the FRC has failed to meet some of the above objectives in ensuring that accounting standards are adopted and complied with. Some of the reasons identified as contributing factors to FRC challenges to meet these objectives include a weak enforcement mechanism, inadequate funding and the lack of a conceptual framework for developing accounting standards that meet the current financial information needs (World Bank, 2011).

Accounting standards are developed from a defined conceptual framework to address specific issues in financial reporting (Macve, 2015). For example, IASB developed accounting standards based on a conceptual framework developed in 1989 which was adopted from the Financial Accounting Standards Board (FASB) framework and the improved framework published in 2010 (Collings, 2013). The IASB conceptual framework applies the following specific steps as discussed in Kenny & Larson (2009): (1) identify issues, (2) set the agenda, (3) International Financial Reporting Interpretation Committee (IFRC) meets, (4) develop a draft, (5) send circular for comments, (6) comments and deliberation and (7) issue standards or revise the draft. A conceptual framework defines the purpose and nature of accounting practice and the accounting system.

A conceptual framework applies theoretical principles to develop accounting standards following steps, methods and approaches that address issues surrounding financial reporting. It is not surprising that the most conceptual frameworks originated from academia (Association of Chartered Certified Accountants, 2014) which suggests that accounting standards are developed based on some relevant accounting theories.

In the case of the Nigerian accounting system, there is a lack of a specific conceptual framework that integrates environmental, ecological, social and cultural attributes of the Nigerian business environment to ensure that the purpose of accounting standards is
achieved. This suggests the likelihood of companies’ resistance to adopting some type of accounting standards.

2.2.2. Enforcement and Monitoring of Accounting Standards in Nigeria


However, the financial reporting system in Nigeria is often enforced under the Companies and Allied Matter Act 2004. Most of the requirements in some cases are in conflict with other industry requirements and government agencies. For example, the Federal Inland Revenue and National Insurance Commission reported there are recognition, measurement and disclosure implications of company income tax and actuarial valuation following adoption of international accounting standards. The issue of measurement and recognition led to the modification of IFRS for the purpose of tax while industries and other government agencies were left to confront these challenges. (Federal Inland Revenue Service Board, 2013; Osemeke & Adegbite, 2016). The main financial reporting requirements from the CAMA Act of 2004 are summarised as follows:

Section 331 of the Companies and Allied Matter Act requires all companies registered or domiciled in Nigeria to keep accounting records. These include receipts and expenditure sufficient to prepare and disclose with reasonable accuracy the financial position of the company.

Section 333 stipulates the penalties for non-compliance with the provision of Section 331 of the CAMA. Section 334 requires directors of companies to prepare financial statements consisting of yearly transactions and Section 334(2) specifies that the financial statements must be prepared as follows:
1. Statement of Accounting Policies
2. The Balance Sheets as at the last date of the year
3. Profit and loss account or, in the case of the company not trading for profit, an income and expenditure account for the year
4. Notes on the account
5. The auditors’ report
6. The directors’ report
7. A statement of the source and application of funds (replaced by a statement of cash flow in the 1997 amendment)
8. A value added statement of the year
9. A five-year financial summary
10. For a holding company, group financial statements

2.2.3. Penalties for Noncompliance with Accounting Standards in Nigeria

There are financial and non-financial penalties for not complying with the prescription in CAMA 2004. The major challenges to compliance with CAMA and accounting standards in Nigeria are the lack of enforcement and a multiplicity of laws (Osemeke & Adegbite, 2016). Prior to the replacement of NASB with the FRC, it was stated that the NASB was weak in regulating and enforcing compliance with accounting standards in the country; though the penalty for non-compliance was five million Nigerian naira² and/or not more than one year’s imprisonment.

The FRC was enacted as legal authorisation to ‘issue and regulate accounting, actuarial valuation and auditing standards’ and create an enabling environment for the adoption, localisation of IFRS and setting up of a solid foundation for financial reporting standards in Nigeria (Josiah et al. (2013, p. 1). Differently from the major change in financial reporting requirements, no similar changes have been made to other legal requirements in Nigeria related to financial reporting and enforcement.

2.2.4. Adoption of IFRS in Nigeria

The adoption of IFRS in Nigeria is a significant change in the history of Nigerian financial reporting (Odia & Ogiedu, 2013). Madawaki (2012) found that the adoption of IFRS in Nigeria

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² Five million Nigeria Naira is approximately fifteen thousand, eight hundred and eighty-five US dollars as October 2016
is an effort to improve the financial reporting environment, to achieve a higher quality of financial statements, access to the international capital market, attract foreign investment and financial statement comparability and transparency. The World Bank, (2011) had earlier recommended IFRS for Nigerian companies and it is expected that compliance with IFRS requirements will make Nigerian companies internationally competitive and transparent. Increasing the level of transparency for government organisations as part of the effort to address issues of corruption was one of the motivating factors for IFRS adoption (Isa, 2014; Sanusi, 2010). Therefore, listed companies, non-listed companies, government agencies and SMEs were required to adopt IFRS (Oladipupo & Izedomi, 2013).

The adoption of IFRS was justified by FRC that management discretionary behaviour can be minimised as a result of IFRS disclosure requirements (Sanusi, 2010). It is often perceived that IFRS financial statements are more reliable than GAAPs (Bova & Pereira, 2012; Ogbenjuwa, 2016).

The adoption of IFRS in Nigeria was influenced by the perception that economic benefits would emerge from adopting IFRS requirements (Uwalomwa et al., 2016). This is consistent with some accounting researches which found that benefits can be derived from IFRS adoption (Istrate, 2015; Jung, Park, & Chung, 2016). These benefits include financial statements’ comparability, legitimacy and transparency. Ogbenjuwa (2016) referred to these reasons as the motivation for IFRS adoption for Nigerian companies, particularly the transparency factor.

International Financial Reporting Standards focus on companies trading for profit in national and international capital markets. The decision to implement IFRS for Nigerian companies is an inevitable decision, considering International Organisation of Securities Commissions (IOSCO) requirements for companies considering a cross-border stock market and the increases in cross-border investment (Nyor, 2012b).

2.2.5. The Process of IFRS Adoption in Nigeria

On Thursday 2, September 2010, the Minister of Commerce and Industry announced the roadmap for the adoption of IFRS in Nigeria. The adoption was to follow three phases of reporting dates (see figure 2.2). Listed companies and significant public interest entities were required to apply IFRS in the financial statements from 2012. However, early adoption was
permitted to facilitate the transition from SAS to IFRS (Akinlade, 2014). Other public interest entities were required to comply with IFRS from 2013 with early adoption permitted from 2010 and SMEs were required to prepare financial statements in accordance with IFRS requirements from 2014.

The process of IFRS adoption has a significant impact on the success or failure of the adoption of IFRS by companies (Tammy, 2012). It is significant from the perspective that IFRS adoption can be considered as standard setting activities at the national level (Bradbury & Zijl, 2006).

In the case of the FRC roadmap for IFRS adoption, there have been many criticisms of the process whereby IFRS were implemented in Nigeria, with reference to a lack of adequate time for companies to prepare for the transition from SAS to IFRS (Isenmila & Adeyemo, 2013a).

Adoption of IFRS in Nigeria includes all accounting standards developed by IASB including Public Sector Accounting Standards (IPSAS). There are different issues in the adoption of the three sets of IASB standards (IFRS, IFRS for SMEs and IPSAS) which in most cases contradicts the national financial reporting environment (Ball, 2016). These issues inhibit the success of IFRS adoption and the comparability of financial statements with evidence from the Romanian interpretation of IFRS in the national language (Istrate, 2015).

Figure 2.2 Roadmap for IFRS adoption adapted from Akinlade (2014)
2.2.6. Challenges in IFRS Adoption in Nigeria

The achievement of accounting information comparability and transparency requires the availability of professional accountants and adequate knowledge of the financial reporting policies and interpretations (Sunder, 2009). The accounting education in Nigeria has been found to be inadequate to produce the number of ICAN’s qualified accountants required by businesses in Nigeria (World Bank, 2011). The lack of accounting educational infrastructure to comply with IFRS requirements indicates that the purpose of IFRS adoption by Nigerian companies can be hindered by a lack of IFRS knowledge. Uwadiae (2013) stated that more challenges are expected from the increasing use of IFRS by Nigerian companies. These challenges include the issue of subjectivity on how accounting items are recognised, measured and disclosed in compliance with IFRS requirements.

Interpretation and application of IFRS have been an international issue since 2005 when IFRS became widely implemented. The IASB has acknowledged the challenges in IFRS application (International Financial Reporting Standards Foundation, 2012). One of the concerns is the dissimilarities of market data for measurement and valuation and its impacts on the comparability of financial statements (International Financial Reporting Standards Foundation, 2012). The need for availability of market data is particularly true in the case of IFRS 13 (Fair Value Accounting Standard). International Accounting Standards Board confirmation of challenges in IFRS application is consistent with the report from the Nigeria Stock Exchange (2013a).

Another concern about the companies’ adoption of IFRS is the absence of an active capital market for the measurement and valuation of some assets such as biological assets in the case of Nigerian companies (International Financial Reporting Standards Foundation 2012; Okafor & Ogiedu, 2012; Uwadiae, 2012b). These issues in IFRS application apply to both developing and developed countries.

Borker (2013) noted corporate opportunistic behaviour in an environment with strong uncertainty can limit the success of IFRS adoption. This is most likely in the case of non-listed companies. The World Bank (2011) reported that non-listed companies are relatively in need of smaller equity and have less qualified accounting professionals in Nigeria. Further, the difference between IFRS accounting principles and the financial reporting environment in Nigeria, specifically the perception of managers on what should be provided in financial
statements are issues contributing to resistance to IFRS adoption (Isenmila & Adeyemo, 2013b).

The challenges experienced by listed companies in Nigeria vary across companies and industries. On the due date for the first set of statutory IFRS financial statements, only a handful of companies had adopted IFRS. However, the IFRS requirements were not met in the financial statements of those that had adopted the accounting standards (Lena, 2013).

The reasons for non-adoption by some companies were linked to the practical difficulties based on media reports. These include contradiction between IFRS accounting principles and industry financial information needs. The perceptions of preparers of financial statements of unintended consequences from IFRS adoption in relation to the level of disclosure was another factor that hindered the adoption (Bakre & Lauwo, 2016; Ogbenjuwa, 2016; Uwadiae, 2012a, 2012b, 2013). Most of the challenges were reported by NSE and companies’ accountants for listed companies (Nigeria Stock Exchange, 2013a, 2013c; Uwadiae, 2012a, 2012b, 2013). There was limited information about non-listed companies due to the absence of an appropriate monitoring authority on issues related to IFRS adoption.

The challenges reported by Uwadiae (2012a, 2012b, 2013) and the Nigeria Stock Exchange (2013a, 2013c) include the level of disclosure, subjectivity in measurement, and incomes and liabilities recognition issues. Uwadiae (2013) described the challenges as complexities in IFRS adoption and noted the challenges are inexhaustible and likely to continue as the IASB continues to issue new IFRS and improve existing standards. This forms a basis for continuous research on identifying the challenges in IFRS adoption.

Other reports documented that Nigerian companies faced challenges with IFRS adoption. However, the challenges have not been clearly identified (Isenmila & Adeyemo, 2013a, 2013b; Madawaki, 2012; Nyor, 2012b). The word challenge is eclectic and requires empirical steps to identify and interpret it.

2.3. Chapter Summary

The development of the financial reporting system and adoption of IFRS in Nigeria is the focus of this chapter. The Nigerian accounting system has gone through several reforms starting from 1965 when the accounting standards developed by the Institute of Chartered Accounts of Nigeria became legal requirements for companies to prepare financial statements. The SAS
were developed by the Financial Reporting Council of Nigeria in 1960. Since the recognition of SAS, changes have been made to the accounting system in Nigeria following concerns about the quality of financial statements from companies. To address these issues, the World Bank (2011) carried out an analysis for an improvement in Nigeria’s financial reporting system and it was recommended that the FRC implement IFRS for preparers of financial statements in Nigeria. The purpose of the World Bank (2011) recommendation for IFRS adoption is to improve the quality of financial statements from Nigerian companies. It is expected the adoption will address socioeconomic issues relating to transparency in the Nigerian accounting system and attract foreign investment as a contribution to the growing economy. The World Bank (2011) recommendations include enforcement of IFRS by accounting regulators, training and development of accountants and appropriate incentives for companies to adopt IFRS. These were some of the recommendations to achieve the benefits of IFRS adoption in Nigeria (World Bank, 2011). However, the majority of the companies expected to adopt IFRS resist conforming to the FRC directive. The reasons for the resistance include preparers of financial statements’ concerns about the unintended consequences of applying IFRS requirements in preparing financial statements and inconsistency with the industry’s accounting information needs. Other reasons for non-adoption include difficulties in applying IFRS for measurement and recognition and disclosure of accounting items (Uwadiae, 2013). However, these challenges are reported in media reports which resulted in a limited understanding of the challenges in IFRS adoption. Therefore, this study aims to identify these challenges more explicitly. There were different challenges identified in previous studies and these are identified as the factors inhibiting IFRS adoption. These “factors determine how likely a company can align with IFRS” (Ibrahim, 2014, p. 30). Some of the related factors are reviewed in the next chapter consistent with previous studies.
Chapter 3
Literature Review and Theoretical Framework

This chapter reviews the development of IFRS, issues in international financial reporting standards and related theories used in this study. The chapter is presented in four sections. Section 3.1 discusses the background of IFRS and its adoption. Given the volume of literature on IFRS, this study will limit the literature review to IFRS development and adoption and adoption at the international level. This section also discusses the reasons commonly used to substantiate IFRS adoption. Section 3.2 discusses issues in IFRS adoption with a focus on practical difficulties related to IFRS application. Section 3.3 discusses the companies’ cultural factors that inhibit IFRS adoption and the chapter is summarised in Section 3.4.

3.1. Development of International Financial Reporting Standards

The development of IFRS became an important topic of interest after 1973 when variations in accounting practices and differences in financial statements became a concern among accounting professionals and other users of financial statements (Camfferman & Zeff, 2007; Zeff, 2012). Accounting standards are developed by different bodies around the world and the development depends on the country’s financial reporting environment and financial information needs. It is believed that the globalisation of businesses, specifically the move towards convergent capital markets has led to the need for a single set of international accounting standards developed by IASB and endorsed by IOSCO (Christensen, Lee, Walker, & Zeng, 2015; Oheneba et al., 2011).

Early civilisations recognised the need for defined weights and measures to promote commerce with a natural language (Sunder, 2009). The identification of the essential weights and measures creates a common language and Sunder (2009) reported that a common language in financial reporting makes business communication possible.

In confirmation of Sunder (2009) report, differences in language can lead to misunderstanding and consequently misinterpretation of IFRS. The motivation towards international accounting standards’ development is directed towards its immediate impact on capital markets, particularly in a voluntary disclosure regime (Khlif & Chalmers, 2015; Khlif & Hussainey, 2016). It can be deduced that the motivation led to the provision of uniform
financial reporting standards for the comparability of financial statements and investors’ decision support as reported in prior studies by Misirlioglu, Tucker, and Yükseltürk (2013).

The movement to converge international accounting standards led to the formation of the International Accounting Standards Committee in 1973. Subsequently, the debate on international accounting standards’ convergence attracted international capital market institutions and led to an agreement between IOSCO and IASB to develop accounting standards for companies trading in international capital markets (Baker & Barbu, 2007).

The agreement between IOSCO and IASB provided research opportunities for international accounting scholars from 1990-2004. These research focused on comparative studies of different international accounting standards and IFRS, capital market reactions and discussion of the socioeconomic factors influencing accounting practices and development of international accounting standards (Baker & Barbu, 2007).

3.1.1. Concerns About International Accounting Standards’ Convergence

One of the concerns about international accounting standards’ convergence, specifically IFRS adoption around the world is whether de jure harmonisation of international accounting standards would lead to de facto harmonisation. This concern is associated with the copious challenges encountered in IFRS adoption in different countries. However, without identifying and addressing the challenges in the adoption of IFRS within and across the countries implementing IFRS, de facto harmonisation cannot be achieved.

Despite the concerns about international accounting standards’ convergence, some international accounting researchers are optimistic that a single set of international accounting standards can be achieved through IFRS if the challenges in IFRS adoption are addressed. For example, Gernon & Wallace (1995), Muhammad Jahangir (2005) and Brüggemann et al. (2013) have documented that a single set of international accounting standards is achievable through continuous research. The optimism of international accounting researchers for the convergence of international accounting practice is supported by the EU, IOSCO and the United Nations’ acceptance of IFRS.
3.1.2. Approaches to International Financial Reporting Standards’ Adoption

International Financial Reporting Standards can be fully or partially implemented. However, Joshi (1998) revealed that partial adoption or full adoption with the aim of complying with IFRS across borders is not an appropriate approach to internationalising accounting standards.

Bradbury & van Zijl (2006) reported that for a country to claim international accounting standards compliance, all the standards set by the international accounting standards setter must be adopted without variation. In contrast, Zeff & Nobe (2010) argued that the simplest way for accounting regulators to use standards set by another accounting body is to adopt the process of standard setting as well as the standards that are produced by the process for a class of entities.

Different approaches are being used to implement IFRS as explained in Zeff & Nobes (2010). The process involves the acceptance of IFRS into a jurisdiction by adopting the standard setting process, rubber stamping, standard by standard endorsement, and endorsement for the preparation of financial statements (Zeff & Nobes, 2010).

The purpose of IFRS adoption is to produce comparable financial statements. However, the approaches to IFRS adoption and adoption in interconnecting societies with different objectives in preparing financial statements indicate that differences in international accounting standards will continue to exist (Ball, 2016; Joshi, 1998).

For example, an earlier study conducted by Pran (2006) found significant variations in the types of IFRS that exist among some countries claiming to be IFRS compliant. One of the concerns is the approach these countries applied in their adoption framework. Pran (2006) found that the countries modified the original version of IFRS, misinterpreted some IFRS requirements and applied IFRS to unrelated accounting items. The extent of convergence among the countries’ accounting systems is opposite to the rationale for the development of international accounting standards. This rationale is discussed in Tay & Parker (1990) (see Figure 3.1).
The implication of different approaches in IFRS adoption and adoption as discussed in Nobes (2013) would result in a different set of IFRS. Therefore, the accounting standards’ convergence framework discussed in Tay & Parker (1990) would reverse the direction of accounting systems from total uniformity to total diversity (see Figure 3.2). The reverse is most likely if the factors inhibiting IFRS adoption are not well understood and addressed.

3.1.3. Justification for International Financial Reporting Standards’ Adoption

The adoption of IFRS to eliminate differences in financial statements has been debated for decades but with more emphasis on international accounting standards’ convergence from 2005 (Madawaki, 2012; Nobes & Parker, 2012). The emergence of IFRS is the most significant development in accounting history (Outa, 2013). The IFRS are applied by companies in industrialised countries such as Australia, Canada, Germany, New Zealand, the UK and less
developed countries. Countries implementing IFRS believe that IFRS are high quality and transparent accounting standards (Bova & Pereira, 2012).

The increase in the number of countries implementing IFRS around the world is a response to trade partners, international monetary institutions and the movement for national social accounting practice restructuring (Cortese, 2013; Cortese, Irvine, & Kaidonis, 2010). Drawing upon the institutional isomorphism theory from 97 developing countries in 2013, Pricope (2016) found the process of IFRS adoption is not necessarily driven by the economic benefits IFRS provide, but is significantly influenced by mimetic pressures. The finding contradicts the perceptions that IFRS adoption is driven by perceived economic benefits.

Daske and Gebhardt (2006) state that IFRS financial statements are more value relevant, transparent and comparable in comparison with financial statements prepared in accordance with the GAAPs. However, later studies have shown there is no increase in the quality of financial statements following IFRS adoption (Callao, Jarne, & Laínez, 2007; Jeanjean & Stolowy, 2008; Soderstrom & Sun, 2007). Therefore, the high-quality perception of IFRS financial statements has led to mixed results from different studies.

International Financial Reporting Standards are believed to reduce information cost as capital flow becomes more internationalised. Therefore, it is cheaper to have one set of single financial statements without translation and easier for investors to understand than statements prepared with different GAAPs (Barth, 2008; Leuz, 2003). Some of the literature investigating the factors contributing to IFRS adoption believed that IFRS enhance the capital market and have the potential to attract foreign investors and a wide range of capital resources into an economy (Pricope, 2016).

Some of the goals of IFRS adoption in countries such as Nigeria are to attract investors by increasing the level of accountability, reduce corruption and attract foreign investment. However, the study conducted by Bakre and Lauwo (2016) on IFRS adoption and privatisation of government assets in Nigeria, showed there is no evidence to suggest a reduction in corruption and an increase accountability and foreign investment are achievable from IFRS adoption. However, considering the mandatory date of IFRS adoption in Nigeria, the methodological approach in Bakre and Lauwo (2016) limits the reliability of the belief that IFRS cannot reduce corruption or increase accountability.
Different benefits have been documented following IFRS adoption. Some of these findings are consistent while others are not. In Taiwo and Adejare (2014) study, financial statement preparers perceived that financial benefits can be derived from IFRS adoption, although, such benefit could be derived from less cost of restating financial statements for companies trading internationally. It was observed that the cost of restatements of financial statements for international trade purposes was eliminated due to the comparability of IFRS financial statements.

However, if there is a reduction in the cost of preparing financial statements, the impact will result in an increase in management’s financial performance if the cost of producing financial statements reduces and the company’s profit increases exponentially (Li, 2010; Bova & Pereira 2012). In Li and Bova & Pereira’s studies, IFRS adoption has been linked to an increase in foreign direct investment (Li, 2010). The influence of IFRS adoption and foreign direct investment could vary across jurisdictions. For example, Efobi, Nnadi, Odebiyi, and Beecroft (2014) study on returns on foreign direct investment in 92 countries showed no relationship between foreign direct investment and IFRS adoption in some countries. This indicates the benefits of IFRS adoption are expected to vary from country to country.

There is a general perception that IFRS is a set of principle based accounting standards. Therefore, it provides more reliable and transparent financial statements. This was particularly discussed in Jermakowicz, Reinstein, and Churyk (2014). On the other hand, an earlier study has discredited IFRS as accounting standards that provide more transparent financial statements (Sunder, 2009). It suggests that if there is a lack of transparency in IFRS financial statements, companies’ resistance to adopting IFRS is very likely.

One of the main reasons developing countries such as Nigeria, Ghana, Indonesia, and Fiji implemented IFRS is based on the “network effects” (Odia & Ogiedu, 2013, p. 389). The network effect is the international trade relationship between companies from different countries using a similar accounting approach for recognition, measurement, and disclosure. The major motivation towards IFRS adoption is the comparability effects perceived by IFRS adopters.

The justification for, and benefits from IFRS adoption are not similarly reported in the literature. However, some of the studies identified comparability of financial statements, transparency and an increase in accountability which come in the form of increased
disclosure, foreign investments and elimination of financial statements’ translation issues as some common justifications. Other reasons include legitimacy, globalisation of business, reliability, relevance and high-quality accounting standards.

The perceived benefits from IFRS do not come without initial costs. A previous study revealed that the process of IFRS adoption and IFRS accounting practice is often too expensive for some companies (Irvine & Lucas, 2006). It is believed that if the perceived benefits do exist, the difficulties in applying IFRS and a multiplicity of laws and cultural differences will not permit the achievement of the perceived benefits (Dahawy & Conover, 2007). Therefore, the need to identify the factors that could hinder such achievement requires an investigation and regulatory policies (Brüggemann et al., 2013).

3.2. Issues in International Financial Reporting Standards’ Adoption

Extant literature investigating challenges in IFRS adoption focuses on three perspectives. These include:

1. Analysis of the practical difficulties companies experience when applying IFRS requirements to financial statements
2. Assessment of IFRS against industries’ accounting information needs, and
3. Factors related to the financial reporting environment that influences preparers of financial statements’ decisions to adopt IFRS

First, the practical difficulties include: (1) recognition of accounting items such as the declaration of income or liability, (2) measurement of accounting items. For example, the carrying amount of an asset and the market value of the asset, and (3) disclosures of financial transactions, for example, an item to be included in published financial statements. These challenges are described as practical difficulties in IFRS adoption.

The applicability of IFRS to accounting items in some industries is another aspect of the challenges in IFRS adoption. International Financial Reporting Standards are in some cases industry specific. The challenges companies in a particular industry will experience may be different from challenges in other industries. For example, IAS 41 is applicable to the agricultural industry and the problem companies in the agricultural industry could experience may include substance over form in terms of biological assets (Wentzel, Reilly, & Reilly, 2008). Similarly, IFRS 6 application to the oil and gas industry could be a challenge to preparers of
financial statements. The IFRS 6 application in the oil and gas industry may result in two different financial performances if applied using the successful effort or the full cost methods (Ibrahim, 2014; Kurniawan et al., 2014).

Lastly, IFRS adoption has been generally predicted to confront challenges during adoption based on the companies’ preference for accounting practice and perceptions of financial statement preparers in relation to cultural differences. For example, some companies are perceived to be more transparent than other companies. Therefore, the type of accounting system preferred by some companies may contradict the IFRS requirements.

Given the perception that IFRS provides more transparent financial statements, companies that perceive financial transactions to be reported in a transparent form are more likely to consider IFRS to be favourable. However, most of the accounting value perceptions are linked to cultural factors at the organisation level. This is referred to as accounting value dimensions according to Gray (1988) and Ebrahim (2014). It is often problematic to discuss cultural factors outside the scope of business organisations. Therefore, investigation of cultural issues in IFRS adoption focuses in the context of the companies’ culture that influences IFRS adoption. The following sections discuss empirical studies examining the challenges in IFRS adoption.

### 3.2.1. Practical Difficulties in IFRS Adoption

Faraj and Firjani (2014) study found that preparers of financial statements were confused about the inconsistency between IFRS requirements and other disclosure requirements from different government agencies following IFRS adoption in Libya. Further, the lack of training of accountants, inadequate skills among the accountants, lack of awareness about IFRS adoption and lack of training programs for future changes in IFRS were identified as challenges in IFRS adoption in Libyan companies. These findings are different from the challenges identified earlier in IFRS adoption in Australia. Most of the companies in Australia were not prepared for IFRS adoption, have internal control issues related to the management accounting system and limited knowledge of IFRS requirements (Jones & Higgins, 2006).

Mande (2014) documented that the lack of regulatory strategies and unconsolidated accounting rules indicate the likelihood of IFRS non-adoption. Similarly, Osemeke and Adegbite (2016) stated that the significant differences between the legal system and IFRS
could indicate how companies are likely to confront the challenges of a multiplicity of laws in IFRS adoption.

Jermakowicz et al. (2014) studies of the US GAAPs and IFRS found a significant gap between IFRS and US GAAPs. Education and learning were expected to be constraining factors if the US companies decided to adopt IFRS. This finding is consistent with the issues of different knowledge of accounting principles reported in Jones and Higgins (2006); Guerreiro (2012); Ibrahim (2014); Jones and Higgins (2006).

Adoption of IFRS in some jurisdictions such as New Zealand, the EU and Japan takes a number of years of preparation and companies’ transition before full convergence takes place (Tsunogaya et al., 2015). Within this time, awareness is created and the necessary training and transition support such as changes in information technology are provided to preparers of financial statements (Bonsón, Cortijo, & Escobar, 2009; Judy Beckman, Joshi, Yapa, & Kraal, 2016).

A long period of preparation and transition is commonly practised throughout developed countries. For example, a case study conducted by Jermakowicz et al. (2014) focused on educating the US financial statement preparers ahead of IFRS adoption. Differently from this common practice, Isa (2014) revealed the absence of facilitation programs to create awareness of the transition from SAS to IFRS in the roadmap for IFRS adoption in Nigeria.

One of the challenges identified as post-IFRS adoption is the implication of language differences. Language is a symbol of culture and can be said to vary considerably even within similar companies (Deegan, 2006). The study conducted in Romania post-EU IFRS adoption showed the inconsistency in the translation of the IFRS English version to the Romanian language (Istrate, 2015).

Language as a social semiotic of culture and a social symbol is significantly associated with translation errors in the Romanian IFRS versions (André, Aylett, Hofstede, & Paiva, 2014; Cao, 2016). The use of language as an explanatory variable in this case centered on a spoken language and translation of IFRS, but was not explained as a social norm for conservatism, transparency and secrecy as discussed in Borker (2013b). However, the issue of language is not very common in countries such as Nigeria, Ghana and South Africa where the communication language is English.
A study conducted by Saidu and Dauda (2014) to examine the extent Nigerian Banks have adopted IFRS found some evidence of partial adoption. The partial adoption of IFRS is contrary to the IFRS regime in Nigeria. The main purpose of IFRS adoption for Nigerian companies is not to adopt IFRS partially but fully adopt all IFRS requirements. Saidu and Dauda (2014) did not clearly explain the factors contributing to the partial adoption, but suggested inadequate knowledge of IFRS requirements is associated with the partial adoption.

One of the practical difficulties in IFRS adoption is the high cost of adoption. Nobes (2014) and Thompson (2016) reported that the cost of training employees and the time it takes for new standards to be learned, the cost of restructuring internal control systems and the increase in the cost of auditing due to lack of knowledge among the audit firms are some practical difficulties companies are likely to experience. Other practical difficulties reported in IFRS adoption include the lack of reliable markets to determine the fair value of assets and liabilities, incompatibility, subjectivity in judgement, lack of understanding of IFRS, particularly for bond and derivatives and an inadequate supply of IFRS certified accountants (Landsman, 2007; Laux & Leuz, 2009; Quagli & Avallone, 2010). “This is an overview, hitting some common practical issues, and is meant to illustrate the difficulties and diverse challenges faced by many” companies in IFRS adoption (Thompson, 2016, p. 11).

The practical difficulties identified in the extant studies can be summarised to include difficulties in the management accounting system, calculation of accounting values, changes in information technology systems, understanding procedures in applying IFRS, implementation of appropriate internal control systems with IFRS, staff knowledge and experiences, costs of adoption and understanding IFRS accounting policies.

3.2.2. Industry Type as a Factor Influencing IFRS Adoption

Recent studies have found that companies respond to changes in accounting systems differently, and similarly within a business component or industry. For example, Ibrahim (2014) identified that adopting IFRS for some industries does not lead to any economic benefits but creates more difficulties in recognition, measurement and disclosure in the industry. This was particularly common for IFRS 6 in Iraq. The findings from Ibrahim (2014) are consistent with earlier studies conducted by Cooke (1992) and Barth (1994) who studied several industries’ responses to accounting standards in Japan and the US.
Since Cooke (1992) study of industry type and the likelihood of accounting standards’ adoption, studies investigating companies’ reactions to accounting standards on the basis of industry type in the IFRS accounting regime are very scarce and often limited to a single industry. Other studies for example include Quagli and Avallone (2010) examination of challenges in IAS 40 application to companies in the real estate industry in the EU, Ibrahim (2014) investigation of IFRS 6 adoption in the extractive industry in Iraq and Barde (2009) investigation of adoption and compliance with SAS in the oil and gas industry in Nigeria.

Most other studies discussed in investigating IFRS adoption and industry types often assign industry as a control variable but not as a focus of the analysis (Fifka, 2013; Khlf & Chalmers, 2015; Shiab, 2003). For example, Christensen et al. (2007) applied industry type as a control variable with a minimal explanation of industry effects. Excluding industry effects or minimising its interpretations from understanding accounting standards’ adoption is a methodological issue and does not provide complete and accurate information (Nobes, 2014, p. 113).

Zakari (2013) stated there was a lack of uniformity in accounting practices across different sectors and industries, thus differentiating some industries from others in terms of accounting standards’ adoption. The main findings from Zakari (2013) study show a lack of standardisation and uniformity across different industries. It reveals companies applied similar accounting standards differently across sectors and industries. However, this is not the case reported in an earlier study by Jone (2006) in Australian companies.

Tsunogaya et al. (2015, p. 21) reported “manufacturing industries such as the automobile and electronic industries prefer GAAPs to IFRS because some industries prepared accounting standards to reflect the economic realities of the manufacturing industry”. This issue led to the deliberation by accounting regulators on whether or not to implement IFRS for all Japanese industries contrary to industry accounting information needs. Accounting regulatory requirements that do not conform to some industries may lead to resistance by companies in those industries.

There is a growing concern that not all IFRS are relevant or useful to all companies (Tsunogaya et al., 2015). For example, a study has shown the banking industry’s adoption of accounting standards is often motivated by risk management and managers’ financial performance disclosure (Soyemi, Ogunleye, & Ashogbon, 2014).
Following IFRS adoption in Nigeria, accounting scholars believed financial statements from the Nigerian Banking industry would become more detailed to include possible risk disclosure consistent with the second pillar of Basel II (Soyemi et al., 2014). However, prior to IFRS adoption, the Nigerian banking industry was perceivably involved in selecting disclosure requirements in an effort to manage risk. This is evident in an earlier study conducted by Wallace (1988).

Wentzel et al. (2008) and Kurniawan et al. (2014) questioned the applicability of IFRS to the agricultural industry. It argued that IFRS application to the agricultural industry, particularly biological assets would face challenges due to the lack of market data to determine their fair value. Most studies on IFRS application related to the type of industry limit the study to a few industries such as the agricultural industry, oil and gas and the financial services industries which often do not provide holistic information about the issues involved in IFRS application to other industries. For example, in terms of Nigerian industry classification, little is known about other industries such as health, utility, conglomerates, construction and services.

Contrary to the possible challenges companies in the oil and gas and agricultural industries could face, companies operating businesses in the financial services industry have been successful in IFRS application in many countries (Tsunogaya et al., 2015). It can, therefore, be noted that industry type has significant impacts on companies’ likelihood to adopt IFRS.

Most previous studies on IFRS adoption and the associated factors are skewed in the types of variables investigated in the studies. The majority of these studies have ignored or minimised industry effects as a determinant of success or failure in IFRS adoption.

### 3.2.3. Other Factors Influencing Companies’ IFRS Adoption

Previous studies have shown that companies’ characteristics influence the extent of accounting standards’ adoption (Khlif & Chalmers, 2015). For example, Cascino and Gassen (2015) identified audit firm and ownership structure as moderating variables contributing to IFRS adoption. The aim of many IFRS adopters is to increase the comparability of financial statements, participate in the globalisation of business, increase the chances of cross-border listing, attract foreign investment, and other institutional factors such as an interest in legitimacy and transparency (Odia & Ogiedu, 2013).
In addition, *company size* was found to be a significant success factor in IFRS adoption (Uwalomwa et al., 2016). Thompson (2016) documented that IFRS requirements in most cases are irrelevant to some companies but relevant to others. Particularly, IFRS requirements can best be applied to large companies which are sometimes *listed on a stock exchange*. The finding is contrary to the depth of IFRS adoption in Nigeria where all companies, *listed and non-listed companies* are required to comply with IFRS requirements. International Financial Reporting Standards’ adoption is believed to be influenced by these characteristics. Other companies’ characteristics influencing IFRS adoption include involvement in international trade and companies’ accountants level of education. These sets of covariates are included as control variables in most studies such as Pricope (2016) and other studies discussed in Khlif and Chalmers (2015).

### 3.3. Review of Related Theories and Cultural Factors on IFRS Adoption

International accounting standards have been inductively and deductively researched by different scholars. In some cases, inductive and deductive research approaches were combined to investigate the challenges in accounting standards’ adoption and the heterogeneous responses to changes in accounting systems (Deegan, 2006). These approaches were aimed at addressing the challenges in financial reporting and accounting practices.

There are many debates on what constitutes best accounting practice and whether normative accounting practice should be used instead of positive accounting practice (Ball, 2006; Deegan, 2006; Ijiri, 1975; Sunder, 2009). However, the debate on what accounting values should be and what accounting values are have been ambiguous, even though the debate on different types of accounting practices and accounting values exist around the world. The two views on financial statement preparation frameworks have been aimed at predicting the best methods for preparing financial statements.

The veracity of accounting practice is no doubt influenced by the national financial reporting environment and the level of economic development as discussed in Amenkhienan (1986), but the questions of what constitutes best accounting practice and why companies practise certain accounting systems over others have been inconclusively answered in accounting practice (Ali, 2005). Accounting researchers have expressed different opinions as to why different accounting systems exist and these opinions are unrelated but dependent on the
country investigated. However, the findings are most often related to the specific national financial reporting environment of the companies depending on the variables examined in the study (Ali, 2005).

Previous researchers have noted that challenges in the adoption of IFRS are related to different views in preparing financial statements with regard to measurement methods, valuation and actuarial (Gaffikin, 2008). The consequences of different frameworks for preparing financial statements result in contrasting company financial performance if the methods are simultaneously applied (Deegan, 2006; Nobes & Paker, 2012).

Accounting practitioners, investors, accounting educators and financial reporting regulators have seen the diversity in accounting practices as a challenge in making economic decisions (Gaffikin, 2008; Nobes, 1998). Although researchers believe there are challenges in adopting a single set of accounting standards in a globalised economy, no conclusive evidence exists to justify the challenges in IFRS adoption (Ali, 2005; Brüggemann et al., 2013; Deegan, 2006; Doupnik & Perera, 2009; Gernon & Wallace, 1995; Outa, 2013). However, companies in different countries are required to adopt prescribed methods in preparing financial statements that result in different accounting practices.

The literature has attempted to provide reasons for differences in accounting standards. These include the adoption and non-adoption of international accounting standards. However, the reasons are different in relation to the motivation of the study (Ali, 2005). Different interpretations and predictions have been assigned to the reasons for diverse accounting practices and how companies response to changes in the accounting system. For example, different reasons are reported in Shiab (2003), Ali (2005), Kanagaretnam, Lim, and Lobo (2013) and Nobes (2014).

There are several theories that address how companies respond to changes in accounting systems. For example, agency theory illustrates how company management selects and applies accounting standards to the managers’ advantage as opposed to providers of capital due to the underlying benefits in management performance and compensation agreements. Unlike agency theory, legitimacy theory “is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). Legitimacy theory elucidates how preparers of financial statements apply accounting standards to provide
quality financial statements that represent the economic reality for stakeholders’ financial information.

Further, stakeholder theory explains moral and normative branch and managerial characteristics in accounting practices and financial reporting (Deegan, 2006). Similarities between stakeholder theory and legitimacy theory are discussed in Deegan (2006, pp. 294-295). Further, the institutional theory explains why organisations adopt certain accounting standards to bring about legitimacy to the organisation or to respond to institutional pressure (Guerreiro, 2012). The form adopted by companies could be positive or negative.

The regulatory theory explains the statutory control of financial information disclosure to protect investors and other users of financial statements from misleading financial information (Nobes & Paker, 2012). The regulatory theory is mostly used in the field of accounting as regulation instead of regulatory theory. However, this present study refers to regulation as a regulatory theory. In response to regulations, the institutional theory explains the forms by which companies react to institutional changes to bring about legitimacy to the company (Oliver, 1991; Scott, 2001).

Other theories, such as positive and normative accounting theories explaining diversity in accounting practices and adoption of accounting standards, are somewhat confined to cultural theory (Borker, 2013b; Deegan, 2006). The cultural theory explains that a common perception, a means of satisfying man’s mental needs, a system of common symbols, a projection of man’s thought, and unconscious infrastructure lead preparers of financial statements to react to regulations negatively or positively (Borker, 2013b; Gray, 1988; Hofstede, 2001).

Perumpral, Evans, Agarwal, & Amenkhienan (2009) noted that culture is one of the greatest obstacles to the success of IFRS adoption. Differently from other theories explained earlier, cultural theory aims to illustrate preparers of financial statements’ behaviour towards users of financial statements and how the national financial reporting environment determines opportunities and challenges in IFRS adoption (Borker, 2013b).

Borker (2013) demonstrated how cultural theory dimensions can explain the success or failure of IFRS adoption in different countries. For example, Borker (2013) explained that a financial reporting environment with a professional accounting orientation will be more
successful in IFRS adoption than countries with statutory control (Borker, 2013b, p. 174). The following sections explain the links between cultural theory and companies’ responses to changes in the accounting system.

3.3.1. Linking Cultural Theory with IFRS Adoption Compliance

From the survey of accountants, auditors and accounting educators on challenges in IFRS adoption in Libya, Zakari (2014, p. 406) found a significant relationship between IFRS non-adoption and the level of accounting education, economic structure and cultural factors with a mean “value of 3.61”. However, the aspect of the companies culture studied in Zakari (2014) was not clearly defined. The significance of culture in Zakari (2014) is consistent with Irvine and Lucas (2006) findings of the relationship between culture and the likelihood of international accounting standards’ adoption. However, what is significantly different in these studies is the aspect of cultural variables investigated.


Hofstede (1984) developed cultural dimensions from the “eclectic analysis of data, based on theoretical reasoning and correlation analysis” of survey data (Hoftstede, 1980, p. 39). Countries’ cultural orientations were illustrated from 116, 000 questionnaires from seventy countries with over 60,000 respondents. Four dimensions were developed and assigned to each of the countries, linking the dimensions with the demographic, geographic, economic and political factors of a country (Soares, Farhangmehr, & Shoham, 2007).

Soares et al. (2007) and Lenartowicz and Roth (1999, p. 788) in identifying the methodological weakness in Hofstede (1984) investigation argued that multiple methods would provide more reliable insight “into assessing culture as no single method is sufficient to comply with all of the methodological and conceptual requirements in identification of a cultural group”.

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Hofstede (1984) study has been acknowledged as one of the greatest attempts in the literature to understand companies’ culture in the field of business, psychology and sociology (Soares et al., 2007). However, Albers & Gelb (1996) noted that researchers have criticised Hofstede’s investigation because it was more empirically driven than theoretical reasoning. The process of identifying the dimensions was criticised as being too empirical rather than theoretical (Soares et al., 2007).

Further, the applicability of Hofstede’s dimensions to many countries with different cultures was criticised in Perera (1989). Critics believed that other types of samples may yield different dimensions rather than selecting many nations at the same time (Soares et al., 2007). Hofstede accepted this criticism as true but acknowledged that it is the only available method to assess intercultural differences (Hofstede, 2001). Further, he argued that “any set of functionally equivalent samples from a national population can supply information” about the differences in national culture (Hofstede, 2001, p. 73). However, Hofstede (1984) study has been validated in different fields of study.
Gray (1988) uses Hofstede (1984) dimensions (see Figure 3.3) to illustrate how the national environment can influence accounting systems. Gray extends Hofstede (1984) model to investigate the relationship between culture and preparation of financial statements i.e. the accounting system and the determination of accounting value. Gray developed four accounting value dimensions using accounting literature and theoretical reasoning. Gray (1988) discussed the impact of national culture on accounting practices and the type of accounting system that may exist in different national environments as illustrated in Figure 3.4.

Based on the four accounting value dimensions developed by Gray, hypotheses were developed and tested by different accounting researchers in different countries. Gray (1988) theory has been used in over 650 international accounting research to identify companies’ accounting orientations in order to predict the type of accounting system that may exist among the companies (Borker, 2013b; Chanchani & Willett, 2004).
Gray (1988) identified professionalism, statutory control, conservatism, optimism, secrecy, transparency, uniformity and flexibility as determinants of accounting systems. The theory of cultural influence on the development of accounting systems internationally includes the following explanatory dimensions as shown in Figure 3.4.

Borker (2013b) identified that Gray (1988) cultural dimensions can be used as a baseline to investigate the opportunities and challenges in IFRS adoption among the companies where IFRS is applied. Borker (2013) explained that a company’s accounting orientation can be identified and compared to the IFRS profile in order to understand if there are challenges in IFRS adoption. Consistent with Borker (2013b), the expected relationship between the companies’ cultural factors and IFRS adoption are discussed as follows:

3.3.1.1. Professionalism versus Statutory Control

Professionalism versus statutory control means the use of professional judgment on what financial disclosure should be rather than compliance with strict statutory prescriptions. In other words, this means a culture that uses self-judgement to determine accounting values versus a culture that prefers a statutory prescription for accounting practice (Borker, 2013b; Gray, 1988). This is widely believed to be the motive of IASB in developing IFRS, namely that financial statement preparers will be able to use their professional knowledge of accounting to determine what accounting values are (Deegan, 2006; Nobes, 2008; Nobes & Paker, 2012). From the analysis of the professionalism and statutory control, it is logical and consistent with Pricope (2016) identification of hypotheses to empirically test the relationship between professionalism and statutory control effects on IFRS adoption.

3.3.1.2. Conservatism versus Optimism

Conservatism versus optimism explains the cautious behaviour of financial statement preparers in accounting measurement due to unknown future consequences. This is consistent with an earlier study by Watts & Zimmerman (1978) about political cost and fear of utility cost of assets. This dimension was found to be strongly significant with Hofstede (1984) uncertainty avoidance. In an environment of uncertainty where the future is difficult to predict, the conscious measurement and reporting of accounting values follow the conservative dimension of a company’s accounting system (Gray, 1988; Watts & Zimmerman, 1986). On the contrary, the optimism about future economic benefits by complying with certain regulatory requirements leads to positive decisions about the regulation. Considering
the link between conservatism versus optimism and accounting systems, it is important to examine the empirical relationship between these variables and IFRS adoption.

3.3.1.3. Secrecy versus Transparency

Secrecy versus transparency explains the attitude of confidentiality in the disclosure of financial information as opposed to transparency. There are several motivations for this behaviour which are best explained in Watts & Zimmerman (1978) documentation on the increasing and decreasing behaviour of accountants for higher or lower accounting ratios and profit signaling.

One of the reasons IFRS were implemented in Nigeria was to ensure transparency in the financial statements from Nigerian companies and therefore give investors’ confidence in the reliability of the information disclosed in the financial statements (Madawaki, 2012). Given the level of Nigeria’s economic development and possible political interference in the accounting system (Amenkhienan, 1986; Chimobi, 2016; Otto & Ukpere, 2016), it is assumed that the presence of secrecy would be expected in an environment with much interference. Amenkhienan (1986) documented that, as countries advance economically, the development of their accounting system simultaneously improves. It suggests that transparency could have also increased in Nigeria. Considering these assumptions, it is reasonable to expect that secrecy and transparency would impact companies’ IFRS adoption.

3.3.1.4. Uniformity versus Flexibility

Uniformity versus flexibility explains a preference for uniform accounting standards between companies and the application of prescribed accounting standards over time as opposed to flexibility. Flexibility is a preference for the application of accounting standards on an individual basis according to the circumstances of the financial transactions. If companies in Nigeria resist IFRS adoption, which has been rated as the best international accounting system that ensures flexibility in terms of application, a uniform accounting practice is therefore expected to be the best accounting practice among Nigerian companies. From the impacts of uniformity and flexibility, this study will empirically test the extent uniformity and flexibility impact companies’ IFRS adoption.

From these discussions and the four hypotheses presented in Chapter 1, it can be deduced that cultural factors provide a perspective to explain the likelihood of IFRS adoption. Cultural
factors are assumed to influence companies’ perceptions of accounting values. These are possible determinants of IFRS adoption or non-adoption.

3.3.1.5. A Proposed Model for Examining Challenges in IFRS Adoption

This present study develops the models to identify the challenges influencing IFRS adoption in Nigeria. Drawing from previous studies and the summary of related studies in Table 3.1, the challenges in IFRS adoption are examined from three perspectives. These include (1) practical difficulties in IFRS adoption which include difficulties in measurement, disclosure, and recognition of accounting items, (2) the effects of industry type on IFRS adoption, and (3) factors associated with companies’ financial reporting systems.

![Diagram of Challenges in IFRS Adoption]

**Companies’ Cultural Factors**
- Flexibility
- Transparency
- Statutory control
- Optimism
- Professionalism
- Uniformity
- Conservatism
- Secrecy

**Practical Difficulties**
- Internal control system
- Valuation
- Information technology system
- Cost of adoption
- Legal requirements

**Industry type**
- Agriculture
- Construction/Real Estate
- Financial Services
- Healthcare
- Oil & Gas
- Services
- Utilities, and
- Conglomerates

Figure 3.5 Conceptual Model for Investigating Challenges in IFRS Adoption

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1. Companies culture includes professionalism, statutory control, conservatism, uniformity, flexibility, secrecy and transparency (Borker, 2012, 2013b; Deegan, 2006; Kanagaretnam et al., 2013; Perumpral et al., 2009; Shammari et al., 2008) These factors are further summarised in Figure 3.5 and Table 3.1.

2. The practical difficulties influencing IFRS adoption include internal control system, valuation, information technology system, cost of adoption, legal requirements, (Ahmed, Neel, & Wang, 2013; Eccher, Ramesh, & Thiagarajan, 1996; Faraj & Firjani, 2014; Guerreiro, 2012; Jones & Higgins, 2006; Kurniawan et al., 2014; Nobes, 2014; Osemeke & Adegbite, 2016)

3. Industry type includes agriculture, construction/ real estate, financial services, healthcare, oil & gas, services, utilities, and conglomerates (Barde, 2009; Ibrahim, 2014; Khlif & Chalmers, 2015; Khlif & Hussainey, 2016; Kurniawan et al., 2014)
<table>
<thead>
<tr>
<th>Authors</th>
<th>Country of research</th>
<th>Methods</th>
<th>Topics</th>
<th>Findings &amp; Conclusion Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uwalomwa et al. (2016)</td>
<td>Nigeria</td>
<td>Applied a cross-sectional research design using Ordinary Least Square technique as basis for measurement</td>
<td>Mandatory International Financial Reporting Standards’ Adoption and Cost of Equity Capital in Nigeria</td>
<td>Reported that the cost of equity increased in post-IFRS in comparison to pre-IFRS adoption which is attributed to issues in adopting IFRS accounting policies</td>
</tr>
<tr>
<td>Ball (2016)</td>
<td>The US and China</td>
<td>A discourse</td>
<td>IFRS – 10 years later</td>
<td>Concluded that the differences in IFRS adoption are by themselves a challenge to accounting harmonisation and no benefit can be derived in the absence of a uniform adoption strategy.</td>
</tr>
<tr>
<td>Pricope (2016)</td>
<td>Romania</td>
<td>Logit analysis of developing countries’ IFRS adoption status against institutional theory</td>
<td>The role of institutional pressures in developing countries. Implications for IFRS</td>
<td>The study found the process of IFRS adoption in developing countries is significantly influenced by mimetic pressure from developed countries. Developed countries were found to use international aid and trade to lure developing countries to IFRS adoption. It is concluded that developing countries do not adopt IFRS for the purpose of economic benefits, rather for legitimacy which is a product of mimetic pressure.</td>
</tr>
<tr>
<td>Bakre and Lauwo (2016)</td>
<td>Nigeria</td>
<td>Contents analysis and interview</td>
<td>Privatisation and accountability in a “crony capitalist” Nigerian state</td>
<td>The authors found that the recommendation of the international and national institutions such as the World and FRCN that adoption of IFRS will reduce corruption, enhance accountability and increase foreign investment is an illusion. The authors conclude that IFRS adoption in Nigeria was simply political cronism tactics rather than economic benefits. The central focus of their study is an analysis of how politicians have used fair value and other accounting practices to conceal cronism in the undervaluation of assets, to sell undervalued assets to cronies at rock-bottom prices, and to redirect revenues from the sales into private bank accounts</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Country</td>
<td>Methodology</td>
<td>Title</td>
<td>Summary</td>
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<td>---------------------------</td>
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<tr>
<td>Thompson (2016)</td>
<td>Multiple Countries</td>
<td>Literature review on the analysis of challenges faced in IFRS adoption in developing countries</td>
<td>Accounting for a Developing World: A look at International Standards on Developing Countries</td>
<td>It was found that the challenges being reported by different studies are in some ways different with few commonalities. The study concluded that the challenges in IFRS are by no means exhaustive. Further research is recommended to identify other challenges currently unknown.</td>
</tr>
<tr>
<td>Osemeke and Adegbite (2016)</td>
<td>Nigeria</td>
<td>Literature review and analysis of signalling theory</td>
<td>Regulatory Multiplicity and Conflict: Towards a Combined Code on Corporate Governance in Nigeria</td>
<td>The study identified evidence of company managers’ dependence on conflicting regulations to justify noncompliance with regulatory requirements. The study concludes “conflict signaling theory assumes multiple codes generate conflicts among managers, companies and regulators, where managers use these conflicts as justifications to avoid compliance with one code by complying with another code (Osemeke &amp; Adegbite, 2016, p. 442)”.</td>
</tr>
<tr>
<td>Tsunogaya et al. (2015)</td>
<td>Japan</td>
<td>Applied the accounting ecology framework developed by Gernon and Wallace (1995) and provides a content analysis of the Business Accounting Council of Japan.</td>
<td>Adoption of IFRS in Japan: challenges and consequences</td>
<td>The authors identified social, organisational and professional environments as the reasons the Japanese accounting regulatory authority adopted a cautious approach different from other countries in implementing IFRS. They identified that the Japanese automotive industries prefer GAAPs to IFRS for more practical financial reporting. A mismatch between Japanese culture and IFRS was also identified.</td>
</tr>
<tr>
<td>Istrate (2015)</td>
<td>Romania</td>
<td>Contents analysis of IFRS translated in Romania against IFRS published in English by IASB</td>
<td>On the translation in Romanian of IAS/IFRS</td>
<td>For a list of 16 items, the study identified errors in the translation which are linked to language as a concept of culture.</td>
</tr>
<tr>
<td>Cascino and Gassen (2014)</td>
<td>German and Italian</td>
<td>Difference-in-differences analysis and battery of analyses</td>
<td>What drives the comparability effect of mandatory IFRS adoption?</td>
<td>IFRS compliance of German and Italian firms varies systematically with country, region and firm level incentives. Public firms adopting IFRS become less comparable to the information provided by local GAAP private firms.</td>
</tr>
</tbody>
</table>
Table 3.1 Summaries of International Accounting Standards Compliance Studies (Continued)

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Country</th>
<th>Methodology</th>
<th>Challenges/Threats</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dauda, Ombugadu, and Aku (2015)</td>
<td>Nigeria</td>
<td>Survey Questionnaire and cluster sampling technique were applied in the study</td>
<td>Threats and Challenges to the Accounting Profession: A Drawback to the Development of Accounting Practices in Nigeria</td>
<td>Identified the lack of objectivity in accounting regulation and a weak education system as potential threats to accounting practices in Nigeria</td>
</tr>
<tr>
<td>Nurunnabi (2015)</td>
<td>Bangladesh</td>
<td>Semi-structured interviews and contents analysis of official documents</td>
<td>Tensions between political institutional challenges and accounting regulation in a developing economy: insights from institutional theory</td>
<td>Coercive, normative and mimetic isomorphism were found to be a significant challenge to slow adoption of IFRS in Bangladesh. This challenge was interpreted as a culture of blame where the accountants blame themselves and political leaders for lack of optimism in IFRS adoption.</td>
</tr>
<tr>
<td>Zakari (2014)</td>
<td>Libya</td>
<td>Surveyed Libyan companies</td>
<td>Challenges of International Financial Reporting Standards’ (IFRS) adoption in Libya</td>
<td>Libyan companies were found to experience challenges in accounting education and economic issues.</td>
</tr>
<tr>
<td>Faraj and Firjani (2014)</td>
<td>Libya</td>
<td>A semi-structured interview survey of financial managers and internal auditors in charge of the Libyan companies listed</td>
<td>Challenges facing IASs/IFRS adoption by Libyan Listed Companies.</td>
<td>There was evidence of lack of training programs, lack of awareness among preparers of financial statements and language barriers.</td>
</tr>
<tr>
<td>Taiwo and Adejare (2014)</td>
<td>Nigeria</td>
<td>Applied interview and questionnaire methods as the major techniques for primary data collection.</td>
<td>Empirical Analysis of the Effect of International Financial Reporting Standards’ (IFRS) Adoption on Accounting Practices in Nigeria</td>
<td>The focus of this study was benefits of IFRS adoption. The benefits were mainly derived from the non-restatements of financial statements due to the universal acceptability of IFRS financial statements.</td>
</tr>
<tr>
<td>Study Authors</td>
<td>Country</td>
<td>Methodology</td>
<td>Objective</td>
<td>Findings</td>
</tr>
<tr>
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</tr>
<tr>
<td>Efobi et al. (2014)</td>
<td>Multi-countries study</td>
<td>Sample of 92 countries FDI indicators was selected from 2002-2010. The System Generalized Method of Moments estimation technique was used for the data estimations.</td>
<td>Do the Rules Attract the Money? The implication of IFRS Adoption on Foreign Direct Investment. Implication of IFRS Adoption on Foreign Direct Investment</td>
<td>The results indicate a lack of relationship between IFRS adoption and FDI. The moderating challenges between FDI and IFRS were primarily due to lack of institutional development</td>
</tr>
<tr>
<td>Jermakowicz et al. (2014)</td>
<td>US</td>
<td>A case study of DaimlerChrysler</td>
<td>IFRS framework-based case study: DaimlerChrysler—Adopting IFRS accounting policies.</td>
<td>Identified the impact of the lack of understanding on IFRS application on financial statements balances</td>
</tr>
<tr>
<td>Isa (2014)</td>
<td>Nigeria</td>
<td>A survey of 140 Nigerian accountants</td>
<td>Dimensions of IFRS transition roadmap’s information content in LDCs: A case of Nigeria</td>
<td>Identified the lack of facilitation programs to create the roadmap</td>
</tr>
<tr>
<td>Saidu and Dauda (2014)</td>
<td>Nigeria</td>
<td>Survey, Qualitative Grading System (QGS) and Regression Analysis</td>
<td>An Assessment of Compliance with IFRS Framework at First-Time Adoption by the Quoted Banks in Nigeria</td>
<td>Nigerian banks partially complied with IFRS requirements and identified lack of IFRS knowledge as a contributing factor</td>
</tr>
<tr>
<td>Soyemi et al. (2014)</td>
<td>Nigeria</td>
<td>Contents Analysis and Ordinary Least Square regression</td>
<td>Risk management practices and financial performance: evidence from the Nigerian deposit money banks (DMBs)</td>
<td>The study found the Nigerian Banks’ financial statements were influenced by risk management. The practice is perceived to limit the information contents of financial statements. The authors believed the adoption of IFRS will increase information contents and enhance financial statements from the banking industry.</td>
</tr>
<tr>
<td>Study</td>
<td>Country</td>
<td>Methodology</td>
<td>Research Question</td>
<td>Findings</td>
</tr>
<tr>
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</tr>
<tr>
<td>Borker (2013b)</td>
<td>Not Applicable</td>
<td>Theoretical analysis</td>
<td>Is There a Favourable Cultural Profile for IFRS? An Examination and Extension of Gray's Accounting Value Hypotheses</td>
<td>Identified key variables that explain the likelihood of success for IFRS adoption in individual countries. These variables are the extension of Gray (1988) cultural theory to current accounting standards convergence.</td>
</tr>
<tr>
<td>Palea (2013)</td>
<td>China</td>
<td>Discourse</td>
<td>IAS/IFRS and financial reporting quality: Lessons from the European experience</td>
<td>Concluded that the lack of an international institutional framework to enforce the uniformity orientation of IFRS will retain the differences in accounting standards yielding to a different dialect of IFRS versions.</td>
</tr>
<tr>
<td>Odia and Ogiedu (2013)</td>
<td>Nigeria</td>
<td>Literature review as a critical assessment of countries adopting IFRS</td>
<td>IFRS Adoption: Issues, Challenges and Lessons for Nigeria and other Adopters</td>
<td>Conclusion statements on the challenges likely to occur in the case of Nigeria include education, legal impediments, culture and political influence. These challenges to IFRS are media report or commentary and have not been scientifically investigated.</td>
</tr>
<tr>
<td>Zakari (2013)</td>
<td>The United Arab Emirates</td>
<td>Literature review</td>
<td>Accounting and auditing in developing countries - Arab countries</td>
<td>The lack of standardisation and uniformity in financial reporting</td>
</tr>
<tr>
<td>Nyor (2012a)</td>
<td>Norway</td>
<td>Use of interviews within banks and questionnaire. Performed chi-square test</td>
<td>Challenges of Converging to IFRS in Nigeria.</td>
<td>Found that Nigeria should adopt IFRS despite some anticipated problems that may occur. The study concludes that Nigeria should adopt IFRS for consolidated financial statements but not the whole financial statement. The study suggests that only listed companies should use IFRS and non-listed companies should continue to use SAS.</td>
</tr>
<tr>
<td>Owolabi and Iyoha (2012)</td>
<td>Nigeria</td>
<td>Used Twitter and questionnaires to interview preparers and users of financial statements</td>
<td>Adopting International Financial Reporting Standards (IFRS) in Africa: benefits, prospects and challenges</td>
<td>The result shows that IFRS adoption in Africa provides benefits to stakeholders. The research identified many benefits of adopting IFRS for the African continent</td>
</tr>
<tr>
<td>Authors and Year</td>
<td>Country</td>
<td>Methodology</td>
<td>Study Focus</td>
<td>Findings/Conclusions</td>
</tr>
<tr>
<td>---------------------------</td>
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</tr>
<tr>
<td>Oluku and Ojeka (2011)</td>
<td>Nigeria</td>
<td>Use of institutional theory literature. Analysis of previous studies.</td>
<td>The Challenge of Culture to International Financial Reporting Standards (IFRS) Convergence</td>
<td>The study shows that national culture, traditions and countries’ environments will continue to increase challenges in IFRS adoption as countries continue to converge into global accounting standards. The authors conclude that accounting practices are determined by culture, therefore culture must be considered when developing global accounting standards.</td>
</tr>
<tr>
<td>Gjerde, Knivsflå, and Sættem (2008)</td>
<td>Norway</td>
<td>Compared financial statements under GAAP with IFRS following IFRS adoption</td>
<td>The value-relevance of adopting IFRS: Evidence from 145 NGAAPs restatements.</td>
<td>There is no difference between the value relevance of IFRS’ and GAAPs’ financial statements. The authors conclude that the adoption of IFRS does not increase the value relevance of financial statements when compared to GAAPs.</td>
</tr>
<tr>
<td>Jones and Higgins (2006)</td>
<td>Australia</td>
<td>A Telephone survey of 60 Australia firms from the 200 listed companies</td>
<td>Australia’s Switch to International Financial Reporting Standards: A Perspective from Account Preparers</td>
<td>Companies’ size, industry type and scepticism about the benefits of IFRS provide moderated companies’ decisions towards IFRS adoption. Respondents to the survey also indicated a lack of preparation for the transition from Australia GAAPs to IFRS as a significant challenge for non-adoption. The response of the companies according to the industry to operate varies significantly according to whether they have adopted IFRS or not.</td>
</tr>
<tr>
<td>Irvine and N. Lucas (2006)</td>
<td>The United Arab Emirates</td>
<td>Content analysis of archival sources</td>
<td>The globalisation of accounting standards: the case of the United Arab Emirates.</td>
<td>The UAE IFRS adoption “faces challenges of culture, regulation and transparency and fraud” p. 13. Further research is recommended to investigate the specific challenges currently faced in IFRS adoption.</td>
</tr>
<tr>
<td>Zeghal and Mheldhbi (2006)</td>
<td>Developing countries</td>
<td>Logistic regression</td>
<td>An analysis of the factors affecting the adoption of international accounting standards by developing countries</td>
<td>Countries with the highest literacy rates, that have capital markets and that have an Anglo-American culture were found most likely to adopt IFRS.</td>
</tr>
</tbody>
</table>
Table 3.1 Summaries of International Accounting Standards Compliance Studies (Continued)

<table>
<thead>
<tr>
<th>Study</th>
<th>Methodology</th>
<th>Research Scope</th>
<th>Findings/Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gernon &amp; Wallace (1995)</td>
<td>Used the African Continent as a case study</td>
<td>International accounting research: A review of its ecology, contending theories and methodologies</td>
<td>The impact of culture in accounting. Issues in accounting value resulting from culture. The findings are consistent with Watts &amp; Zimmerman, (1978). International accounting researchers should take culture into consideration on how culture contributes to accounting practices</td>
</tr>
<tr>
<td>Gray (1988)</td>
<td>Not applicable</td>
<td>Building on a previous theory of Hofstede and developing hypotheses based on accounting practice theories</td>
<td>Towards a theory of cultural influence on the development of accounting systems internationally. Developed hypotheses on the relationship between identified cultural characteristics and the development of accounting systems. Proposed a framework for analysing the impact of culture on the development of accounting systems internationally and identified value dimensions at the accounting subculture level which include professionalism, uniformity, conservatism and secrecy.</td>
</tr>
</tbody>
</table>
3.4. Chapter Summary

This chapter reviewed existing literature to provide a detailed background for the present study. The study has identified a number of gaps that form the basis of this study. First, it identified that the reasons for IFRS adoption are inconsistent and there are no clear reasons why companies adopt or resist adopting IFRS. Further, the literature revealed some issues companies are likely to face in IFRS adoption. These include practical difficulties in IFRS adoption, the effects of industry type on IFRS adoption and organisational cultural factors influencing accounting values. Despite the volume of research investigating the challenges companies face in IFRS adoption, studies on the challenges in IFRS adoption for Nigerian companies are limited. Since the increase in IFRS adoption, different studies have attempted to identify the challenges companies face in IFRS adoption. However, the challenges are inexhaustible and different across IFRS jurisdictions. From a theoretical perspective, there are several theories explaining the challenges in the adoption of accounting standards. The chapter presented related theories that explain how companies’ respond to accounting systems differently. From the theories and extant literature, a conceptual model is developed based on cultural factors, industry type and practical difficulties to examine the challenges in IFRS adoption. The next chapter presents the research methods.
Chapter 4
Research Methodology

Chapter 4 discusses the empirical framework, research design and the data used to answer the research questions. The aim of this study is to investigate the challenges influencing Nigerian companies’ decisions to adopt IFRS. The discussion includes descriptive statistics, Exploratory Factor Analysis (EFA) and logistic regression. In order to examine the factors influencing IFRS adoption, a survey questionnaire was developed to obtain data from preparers of financial statements in Nigeria. The empirical framework for the study is discussed in Section 4.1. Section 4.2 presents the research design and structure of the survey questionnaire. Section 4.3 discusses the empirical models used to answer the research questions and Section 4.4 summarises the chapter.

4.1. Empirical Framework

The empirical framework of this study is based on discrete choice consumer theory. The adoption of IFRS can be considered as the “consumption” of IASB intellectual property (i.e. IFRS) which could result in acceptance or rejection by companies. The discrete choice theory is similar to consumer choice theory (Lancaster, 1966). It applies a qualitative discrete approach which examines the choices of differentiation between factors.

The discrete choice framework is an appropriate method for this study because the adoption of IFRS by Nigerian companies results in two possible outcomes, namely (1) companies that adopt IFRS, or (2) companies do not adopt IFRS. This is consistent with qualitative choice theory. Thus, factors that influence the choices can be identified (Akiva & Lerman, 1985). The qualitative choice theory such as logit analysis consists of binary outcomes.

A qualitative choice analysis involves a decision-maker facing a choice set of alternatives which meet the following criteria;

1. The number of alternatives in the set is finite
2. The alternatives are mutually exclusive; that is the decision-maker has a chance of choosing one from the alternatives
3. The set of alternatives is exhaustive, i.e. all possible alternatives are included, therefore the decision-maker has the possibility to choose one from the set (Levin & Milgrom, 2004; Varian, 1992).

A choice set exists in the universe of alternatives, particularly in an environment with a multiplicity of laws. The choice set can be continuous or discrete. However, discrete choices are more realistic of the choice situation for companies’ decision making (e.g. adopt or non-adopt a standard or policy). Assume that the companies’ financial statement preparers randomly act rationally, they allocate their constraints (financial resources, knowledge, the degree of optimism etc) among alternatives in a way that maximises their advantage or opportunities and ultimately maximises their utilities (Train, 2009).

The application of discrete choice theory in this study is focused on two outcomes that are consistently investigated through a series of factors. This is an effort to “make the minimal assumption necessary for the analysis to be tractable and investigate all the implications of relevant assumption so that they can be tested using whatever data is available” (Levin & Milgrom, 2004, pp. 13 - 14). By doing this, a monotonicity of explanation is minimised and the area of focus becomes more certain with consistent analysis from different perspectives which in this case includes companies’ cultural factors, practical difficulties in IFRS adoption and the industry effects on IFRS adoption.

Lancaster (1966) argued that since goods (in this case IFRS) is “simply what consumers would like to experience, we must be neutral with respect to differences in companies’ decisions, some companies might like to experience a set of accounting standards that others do not want” (Lancaster, 2001, pp. 320 - 321). This is more likely in the introduction of a foreign accounting system that each element of the accounting standards consists of a group of characteristics or attributes that affect the contents and form of financial statements in a different business environment.

Lancaster (2001) pointed out that users’ preferences are indirect. Adopters of an accounting program typically make a decision among alternatives, having compared the attributes of other accounting standards, and choose the accounting standards that possess the combination of attributes that maximises the company’s objectives for preparing financial statements.
The decisions to adopt accounting standards is sometimes derived from the attributes of the standards rather than by regulation (McCartney, 2004). For example, the decision to adopt accounting standards is based on the attributes of the end means (financial statements), such as physical attributes (e.g. internal control systems, optimistic changes in financial performance, less detailed disclosure for confidentiality, uniform presentation format, conservative users acceptance), or quality attributes (i.e. legitimate characteristics of professionalism, transparency, clarity and accuracy from calculated accounting values) or added attributes (relevance of the accounting information, compatibility with industry best accounting practice, less cost of adoption and less ambiguity in the regulatory policies).

Decision making between alternatives as a response to changes in accounting systems represents the discrete choice situation that is based on random utility theory (Anderson, Palma, & Thisse, 1992). The random utility maximisation theory (RUM) assumes that individuals choose the alternative that yields the highest utility (maximises utility subject to certain imperatives such as cost, benefits or overall characteristics). Secondly, the RUM is consistent with Lancaster’s theory in that adopters or non-adopters derive their utility from the attributes of choices.

The last assumption of RUM is that every decision maker is independent which means that the last decision has no impact on the current decision. The true utility a company derives from IFRS attributes is not observable because not all the attributes are known to and measurable by the researcher.

However, a random utility function of the preparers of financial statements is typically formulated with the sum of two parts including the deterministic component or observable aspects of the utility. This consists of the attributes of accounting standards and the companies’ preferences or characteristics $v_{ij}$, and the unobservable aspects $\varepsilon_{ij}$. The unobservable aspects are assumed to have all the attributes of the IFRS and characteristics of the companies that may be unknown or unobserved, which are treated as a random component (Becker, 1976).

The RUM states that a company $i$, receives utility $U_{ij}$, from choosing an alternative $j$ from a finite set of alternatives $C$ (Becker, 1976). Therefore, the company’s utility of choice can be written as follows:
\[ U_{ij} = \frac{V_{ij} + \varepsilon_{ij}}{\varepsilon_{ij}} \]  

(4.1)

where: \( U_{ij} \) is the utility of company \( i \) in choosing an alternative

\( V_{ij} \) is an indirect utility, the systematic component or the observable component; and

\( \varepsilon_{ij} \) the stochastic or random component representing unobservable factors, such as unobservable variations in preference, random company’s response to IFRS, and measurement error. \( V_{ij} \) becomes the explainable portion of the variance in alternatives, which is used to explain and predict the company’s choices. \( V_{ij} \) can be expanded to be a linear function of \( n \) attributes for a specific alternative as follows:

\[ V_{ij} = \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \ldots + \beta_n x_n = \beta X_n \]  

(4.2)

Where: \( X_n \) is a vector of \( n \) attributes for choice \( j \).

\( \beta \) is a vector of unknown parameters associated with the attributes.

The key assumption is that a company \( i \) will choose an alternative \( j \) over another alternative \( k \), if and only if, the utility associated with \( j \) is greater than the utility from alternative \( k \), given \( j, k \in C \) where \( C \) is the set of choices. This can be written as:

\[ U_{ij} > U_{ik} \quad \text{for all } j \neq k \]  

(4.3)

Therefore, equation (4.4) can be written as:

\[ V_{ij} + \varepsilon_{ij} > V_{ik} + \varepsilon_{ik} \]  

(4.4)

Rearranging to observable (indirect function) and unobservable (random component) yields:

\[ V_{ij} - V_{ik} > \varepsilon_{ik} - \varepsilon_{ij} \]  

(4.5)

In practice, it is difficult to observe \( (\varepsilon_{ik} - \varepsilon_{ij}) \), and hence one cannot determine whether \( V_{ij} - V_{ik} > \varepsilon_{ik} - \varepsilon_{ij} \). Since we cannot observe the true utility function, a probabilistic utility function is used in the estimation process. The analyst has to calculate the probability that \( (\varepsilon_{ik} - \varepsilon_{ij}) \) will be less than \( (V_{ij} - V_{ik}) \) (Train, 2009). The probability that alternative \( j \) is chosen is given by:

\[ \text{prob}(j) = \text{prob}(V_{ij} - V_{ik} > \varepsilon_{ik} - \varepsilon_{ij}) \]  

(4.6)
\[ P_i(j \mid C) = P_i(V_{ij} - V_{ik} > \varepsilon_{ik} - \varepsilon_{ij}), \quad \forall j \neq k \in C \quad (4.7) \]

In this study, estimating the companies’ decisions on IFRS adoption, the preparers of financial statements are asked to choose between two alternatives (e.g. adopt or non-adopt). The IFRS for publicly accountable companies\(^3\) are mandatory for all listed and large non-listed companies in Nigeria, but many companies have been known to resist the adoption of IFRS. In general, companies have to compare their preferred accounting practices, challenges and accounting information needs embodied in other accounting systems and IFRS (such as transparency, optimism, conservatism, statutory control, secrecy, cost of adoption, internal control system and relativity to the industry where business activities are conducted) before making a decision to adopt or not to adopt IFRS.

Thus, a binary choice model is applied in this study. The choices contain two alternatives \( j \) and \( k, C = (j, k) \). Following the random utility theory discussed above, the probability of choosing alternative \( j \) is given by:

\[ P_i(j) = P_i(V_{ij} - V_{ik} > \varepsilon_{ik} - \varepsilon_{ij}) \quad (4.8) \]

And the probability of choosing alternative \( k \) is given as

\[ P_i(k) = P_i(V_{ik} - V_{ij} > \varepsilon_{ij} - \varepsilon_{ik}) \quad (4.9) \]

or

\[ P_i(k) = 1 - P_i(j) \quad (4.10) \]

Random utility models (binary choice models) are obtained by specifying a probability distribution of the two disturbances (\( \varepsilon_i = \varepsilon_{ik} - \varepsilon_{ij} \)). The two most commonly used forms are the normal distribution and logistic distribution. If it is assumed that \( \varepsilon_i = \varepsilon_{ik} - \varepsilon_{ij} \) is a standard normal distribution function that leads to the logit model. On the other hand, if \( \varepsilon_i = \varepsilon_{ik} - \varepsilon_{ij} \) is identically and independently distributed as a type I extreme value, which follows the logistic distribution that leads to the logit model.

The cumulative distribution function (CDF) of both models has symmetric and bell-shaped densities, although the logistic density has heavier tails than the standard normal. As the

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\(^3\) IFRS for publicly accountable companies is a type of IFRS for public interest entities as defined by IASB.
distributions are similar, the results derived using the two models will be quite similar. Typically, the logit model is used for analysing dichotomous choice data because the underlying logistic distribution allows for more convenient estimation compared with other choice models (Greene, 2008). Thus, the logit model was chosen in this study to estimate the factors affecting companies’ decision to adopt or not to adopt IFRS.

As the assumption of the difference between the two random components \( \varepsilon_{ij} = \varepsilon_{ik} - \varepsilon_{ij} \) is logistically distributed, the cumulative distribution function (CDF) of the logit model has the following form:

\[
F(\varepsilon_i) = \frac{1}{1 + e^{-\mu \varepsilon_i}} \quad (4.11)
\]

Where: \( F(\varepsilon_i) \) is the cumulative distribution function and \( \mu \) is a positive scale parameter. Thus, the probability of choosing alternative \( j \) is given as:

\[
P_j(i) = \frac{1}{1 + e^{-\mu \varepsilon_{ij}}} \quad (4.12)
\]

As stated previously, the expressions in equation (4.5) define \( v_{ij} \) as a linear function of \( n \) attributes for alternative \( j \). Thus, the probability is given as:

\[
P_j(i) = \frac{1}{1 + e^{-\beta v_{ij}}} \quad (4.13)
\]

### 4.1. Research Design

The aim of this study is to identify the challenges and factors that influence companies’ decisions on IFRS adoption in Nigeria. To answer the research questions, a structured questionnaire was used to collect relevant data from listed and non-listed companies required to adopt IFRS in Nigeria. The structured questionnaire “obtained information in a systematic way for variables that are not easy to observe and also allowed for relatively inexpensive access to companies” (Sriwaranun, 2011 p. 56).

#### 4.1.1. Survey Design and Structure of the Questionnaire

The survey was conducted from November 2014 to January 2015. The questionnaires were delivered to companies’ premises by five survey assistants. Senior accountants and Chief Financial Officers (CFOs) responsible for companies’ financial reporting were asked if they would be willing
to participate in the research and if so, survey assistants would come back to collect the completed questionnaires. A total of 800 questionnaires were delivered, where 582 surveys were returned, of which 519 responses were usable, resulting in a response rate of 64.9%. The completed questionnaires were then transferred to Excel and imported to SPSS and STATA 12 software for analysis.

4.1.2. Sample Selection

The target population is listed and non-listed companies eligible to adopt IFRS for publicly accountable companies. The criteria to decide a company are defined in the FRC roadmap for IFRS adoption as discussed in Chapter 2 and Ayuba (2012). The names of listed companies were obtained from NSE. In addition, the names and contact details of non-listed companies were obtained from the Directorate of Accounting Standards Private Sector at the FRC Head Office in Ikeja, Lagos, Nigeria. However, the companies’ information from FRC consists of active and inactive companies making it impossible to know the exact number of active companies required to adopt IFRS.

The study randomly selected companies in Lagos, Abuja and Benin city as the sampling frame. The majority of the companies in Nigeria are concentrated in these cities and usually have branches or subsidiaries in other locations in Nigeria. In addition, the large number of companies in these cities also made it less difficult to approach target respondents. Since the questionnaire requires knowledge of the respondents about their IFRS adoption status and challenges in the adoption, companies’ CFOs or senior accountants were asked to fill in the questionnaire. Further, companies’ CFOs and Senior Accountants have a significant role in making major accounting decisions such as adoption of IFRS according to the Companies and Allied Matters Act 2004 discussed in Chapter 2.

Taking into account the limitation of time and budget and practical difficulties in obtaining the list and information of the targeted population for non-listed companies, the research used convenience sampling to select sampling units within the information obtained from FRC. The results of the survey, therefore, cannot be interpreted beyond the sample (Zikmund, Carr, & Griffin, 2012). However, anticipating the sampling error that might arise due to the convenience sampling method, the study spread the questionnaires over all districts in Lagos, Abuja and Benin City. Specifically, no more than five companies were selected on the same street and if more than one
company was contacted on the same street, they must be operating in different business activities and industry.

4.1.3. Sample Size

The sample size was determined by the formula of Cochran (1963). This is used in most primary data collection, as follows:

\[ n_o = \frac{z^2 \, p \, q}{e^2} \]  \hspace{1cm} (4.14)

Where:

- \( n_o \) is sample size
- \( z^2 \) is the abscissa of the normal curve that cuts off an area at the tails
- \( e \) is the desired level of precision
- \( p \) is the estimated proportion of an attribute that is present in the population
- \( q \) is \( 1 - p \)

This study chose the level of confidence at 95\% (or ±5\% precision) and assumed \( p = 0.5, \, q = 0.5 \). Therefore, according to the above formula, a total number of the sample size should be at least 385 observations. Thus, a minimum of 800 companies was contacted in order to obtain enough usable responses for the research.

4.1.4. Survey Instruments

A structured questionnaire was developed to obtain the data for analysis. The questionnaire was then sent to Lincoln University Human Ethics Committee for approval prior to data collection.

4.1.5. Survey Format

The structured questionnaire comprised the following information:

1. Companies’ general knowledge about IFRS adoption, their knowledge about why IFRS was implemented in Nigeria and question on cultural factors
2. Companies’ IFRS adoption status, some motivations for IFRS adoption and awareness about perceived benefits in IFRS adoption.
3. The practical difficulties companies experience in IFRS adoption, and
(4) Characteristics of the companies including the type of industry in which they operate business activities

(5) Characteristics of the respondents who completed the questionnaire

Section 1 of the survey instrument asked questions on general information about IFRS adoption such as IFRS adoption awareness and perceptions of accounting regulations in Nigeria. Respondents were asked if accounting regulations were important to them and how IFRS supplanted SAS if accounting regulations are important. In addition, the section asked whether or not the respondent completing the question met the criteria for companies required to adopt IFRS as stipulated by FRC. Following that, questions related to accounting value which is used to measure cultural factors were presented to the respondents. Section 1 uses a nominal, categorical and Likert scale of 1 to 5 questions. Further, Section 1 questions address the respondents’ perceived accounting values based on the company’s current accounting practices. These questions address the influences of cultural factors on the company’s likelihood of adopting IFRS.

Section 2 consists of questions that focus on whether the company has adopted IFRS. The questions include some motivational and demotivation reasons for IFRS adoption. Section 3 consists of a series of questions directed towards companies that have adopted IFRS. The questions include practical difficulties companies faced during IFRS adoption. There are questions related to accounting value measurement, internal control systems, availability of market data for calculating accounting values, issues in management accounting systems, the cost of IFRS adoption, stakeholders’ reactions, IFRS policies and staff knowledge.

Section 4 targets companies that have not adopted IFRS and include issues they experienced if they attempted to adopt IFRS or issues they are likely to face if they choose to adopt IFRS. The section asked the respondents of the likelihood that the companies would adopt IFRS in the future and how soon the companies would adopt IFRS. Issues related to practical difficulties faced by the companies or likely to occur during IFRS adoption are addressed in this section.

Finally, Section 5 addresses the variability of companies’ IFRS adoption based on their industry type and characteristics. Section 5 surveys the characteristics of the companies, including years of establishment, ownership type, industry type, listing status, the number of shareholders,
international trade status, audit type, company size, respondents’ age group, educational background of the respondent and job title.

4.1.6. Pilot Test

The design of the questionnaire was based on the relevant literature on IFRS adoption. Pretesting of the questionnaire was conducted on a random sample of 20 listed and non-listed companies’ CFOs and senior accountants in Lagos, Nigeria. The pre-test was conducted to obtain feedback to improve the content of the questions, instructions, clarity, and the layout of the questionnaire. Furthermore, pretesting of the questionnaire also assessed the reliability of the constructs, the measures, and the likely response rate. After pilot testing, the questionnaire was then revised to address comments and suggestions of selected respondents. The final version of the questionnaire is attached in Appendix C.

4.2. Data Analysis

The sets of variables identified from previous studies, media reports and archives related to IFRS adoption were included in the survey questionnaire using Likert scale measurement, multiple choice questions, nominal questions and dichotomous questions. The analysis includes descriptive statistics, factor analysis and test of the hypotheses.

4.2.1. Descriptive Statistics

The profiles of the companies in the survey were identified based on the descriptive analysis. Frequency, Pearson Chi-square distribution and independent sample t-test were used to describe the companies’ responses to the survey. Likert scales of 1 to 5, multiple choice questions, nominal questions and dichotomous questions were used to measure accounting values, challenges and companies’ characteristics. This data collection method has been used in previous studies in order to identify the cultural dimensions of companies in Hofstede (2001) and other social science research (Smart, 2012; Sriwaranun, 2011).

4.2.2. Exploratory Factor Analysis

The survey questionnaire generated a large number of items explaining the companies’ preferences for accounting standards, perceptions of IFRS adoption and motivations to adopt IFRS. These items were scaled down into the manageable factors using factor analysis. The questionnaires provided a multidimensional measure of the preferences for accounting values and
perceptions of IFRS adoption.

Where the bundled preferences for accounting value and perceptions items exhibited a strong correlation in which the companies gave similar values to those items, the items were summarised and grouped into one factor (Hair, Black, Babin, Anderson, & Tatham, 2006). In order to reduce the items similarly valued, the study applied Exploratory Factor Analysis to determine the number of items underlying each factor.

The aim of factors analysis is to reduce a small number of linear combinations of a large set of statements by retaining as much relevant information as possible about the constructs being measured. The latent root criterion (eigenvalue) was used to determine the number of factors to be retained. An eigenvalue (variance) that is greater than one has been most commonly used to determine the optimal number of factors extracted (Hair et al., 2006).

The two basic types of rotation investigated to assist in the interpretation of the factors in this study are the Orthogonal and Oblique methods. The objective of the rotation is to simplify the rows and columns of the factor matrix to facilitate interpretation. Orthogonal rotation (VARIMAX) assumes the rotation of the factors would have a 90 degree angle to the axes so that factors are not correlated, whereas the oblique rotation (OBLIMIN) allows the factor axes more flexibility in the degree of angles so the set of items in each factor may be correlated (Amenkhienan, 1986).

When interpreting the factors, decisions must be made regarding the factor loadings which are worth considering. The sample size can determine the significance of the factor loadings (see Table 4.1). The criterion for the significance of factor loadings considered in this study is a minimum loading of greater ± 0.30 which is considered necessary for practical significance ($p < 0.05$) (Hair et al., 2006). However, factor loadings of ± 0.50 are considered very significant, $p < 0.05$ while ± 0.30 is minimally acceptable. Tests of significance for factor loadings are less meaningful and generally conservative (Hair et al., 2006). The results of the factor analysis considered whether or not to include the constructs for further analysis. In order to make decisions on the selection of an item in the constructs, Hair et al. (2006) provided some guidelines for selecting a factor (see Table 4.1).

There are different assumptions to be examined for determining the appropriateness of applying exploratory factor analysis with the study data set. These assumptions include the correlation coefficient matrices of the data for preference for accounting value and motivations for IFRS
adoption items with a correlation greater than $\geq 0.30$, which indicates similarities of the items measuring each construct (Hair et al., 2006).

<table>
<thead>
<tr>
<th>Factor Loading</th>
<th>Sample Size Needed for Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.30</td>
<td>350</td>
</tr>
<tr>
<td>0.35</td>
<td>250</td>
</tr>
<tr>
<td>0.40</td>
<td>200</td>
</tr>
<tr>
<td>0.45</td>
<td>150</td>
</tr>
<tr>
<td>0.50</td>
<td>120</td>
</tr>
<tr>
<td>0.55</td>
<td>100</td>
</tr>
<tr>
<td>0.60</td>
<td>85</td>
</tr>
<tr>
<td>0.65</td>
<td>70</td>
</tr>
</tbody>
</table>


Next is the examination of the Kaiser-Meyer-Olkin which measures sampling adequacy (MSA) that quantifies that the degree of intercorrelations among the variables should be above 0.5. Further, Bartlett’s test of sphericity measures the statistical probability that the correlation matrix has significant correlations among at least some of the variables (Hair et al., 2006). The internal consistency of each factor is then examined by estimating the Cronbach’s alpha coefficient (Botonaki, Polymeros, Tsakiridou, & Mattas, 2006).

In order to apply the results of the converged items into factors for further analysis, the study calculated the summated scales through variable computation using the SPSS software. The differences between the summated scales and factor scores are the factor scores derived from factor loadings of all items on the factor with higher values of factor loading. Differently from the factor scores, the summated scale is formed by combining only selected items into a single composite measure by calculating the mean or sum of the items loading together (Sriwaranun, 2011).

In social science research, summated scales are often replicated across studies because of the preservation of variations in the data. Further, summated scales represent the different dimensions of a concept in a single measure while minimising error in measurement (Hair et al., 2006). From the simplicity of summated scale computation and the possibility of applying a reliability test, summated scales of an integral component are preferred to factor score for further
analysis in the study (Hair et al., 2006).

4.2.3. Binary Logistic Regression

The research questions include identifying the factors and challenges that influence IFRS adoption. These include cultural factors and practical difficulties companies faced in IFRS adoption and an assessment of the effects of industry type on companies’ decisions to adopt IFRS. To test the hypotheses discussed in Chapter 1 and answer the research questions 1, 2 and 3, binary logistic regressions were applied to determine the companies’ decisions to adopt IFRS from three perspectives.

4.2.4. Econometric Model

For accounting systems and practices, the company’s choice is discrete, which is consistent with Skinner (1993) that investigates companies’ investment choices and the incentive to apply some accounting measurement methods over others. Therefore, the discrete choice model is used to analyse the companies’ decisions between adoption versus non-adoption of IFRS. The discrete choice model examines whether a company will adopt or not adopt IFRS, is known as a qualitative choice model in social science research. Therefore, the company’s decision to adopt or not to adopt IFRS falls into the qualitative choice framework. If the random term is assumed to have a logistic distribution, then the decision to adopt or non-adopt represents a standard binary logit model. However, if it is assumed that a random term is normally distributed, the model becomes the binary probit model (Greene, 2008; Maddala, 1983).

Following the choice responses to accounting systems, the current study applies the logit model because it better describes the adoption decisions of the companies. Considering the mixed results in previous studies discussed in Gernon & Wallace (1995), Ali, (2005), Bova & Pereira (2012) and Brüggemann, Hitz, & Sellhorn (2013), the simplicity of the logit procedure is arguably a more suitable fit to identify companies’ current responses to changes in accounting standards. The logit model is estimated by the maximum likelihood method used in the STATA software.

The logit model is based on the cumulative logistic probability function for the probability that the company makes a choice and assumes that the probability to adopt ($P_i$) for company $i$, depends on a vector of explanatory variables ($X_i$), and a vector of unknown parameters $\beta$. Therefore, using equations (4.15) and (4.16) the logit model predicting the probability to adopt IFRS is given as
follows:

\[ P_i(Y_i = 1) = \frac{1}{1 + e^{\beta X_i}} \]  \hspace{1cm} (4.15)

Where: \( Y_i \) is the dichotomous choice, in which \( Y_i = 1 \) if a company adopts IFRS and \( Y_i = 0 \) if the company does not adopt IFRS.

\( P_i \) is the probability the company adopts IFRS and \((1 - P_i)\) is the probability the company does not adopt IFRS.

\( X_i \) is the vector of explanatory variables (see Tables 4.2 to 4.4).

\( \beta \) is the parameters to be estimated. The probability the individual does not adopt IFRS \((1 - P)\) is expressed as:

\[ P_i(Y_i = 1) = \frac{1}{1 + e^{\beta X_i}} = \frac{1}{1 + e^{-\beta X_i}} \]  \hspace{1cm} (4.16)

Equations (4.15) and (4.17) are shown as odds ratio of choice as:

\[ \frac{P_i}{1 - P_i} = e^{\beta X_i} \]  \hspace{1cm} (4.17)

Therefore, in terms of the logarithm of the odds ratio in equation (4.18), the logistic regression equation is stated as follows:

\[ \log \left( \frac{P_i}{1 - P_i} \right) = Z_i = \beta X_i \]  \hspace{1cm} (4.18)

where \( Z_i \) is the logarithm of the odds ratio, also known as the log-odds ratio, representing the linear function of the explanatory variables (Maddala, 1983). This form provides a more simplistic description of the probabilistic relationship between the variables and the outcome.

Dichotomous dependent variables cannot predict a numeric value and violate homoscedasticity, linearity, and normality assumptions. Therefore, the use of ordinary least squares (OLS) estimations as the best fit method of controlling the sum of squared distance is inefficient (Maddala, 1983). In order to overcome the inefficient parameter estimates using OLS, the maximum likelihood estimation (MLE), which maximises the log-likelihood is applied in the logistic regression to
estimate the regression coefficients \( \hat{\beta} \). The likelihood function for the model is stated in consistency with Maddala (1983) as:

\[
L = \prod_{i=1}^{n} P_i \prod_{i=0}^{1} (1 - P_i) \tag{4.19}
\]

The logistic regression estimated coefficients \( \hat{\beta_i} \) do not provide information about the effects of the explanatory variables on the probability \( P_i \). Therefore, the interpretations of the marginal effects of the explanatory variables are interpreted differently from the coefficients. From the calculation of the marginal effects, the continuous variables can be used in a partial derivative approach of the non-linear probability function to determine the effects that relate to a unit change in a given independent variable. In other words, the marginal effects of each explanatory variable can be interpreted directly as observed from the calculation of the magnitude of each variable in the analysis; for example, the magnitude of the marginal effect \( M_j \) is a unit change in the independent variable that will result in an increase or decrease in the predicted probability (Greene, 2008). Equation (4.20) is used to estimate the marginal effects of the logistic regression:

\[
M_j = \frac{\partial P}{\partial x_{y_j}} = \beta_j P_i(1 - P_i) \tag{4.20}
\]

Further, for marginal effects associated with the binary independent variables, the partial derivatives are not applicable. In order to overcome this difficulty, the marginal effects can be calculated as the difference in the probabilities of each choice of the binary independent, obtained where the independent variable is equal to 1, and equals 0 respectively. Equation (4.21) is used to estimate the marginal effect of binary independent variables consistent with Greene (2008) as follows.

\[
\frac{\partial P}{\partial x_{y_j}} = \left[ P_i(Y = 1) \Big| x_{y_j} = 1 \right] - \left[ P_i(Y = 1) \Big| x_{y_j} = 0 \right] \tag{4.21}
\]

### 4.2.5. Goodness-of-fit

In order to assess whether the models fit the logistic regression assumptions, goodness-of-fit tests are performed to test whether the estimated models fit the data well. Specifically, four
goodness-of-fit tests are used in this study, namely the likelihood ratio test, the McFadden pseudo $R^2$, the Hosmer-Lemeshow test and a predictive ability measure.

The likelihood ratio (LR) test is related to probability distribution and is an asymptotically distributed $X^2$ statistics (Hill, Griffiths, & Lim, 2008; McFadden, 1973). The LR test is used to test the overall model fit where the null hypothesis estimated coefficients are jointly equal to zero. When the LR test rejects the assumption, we can conclude that the overall estimated model fits the data well. In addition, the LR is twice the difference in log-likelihoods calculated as:

$$LR = -2(LL_{null} - LL_{model}) \sim X^2, df(J)$$  \hspace{1cm} (4.22)

where: $LL_{null}$ is the log likelihood value computed with only a constant term (restricted model) and $LL_{model}$ is the maximised value of the log likelihood function of the model that contains the independent variables (unrestricted model) (Menard, 2002; Harrell, 2013).

McFadden’s pseudo $R^2$ test of goodness-of-fit is analogous to $R^2$ in multiple regressions in that it represents the overall model’s fit suitability for the data set. The McFadden pseudo $R^2$ ranges from zero to one and its value is expected to increase according to the explanatory power of the model and the greater model fitness. McFadden (1974) documented that the McFadden pseudo $R^2$’s value tends to be smaller than the $R^2$ value and that values ranging from 0.2 to 0.4 are considered a good fit. The McFadden pseudo measurement for a logit model can be estimated using equation (4.23) as follows:

$$Pseudo \ R^2 = \frac{-2LL_{null} - (-2LL_{model})}{-2LL_{null}} = 1 - \frac{LL_{model}}{LL_{null}}$$ \hspace{1cm} (4.23)

Where the log likelihood value $LL_{null}$ decreases, the pseudo $R^2$ will increase and if the value of $LL$ equals zero, the pseudo $R^2$ equals one. Therefore, the results show a perfect fit of the estimated model for the data set (Hair et al., 2006; Maddala, 1983).

For the Hosmer-Lemeshow test, the estimation is a type of Pearson $X^2$ test of goodness-of-fit. This test helps to compare expected values to observed values of the dependent variable (the event
outcome) from the observed group (Stata, 2013). It is common to assume the null hypothesis that there is no difference between the values in all the groups. Therefore, when the differences are small based on a p-value greater than 0.05, we fail to reject the null hypothesis which shows that the estimated model is an acceptable fit for the data set. In order to estimate the Hosmer-Lemeshow test, the observations are grouped into $k^{th}$ ordered groups based on the values of the estimated probability from the smallest to the greatest, where $k, \ldots g = 1, \ldots, g$ (Stata uses 10 groups as the default (Stata, 2013)) and $n_k^i$ is the number of observations in group $k^{th}$ (Hosmer Jr, Lemeshow, & Sturdivant, 2013, pp. 157 -160). In each group, the expected values are analysed separately by the event outcome (i.e. $y = 1$ and $y = 0$), and their values are analysed by summing the estimated probabilities of an event outcome in each group. This statistical measure can be calculated:

$$\text{HL} = \sum_{k=1}^{k^g} \left( \frac{O_k - n_k^i \hat{P}_k}{n_k^i \hat{P}_k \left(1 - \hat{P}_k\right)} \right)^2 \sim \chi^2, df (k - 2)$$

(4.24)

Where $O_k$ is the sum of the event outcomes in group $i$, and $n_k^i \hat{P}_k$ is the average of the estimated probabilities of the expected values in group $i$ (Hosmer Jr & Lemeshow, 2004).

In addition, predictive ability is another method of assessing a model’s fit. This is often referred to as expected percentage correctly predicted (EPCP function in Stata 2013) (Nadeau, Lewis-Beck, & Bélanger, 2013). This measure shows the improvement in the predictive ability of the model by comparing the predictive ability of the unrestricted model with the restricted model. In the case of a logistics regression model, the predictive abilities of the unrestricted and restricted models are calculated by tabulating the number of correct and incorrect predictions based on a rule such as $\hat{y} = 1$ if $P(y_i = 1) > 0.5$ and $\hat{y} = 0$ otherwise and compared to the actual observed responses for the dependent variable (Sriwaranun, 2011). The overall results of the predictive ability analysis report the percent correctly predicted and the percentage gain in predicting responses in the unrestricted model compared with the restricted model.
4.2.6. Empirical Implementation (Econometric Models)

To answer the research questions, three different empirical models were developed. One model is used for each research question. From the literature and archival, the independent and control variables were identified. The procedures for identifying the control variables for this study are consistent with Pricope (2016) and Cooke (1992) as discussed in Chapter 3. These studies identified factors that are previously known to impact the dependent variables, and then included the variables in the models as control variables. However, the main focus of the analysis in this present study is the variables of interest which include cultural factors, practical difficulties in IFRS adoption and industry effects. The followings are the models used in this study.

Research Question 1 (RQ1)

The first model measured the probability of the company’s decision to adopt IFRS based on perceived accounting values dimensions which are otherwise referred to as the companies’ cultural factors. The discrete dependent variable (Ifrs_Adop) measures whether a company adopts or does not adopt IFRS. The dependent variable is based on the question asked in the survey: “Has your company adopted IFRS?”. The definitions of the model’s independent variables are presented in Table 4.2. The variables include accounting values dimensions similar to Chanchani and Willett (2004). Model 1 explains how the cultural factors influence the companies’ decisions to adopt IFRS.

The company’s decision to adopt or not to adopt IFRS (Model 1) can be implicitly written under the general form:

\[
\text{Ifrs\_Adop}_i = \text{Flex}_i + \text{Trans}_i + \text{Stat\_Con}_i + \text{Opt}_i + \text{Pr}_i + \\
\text{Unif}_i + \text{Cons}_i + \text{Sec}_i + \text{Aud\_Typ}_i + \text{Com\_Siz}_i + \\
\text{Own\_Typ}_i + \text{Com\_Lis\_Sta}_i + \varepsilon_i 
\]

(4.25)

4.2.7. Definition of Independent Variables (Model 1)

The variables of interest included in the model (1) are flexibility, uniformity, transparency, statutory control, professionalism, optimism and conservatism. Borker (2013b) reported that these variables are determinants of IFRS adoption success or failure in some different business environments.

**Flexibility** measures the application of different methods of recognition, measurement, and disclosure procedures consistent with the financial transactions. **Uniformity** is the opposite of
flexibility. It measures the application of accounting standards uniformly across all companies in terms of recognition, measurement and disclosure without any variations in the procedures used by different companies (Hann, Lu, & Subramanyam, 2007).

*Transparency* is the companies’ expectations that financial information disclosure should consistently be transparent across all companies. This means that the financial transactions of the companies should be disclosed with evidence that outlines the companies’ trade activities. This variable has the likelihood of informing users of financial statements about the companies’ reliability and integrity. *Secrecy* measures the unwillingness of the companies to adopt certain accounting standards because such standards can reveal information that is strictly confidential to preparers of financial statements (Braun & Rodriguez, 2014). Based on Hofmann and McSwain (2013) and Bakre and Lauwo (2016) studies, secrecy occurs for several reasons such as political cost, labour union agitation, corrupt practices and business competition.

*Statutory control* is the accounting system where the companies prefer the accounting practice to be strictly controlled by government agencies with consequences for non-adoption (Borker, 2016a). *Professionalism* is the use of professional judgment to determine what accounting values should be when accounting policy does not exist or meet the circumstance of a company (Bentley & Franklin, 2013; Dahawy & Conover, 2007). Professionalism is the opposite of statutory control which does not allow accountants to apply professional judgment in determining accounting values.

*Optimism* occurs when companies are certain and positive about the future consequences of adopting certain accounting standards. *Conservatism* is the opposite of optimism (Liu, 2014). Gray (1988) cultural influence on accounting framework developed this variable from uncertainty avoidance reported in Hofstede (1984). Conservatism indicates that the companies are uncertain of future consequences in adopting a particular set of accounting standards, therefore are either hesitant to adopt the standards or reject the accounting standards (Bentley & Franklin, 2013; Vergauwen & Van Alem, 2005).

Some authors such as Shiab (2003), Barde (2009), Zakari (2014) and Faraj and Firjani (2014) found companies’ size, ownership structure, audit type and company listing status to influence IFRS adoption. Thus, these factors apply to this model as control variables. The independent and control
variables are presented in Table 4.2. These include the variables and related authors. Further, the
descriptions of the \emph{a priori} sign of the control variables are included in Table 4.2.

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|l|}
\hline
\textbf{Variables} & \textbf{Description} & \textbf{Priori Sign} & \textbf{Authors} \\
\hline
\textit{FLEX} & Flexibility (summated scale)\textsuperscript{a} & + & Hann et al. (2007), Ibrahim \\
\textit{TRANS} & Transparency (summated scale) & + & (2014), Olamide and Ajibade \\
\textit{STAT} & Statutory control (summated scale) & - & (2016), Askary (2006), \\
\textit{OPT} & Optimism (summated scale) & + & Borker (2013b), Gray (1988), \\
\textit{PROF} & Professionalism (summated scale) & + & Chanchani and Willett \\
\textit{UNIF} & Uniformity (summated scale) & - & (2004) and Hann et al. \\
\textit{CONS} & Conservatism (summated scale) & - & (2007), Houq, Monem, Tareq, & van Zijl, 2016) \\
\textit{SEC} & Secrecy (summated scale) & - & \\
\textit{AUD_TYP} & Auditor Type (If the company's external auditor is international, 0 otherwise) & + & Shammarri et al. (2008), \\
\textit{COM_SIZE} & Company Size (1 if the number of shareholders is greater than 10, 0 otherwise (fewer than 10 shareholders) & + & Ahmed (1996), Choi & Meek, (2010), Ali (2005) and Deegan (2006), Houq, et al. (2016) \\
\textit{COM_LI_STA} & Company Listing Status (1 if the company is listed, 0 otherwise) & + & \\
\textit{OWN_TYP} & Ownership (1 if the company is a non-family owned company, 0 otherwise) & + & \\
\textit{\varepsilon_x} & Error term & & \\
\hline
\end{tabular}
\caption{Companies’ Cultural Factors Independent Variables (Model 1)}
\end{table}

\textbf{Research Question 2 (RQ2)}

The impacts of practical difficulties in IFRS adoption or the extent they influence companies’ decisions are not often specified from the application of IFRS requirements in previous studies.

\textsuperscript{a} Variables consist of a summated scale measured by the highest average of the items in the construct or the maximum mean of the construct.
Model 2 investigates this aspect of the factors influencing IFRS adoption. This investigation addresses research questions 2. The practical difficulties influencing companies to adopt or not to adopt IFRS (Model 2) can be implicitly written under the general form:

\[
\text{Ifrs}_\text{Adop}_{it} = \text{Intcon}_{it} + \text{Val}_{it} + \text{Cha}_{IT}_{it} + \text{Cos}_{it} + \text{Leg}_{it} + \text{Staf}_{it} + \text{Exp}_{it} + \text{Aud}_{it} + \text{Com}_{it} + \text{Siz}_{it} + \text{Com}_{Ao} + \text{Intl} + e_i
\] (4.26)

The dependent variable (Ifrs_Adop) is a binary choice of 1 (adopt) and 0 (non-adopt).

4.2.8. Definition of the Independent Variables (Model 2)

The Internal Control System identifies the lack of an appropriate accounting information system in the companies. An internal control system is the difficulties that companies face in changing their accounting information system that was developed consistent with SAS to conform to IFRS. Borker (2016a) identified the internal control system as one of the challenges that companies will face due to cultural differences amongst companies.

The Valuation variable measures the difficulties that companies experienced in determining the appropriate accounting values consistent with IFRS requirements either in the present or in forecasting financial values (Amiraslani, Iatridis, & Pope, 2013; Ball, Li, & Shivakumar, 2015). This factor can be otherwise termed as issues with technical expertise in applying IFRS in the measurement of accounting value (Healy & Palepu, 2012).

Further, Information Technology Systems is included in Model 2. It is defined as the lack of an IT support system for companies to adopt IFRS requirements in terms of recognition and measurement, i.e. to support preparers of financial statements’ valuation of assets and liabilities such as actuarial valuation (Borker, 2016a). Staff knowledge and experience measures the lack of accountants with IFRS knowledge (Faraj & Firjani, 2014; Sunder, 2009; Zakari, 2014). It includes the lack of understanding of IFRS policies and procedures. Staff knowledge and experience also includes the lack of human resources that have relevant IFRS experience.

In regard to the costs of adoption, this variable measures the financial resources the company has forgone for IFRS adoption (Edwards et al., 2007; Sunder, 2009; Thompson, 2016). These costs
## Table 4.3 Practical Difficulties in IFRS Adoption Variables (Model 2)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description</th>
<th>Priori Sign</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VAL_IT</strong></td>
<td>Valuation of Accounting Items (summated scale)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>COS_ADOPT</strong></td>
<td>Costs of adoption (summated scale)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>STAF_KNO_EXP</strong></td>
<td>Staff knowledge and experiences (summated scale)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>LEG_REQ</strong></td>
<td>Inconsistent legal requirements (summated scale)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>COM_SIZE</strong></td>
<td>Company Size (1 if the number of shareholders is greater than 10, 0 otherwise (fewer than 10 shareholders)</td>
<td>+</td>
<td>Shammari et al. (2008), Jones and Higgins (2006), (Barde, 2009), Zakari (2014), Ahmed (1996), (Choi &amp; Meek, 2010), Faraj and Firjani (2014) and Odi and Ogiedu (2013), Houqe et al. (2016).</td>
</tr>
<tr>
<td><strong>INTL</strong></td>
<td>International Trade (1 if the company is internationalised, 0 otherwise)</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td><strong>AUD_TYP</strong></td>
<td>Auditor Type (If the company external auditor is international, 0 otherwise)</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td><strong>COM_A</strong></td>
<td>Company age (1 if the company was incorporated before 2000, 0 otherwise)</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>(\varepsilon)</td>
<td>Error term</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^5\) Variables consist of a summated scale measured by the highest average of the items in the construct or the maximum mean of the construct.
include the cost of training existing staff or hiring new staff, costs of acquisition of new technology and cost of setting an appropriate internal control system.

The differences in legal requirements is another challenge companies face in IFRS adoption. Particularly, it is most likely in the case of Nigeria as different government agencies prescribed financial reporting requirements. These requirements can differ significantly resulting in inconsistent legal requirements (Bakre & Lauwo, 2016; Ibrahim, 2014; Osemeke & Adegbite, 2016). Therefore, the legal requirements variable measures the influences of different financial reporting requirements on IFRS adoption.

There are other known factors that could influence IFRS adoption. These include company age, company size, audit type and internationalisation. Previous studies have found these factors to significantly impact the extent companies adopt IFRS (Faraj & Firjani, 2014; Odia & Ogiedu, 2013; Zakari, 2014). These can potentially impact the predictability of the challenges investigated in Model 2. Therefore, they are included in Model 2 as the control variables. The independent and control variables are presented in Table 4.3. These include the related studies and a priori descriptions of the variables relationship with IFRS adoption.

**Research Question 3 (RQ3)**

Similarly, the impacts of industries on IFRS adoption could vary considerably because different industries respond to IFRS differently. The exclusion of industry impacts from the challenges in IFRS adoption means important information of the factors influencing IFRS adoption is excluded from the study (Jaafar & McLeay, 2007; Jermakowicz, 2004; Nobes, 2014). Model 3 specifically investigates the impacts of industry effects on IFRS adoption. It is assumed that all industries do not respond to IFRS adoption homogenously.

The third model evaluates the likelihood of the companies’ IFRS adoption if the business activity is operated in one of the industries listed on the NSE. Model 3 discrete dependent variable Ifrs_Adop measures whether a company in a particular industry has adopted or has not adopted IFRS. Similarly to Models 1 and 2, the dependent variable is based on the question asked in the survey: “Has your company adopted IFRS?” The definitions of the model’s variables are presented in Table 4.4. The impact of these industries on preparers of financial statements’ decision to adopt or not to adopt IFRS (Model 3) can be implicitly written under the general form:
\[ \text{Ifrs}_n \text{Adop}_n = \text{Agric}_n + \text{Const}_n + \text{Fin}_n\text{Ser}_n + \text{Health}_n + \text{Oil}_n\text{Gas}_n + \text{Serv}_n + \text{Util}_n + \text{Conglo}_n + \text{Aud}_n\text{Typ}_n + \text{Com}_n\text{Size}_n + \text{Own}_n\text{Typit}_n + \text{Com}_n\text{Lis}_n\text{Stait}_n + \varepsilon_n \]  

(4.27)

The dependent variable \((\text{Ifrs}_n \text{Adop}_n)\) is a binary choice of 1 (adopt) and 0 (do not-adopt).

**Table 4.4 Industries Types Variables (Model 3)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description</th>
<th>Priori Sign</th>
<th>Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGRIC</td>
<td>Agriculture⁶</td>
<td>+/-</td>
<td>Ball (2016), Jaafar and McLeay (2007)</td>
</tr>
<tr>
<td>FINS_SER</td>
<td>Financial Services</td>
<td>+</td>
<td>Idemudia (2013), Hashemi (2016)</td>
</tr>
<tr>
<td>HEALTH</td>
<td>Healthcare</td>
<td>+/-</td>
<td></td>
</tr>
<tr>
<td>OIL_GAS</td>
<td>Oil &amp; Gas</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>SERV</td>
<td>Services</td>
<td>+/-</td>
<td></td>
</tr>
<tr>
<td>UTIL</td>
<td>Utilities</td>
<td>+/-</td>
<td></td>
</tr>
<tr>
<td>CONGLO</td>
<td>Conglomerates</td>
<td>+/-</td>
<td></td>
</tr>
<tr>
<td>COM_LIS_STA</td>
<td>Company Listing Status (1 if the company is listed, 0 otherwise)</td>
<td>+</td>
<td>Shammari et al. (2008), Jones and Higgins (2006), (Barde, 2009), Zakari (2014), Ahmed (1996), (Choi &amp; Meek, 2010), Houque et al. (2016)</td>
</tr>
<tr>
<td>OWN_TYP</td>
<td>Ownership (1 if the company is a non-family owned company, 0 otherwise)</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>COM_SIZE</td>
<td>Company Size (1 if the number of shareholders is greater than 10, 0 otherwise (fewer than 10 shareholders))</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>AUD_TYP</td>
<td>Auditor Type (If the company external auditor is international, 0 otherwise)</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>(\varepsilon)</td>
<td>Error term</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

⁶ The industry types are a set of dummy variables. They are measured 1 if a company belongs to the industry, 0 otherwise.
4.2.9. Definition of the Independent Variables (Model 3)

The independent variables include eight industries in Nigeria. The types of industry are determined by the Nigeria Stock Exchange and Corporate Affairs Commission of Nigeria. These industries are classified on the basis of the similarities of business activities. Homogeneous businesses (companies) are classified into a single industry. In some previous studies such as Nobes (2014), industry type is referred to as sectors. However, in the case of Nigeria, these are known as industries (Nigeria Stock Exchange, 2013b).

The eight industries constituting the independent variables for research question 3 (Model 3) include: (1) Agriculture, (2) Construction, (3) Financial Services, (4) Healthcare, (5) Oil and Gas, (6) Services, (7) Utilities, and (8) Conglomerates. In addition to the industry type, the variables commonly known to influence IFRS adoption are controlled in the model. For example, Shiab (2003), Barde (2009), Zakari (2014) and Faraj and Firjani (2014) found that companies’ size, ownership structure, listing status and audit type influenced IFRS adoption. Thus, these factors are empirically examined in Model 3 because they define the characteristics of the companies similar to industry type. However, they are considered as control variables since the variables of interest are mainly industry type. The independent and control variables are presented in Table 4.4. The table includes related studies and *a priori* descriptions of the variable relationship with IFRS adoption.

4.2.10. Nature of the Variables

The explanatory variables in the three empirical models are specified as either continuous or dummy variables. The continuous variables are summated scale derived from factor analysis while the categorical and dummy variables were obtained from the questionnaires. Binary logistic regression was used to examine the effects of the explanatory variables on the dependent variables. The dependent variable for the model is the IFRS adoption status (i.e. adopt or do not adopt). The hypothesised signs of the exploratory variables used in the empirical models are explained in the tables following each of the models. Measurement of the summated scale variables in the model is based on the highest average of the items in the constructs or the maximum mean of the construct which is similar to previous studies applying summated scale or EFA (Amenkhienan, 1986; Cooke, 1992; Sofie, 2005; Spector, 1992; Sriwaranun, 2011).
4.3. **Summary of the Chapter**

This chapter discussed the research approach, data and methods of analysis. The consumer choice theory is adopted in this study similarly to Akiva and Lerman (1985), Anderson et al. (1992), Levin and Milgrom (2004) and Sriwaranun (2011). The methods involved research processes that include econometric predictive analysis. The survey instrument is applied in this study to obtain data from Nigerian companies. The companies’ accountants responsible for accounting standards adoption according to the Companies and Allied Matters Act 2004 were requested to complete the questionnaire. Analysis of the data involves three stages. First, a descriptive statistics of the responses to the questionnaire is presented based on chi-square and t-test results. This was followed by exploratory factor analysis to identify similar constructs into a summated scale in the second analysis. Next, the summated scale results and means of some dichotomous variables were used to answer each of the research questions. The empirical analyses are estimated by SPSS and Stata 2013 software. The next chapter presents the descriptive statistics and exploratory factor analysis.
Chapter 5
Descriptive Statistics and Factor Analysis

Chapter 5 presents the descriptive statistics of the survey data and the EFA results. Section 5.1 discussed the profile of the respondents who completed the questionnaires and their roles in the companies. Section 5.2 provides the characteristics of the surveyed companies including the industry type. Section 5.3 discusses the practical difficulties companies faced in IFRS adoption. This includes the lack of companies’ awareness following IFRS adoption. Section 5.4 presents the results of EFA and the correlation of the constructs that measured the challenges in IFRS adoption based on cultural factors and practical difficulties. The last section (5.5) summarises the chapter.

5.1. Profiles of the Respondents

A total of 800 questionnaires were distributed to companies with regard to IFRS adoption with 582 questionnaires completed and returned from the respondents. From the returned questionnaires, 519 were usable which resulted in a response rate of 64.9 percent. The usable questionnaires comprised 60.3 percent companies that have adopted IFRS, and 39.7 percent IFRS non-adopters. Most of the respondents were CFOs\(^7\) and senior accountants. The survey was conducted in three cities, namely, Lagos, Abuja and Benin City.

The respondents include senior chief financial officers (62.9%), senior accountants (29.4%) and accounts managers (7.7%). Based on the Companies and Allied Matters Act 2004, accountants in these accounting positions are required to oversee their companies’ adoption of accounting standards (Corporate Affairs Commission, 2016). This requirement is also one of the ICAN requirement for registered accounting practitioners in Nigeria. The ages of the respondents were classified into five levels, ranging from 18 to over 70 years. The largest age group of the respondents is the 40 to 50 years’ category (37.6%), followed by 30 to 40 years (29.3%), 50 to 70 years (26%) and 30 years or younger (7.1%) (see Table 5.1).

\(^7\) The CFO are accountants who are in senior accounting positions in the surveyed companies.
### Table 5.1 Profile of the Respondents

<table>
<thead>
<tr>
<th>Variables</th>
<th>Features</th>
<th>Sample</th>
<th>Adopters</th>
<th>Non-Adopters</th>
<th>$X^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>%</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N=519</td>
<td>N=313 (60.3)</td>
<td>N=206 (39.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Job Title</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Accountant</td>
<td>29.4</td>
<td>23.8</td>
<td>43.6</td>
<td>19.9*</td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>62.9</td>
<td>65.5</td>
<td>51.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (Accounts Managers)</td>
<td>7.7</td>
<td>10.7</td>
<td>5.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Respondents’ age group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-30 years</td>
<td>71.0</td>
<td>9.9</td>
<td>2.9</td>
<td>15.7*</td>
<td></td>
</tr>
<tr>
<td>30-40 years</td>
<td>29.3</td>
<td>31.9</td>
<td>25.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40-50 years</td>
<td>37.6</td>
<td>32.6</td>
<td>45.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50-70 years</td>
<td>26.0</td>
<td>25.6</td>
<td>26.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Respondents’ Qualifications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OND</td>
<td>2.3</td>
<td>1.0</td>
<td>4.4</td>
<td>32.5*</td>
<td></td>
</tr>
<tr>
<td>HND</td>
<td>16.2</td>
<td>12.1</td>
<td>22.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>47.0</td>
<td>49.2</td>
<td>43.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PGD</td>
<td>12.3</td>
<td>9.6</td>
<td>16.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master’s</td>
<td>22.2</td>
<td>28.1</td>
<td>13.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Non responses are excluded from the questionnaire. The columns labelled Adopters and Non-Adopters are exclusively related to the IFRS adoption status of the companies. *, indicates the significant difference between IFRS adopters and non-adopters with $P$-value < 0.001 and NS indicates not significant.

Approximately half of the respondents (49.2%) from companies that have adopted IFRS, held a Bachelor’s degree, followed by Master’s degree holders (28.1%), Higher National Diploma (21.1%), Postgraduate Diploma (9.6%) and Ordinary National Diploma (1%). In terms of the respondents from companies that have not adopted IFRS, 43.7 percent held a Bachelor’s degree, followed by Higher National Diploma (22.3%), Postgraduate Diploma (16.5%), Master’s degree (13.1%) and ordinary National Diploma (4.4%). The result specifies different levels of accounting educational attainments among the respondents. The chi-square test shows a significant difference between IFRS adopters and non-adopters’ levels of accounting education ($p \leq 0.001$). This suggests that IFRS adopters are more likely to have IFRS knowledge than non-adopters. The extent IFRS knowledge contributes to the challenges in IFRS adoption is further investigated in Chapter 6.

### 5.2. Characteristics of the Companies

The characteristics of the companies are presented in Table 5.2. This section includes a comparison of companies that have adopted IFRS and those that have not adopted IFRS. The companies’ characteristics include listing status, ownership structure, controlling interest, audit type, international trade, companies’ age and the number of shareholders.
The total number of companies included in the study is 519. The sample comprises companies listed on the Nigerian Stock Exchange, other stock exchanges and companies not listed on any stock exchange. From the companies listed on the Nigerian Stock Exchange, 36.6 percent of the companies were included in the study, followed by non-listed companies (62.6%) and companies that have a dual listing status (0.8%).

Table 5.2 Descriptive Statistics of the Companies that Adopted IFRS vs Non-Adopters

<table>
<thead>
<tr>
<th>Variables</th>
<th>Features</th>
<th>Sample</th>
<th>Adopters</th>
<th>Non-Adopters</th>
<th>$X^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N=519 N=313</td>
<td>N=206</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Listing Status</td>
<td>Listed on Nigerian Stock Exchange only</td>
<td>36.6</td>
<td>60.0</td>
<td>1.0</td>
<td>193.</td>
</tr>
<tr>
<td></td>
<td>Listed on Nigerian Stock Exchange and foreign stock exchange</td>
<td>0.8</td>
<td>1.3</td>
<td>0.0</td>
<td>4*</td>
</tr>
<tr>
<td></td>
<td>Never been listed on any Stock Exchange</td>
<td>62.6</td>
<td>38.7</td>
<td>99.0</td>
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</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>Family owned</td>
<td>50.5</td>
<td>27.8</td>
<td>85.0</td>
<td>166.</td>
</tr>
<tr>
<td></td>
<td>Non-family owned</td>
<td>42.8</td>
<td>64.2</td>
<td>10.1</td>
<td>9*</td>
</tr>
<tr>
<td></td>
<td>Not sure</td>
<td>6.7</td>
<td>8.0</td>
<td>4.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Number of Shareholders</td>
<td>Fewer than 10</td>
<td>1.1</td>
<td>1.0</td>
<td>2.9</td>
<td>29.5</td>
</tr>
<tr>
<td></td>
<td>10-20</td>
<td>6.6</td>
<td>2.5</td>
<td>11.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20-50</td>
<td>28.3</td>
<td>27.2</td>
<td>30.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>50-100</td>
<td>39.5</td>
<td>39.6</td>
<td>39.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Over 100</td>
<td>24.5</td>
<td>29.7</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Controlling Interests</td>
<td>Subsidiary of a national company or group</td>
<td>2.7</td>
<td>1.9</td>
<td>3.9</td>
<td>12.3</td>
</tr>
<tr>
<td></td>
<td>Parent company of a domestic company or group</td>
<td>21.2</td>
<td>25.9</td>
<td>14.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Parent company of an international company or group</td>
<td>0.2</td>
<td>0.3</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>None</td>
<td>75.9</td>
<td>71.9</td>
<td>82.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Industry Type</td>
<td>Agriculture</td>
<td>8.2</td>
<td>5.1</td>
<td>5.3</td>
<td>31.2</td>
</tr>
<tr>
<td></td>
<td>Construction / Real Estate</td>
<td>11.4</td>
<td>6.4</td>
<td>15.5</td>
<td></td>
</tr>
</tbody>
</table>

* Dual listing status indicates that the company is listed on the NSE and at least on one foreign stock exchange outside Nigeria.
Table 5.2 Descriptive Statistics of the Companies that Adopted IFRS vs Non-Adopters
(Continued)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Features</th>
<th>Sample % N=5</th>
<th>Adopters % N=31</th>
<th>Non-Adopters % N=206</th>
<th>( \chi^2 )</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial Services</td>
<td>19.7</td>
<td>20.5</td>
<td>16.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Healthcare</td>
<td>12</td>
<td>13.7</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oil &amp; Gas</td>
<td>9.6</td>
<td>9.5</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>14.3</td>
<td>15.6</td>
<td>14.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
<td>9.9</td>
<td>13.9</td>
<td>15.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conglomerates</td>
<td>13.8</td>
<td>14.7</td>
<td>12.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other(s) (specify)</td>
<td>1.1</td>
<td>0.6</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auditor Type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>International audit firms</td>
<td>25.6</td>
<td>36.4</td>
<td>9.2</td>
<td>53.3 *</td>
</tr>
<tr>
<td></td>
<td>Nigerian local audit firms</td>
<td>69.9</td>
<td>58.1</td>
<td>87.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Both</td>
<td>4.5</td>
<td>5.5</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Company Age</td>
<td>Before 1960</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>1.5</td>
<td>2.6</td>
<td>0.0</td>
<td>19.9 *</td>
</tr>
<tr>
<td></td>
<td>1960-1970</td>
<td>19.5</td>
<td>23.0</td>
<td>14.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1970-1980</td>
<td>26.0</td>
<td>27.8</td>
<td>23.3</td>
<td></td>
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<td></td>
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<td>19.5</td>
<td>15.3</td>
<td>25.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2000-2010</td>
<td>7.5</td>
<td>6.4</td>
<td>9.2</td>
<td></td>
</tr>
<tr>
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<td>Total</td>
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<td>100.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Internationalisation</td>
<td>Yes</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>45.9</td>
<td>54.6</td>
<td>32.5</td>
<td>36.6 *</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>45.8</td>
<td>35.1</td>
<td>62.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Don't Know</td>
<td>8.3</td>
<td>10.2</td>
<td>5.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Note: Non responses have been excluded from the questionnaire. The columns labelled Adopters and Non-Adopters are exclusively related to the IFRS adoption status of the companies. *, indicates the significant difference between IFRS adopters and non-adopters with \( P \)-value < 0.001 and NS indicates not significant.

From the 313 companies adopting IFRS, 61.3 percent are listed companies and 38.7 percent are non-listed companies. The majority of IFRS non-adopters are not listed on the NSE or other stock exchanges\(^9\) (99%). The majority of the companies that adopted IFRS are often known to be listed on the stock exchanges. The chi-square test shows a significant difference between IFRS adopters and non-adopters with \( P \)-value ≤ 0.001 in terms of listing status. The significance of the chi-square test suggests that a company listed on a stock exchange is more likely to adopt IFRS.

Approximately 50.5 percent of the companies were family owned and 42.8 percent were non-family owned companies. The remaining companies (6.7%) did not indicate whether their

\(^9\) Almost all listed companies have adopted IFRS. Based on NSE requirements, no company can be listed on the NSE without being an IFRS adopter at the time of the survey.
businesses were family owned or non-family owned. However, the chi-square result indicates a significant difference ($P \leq 0.001$) between the ownership of the companies and IFRS adoption status (see Table 5.2).

The results also show 39.5 percent of the companies have between 50 to 100 shareholders, followed by 28.3 percent of companies with 20 to 50 shareholders and 24.5 percent of companies with over 100 shareholders. However, only 6.6 percent of the companies have between 10 and 20 shareholders and 1.1 percent have fewer than 10 shareholders. There is a significant variation in the number of shareholders of the companies as indicated by the chi-square test in Table 5.2 ($P \leq 0.001$).

In terms of IFRS adoption, the survey results show that 27.2 percent of IFRS adopters have 20 to 50 shareholders, followed by 29.7 percent of companies with over 100 shareholders. In addition, 39.6 percent of the adopters have 50 to 100 shareholders. However, only 2.5 percent of the companies have between 10 to 20 shareholders while 1 percent of the companies have fewer than 10 shareholders.

Further, 39.3 percent of IFRS non-adopters have 50 to 100 shareholders, followed by 30.1 percent of companies with 20 to 50 shareholders, while some non-adopters have more than 100 shareholders (16.5%). The survey also shows 11.2 percent companies with 10 to 20 shareholders and 2.9 percent with fewer than 10 shareholders.

The chi-square test shows a significant difference between IFRS adopters and non-adopters which could have been influenced by the number of IFRS adopters that are listed on the stock exchanges. For example, listed companies are more likely to issue their shares through the stock exchange which could involve a larger number of investors. Consequently, the level of accountability is expected to be different. This suggests that the larger the number of shareholders, the more likely the company will adopt IFRS. This is based on the perception that IFRS provides greater accountability. More evidence supporting this finding is further investigated in Chapter 6 to examine if the number of shareholders (company size) is associated with IFRS adoption.

The survey result shows that 75.9 percent of the companies indicated they are neither parents nor subsidiaries of domestic and international companies. The result comprises 21.2 percent parent
companies and 2.7 percent subsidiaries of national companies. Only 0.2 percent of the companies were identified as parents of international subsidiaries.

In regard to IFRS adoption status, most of the IFRS adopters and non-adopters were independent companies. For example, 71.9 percent of IFRS adopters did not have subsidiaries, and they were not controlled by parent companies. However, 25.9 percent of the companies indicated that they were parents of domestic companies. Only 1.9 percent of the companies were a subsidiary of a national group while 0.3 percent were parent companies of an international company.

In terms of non-adoption of IFRS, a significant variation was also observed. For example, 82 percent of the companies were independent, followed by 14.1 percent parent companies of an international company or group of companies, and 3.9 percent were a subsidiary of a national company or group. Companies which are classified as parent companies are expected to have controlling interests in their subsidiaries, therefore influencing the subsidiaries’ IFRS adoption. Consistent with this perception, there is a significant difference between the controlling interest of IFRS adopters and non-adopters. This significant difference is evident from the chi-square test with \( p \leq 0.001 \). The influence of parent companies’ on IFRS adoption was reported in Simone (2016) whereby companies were found to influence their affiliates, particularly subsidiaries in other countries to adopt or not to adopt IFRS for tax reasons.

In terms of the companies’ auditors, 69.9 percent of the companies used Nigerian local audit firms while 25.6 percent used international audit firms in the last five years. Further, 4.5 percent of the companies used both international and local audit firms in the last five years. The chi-square test shows a significant difference between IFRS adopters and non-adopters \( (p \leq 0.001) \) in regard to the audit type.

The majority of IFRS adopters (58.1%) used Nigerian local audit firms in the last five years, followed by 36.4 percent of international audit firms and 5.5 percent used both local and international audit firms. In regard to IFRS non-adopters, the majority of the companies (87.9%) used local audit firms. Among the non-adopters, only 9.2 percent used international audit firms whilst 2.9 percent used both local and international audits firms.

The type of audit determines the quality of recommendations required by the companies to minimise the challenges in adopting a set of accounting standards (Geiger & Rama, 2006; Khlif,
Khlef, Achek, & Achek, 2016). The significance of the chi-square test between IFRS adopters and non-adopters suggests that type of audit is a factor that influences the preparers of financial statements’ decision to adopt IFRS.

However, there is no information on the exact age of the companies at the time of the survey. The age of a company is therefore measured in 10-year intervals starting from 1960 to 2010. The survey result shows 7.5 percent of the companies were incorporated between 2000 and 2010, followed by 19.5 percent between 1990 and 2000, and 26 percent between 1980 and 1990. Other companies were incorporated between 1970 and 1980 (26%), 1960 and 1970 (19.5%) and any time before 1960 (1.5%).

The survey result also shows that most IFRS adopters were incorporated between 1970 and 1980 (27.8%). This is followed by companies incorporated between 1980 and 1990 (24.9%) and companies incorporated between 1960 and 1970 (23%). Other companies that have adopted IFRS were incorporated between 1990 and 2000 (15.3%), 2000 and 2010 (6.4%) and fewer companies before 1960 (2.6%).

For IFRS non-adopters, 27.7 percent of the companies were incorporated between 1980 and 1990, followed by 25.7 percent of companies incorporated between 1990 and 2000. Other companies’ incorporation ranges from 1970 and 1980 (23.3%), 1960 and 1970 (14.1%) and 2000 and 2010 (9.2%). There are older companies which were incorporated between 1960 and 1970 among IFRS adopters. For example, IFRS adopters incorporated between 1960 and 1970 are 23 percent while non-adopters are only 14 percent. It is assumed that the older a company is the higher its experience with different accounting standards (Schleicher, Tahoun, & Walker, 2010). The chi-square test shows a significant difference ($p$-value ≤ 0.001) between IFRS adopters and non-adopters, which indicates the likelihood age of the company is a factor that determines whether the companies will adopt IFRS.

Internationalisation of the companies was identified based on their international trade affiliations. The result shows 45.9 percent of the companies traded internationally while 45.8 percent did not trade internationally. A total of 8.3 percent of the companies did not indicate their international trade relations. Further, Table 5.2 also shows 54.6 percent of IFRS adopters traded internationally.
while 35.1 percent did not. Only a handful of the companies (10.3%) did not indicate if their companies have international trade activities or not.

For companies that have not adopted IFRS, 62.1 percent did not trade internationally while fewer companies (32.5%) were involved in international trade. However, some IFRS non-adopters indicated that they were uncertain if their companies have traded internationally or not (5.4%). The chi-square test shows a significant variation between IFRS adopters and non-adopters with $p$-value $\leq 0.001$. The result implies that IFRS adopters are more involved in international trade compared to IFRS non-adopters. It is assumed that companies trading internationally would have familiarity with IFRS requirements, therefore it reduces the probabilities of experiencing challenges in IFRS adoption.

5.2.1. Industry Profile of the Companies

A composition of the industries includes 19.7 percent of the companies in the financial services industry, followed by 9.9% in utilities, 14.3% in services and 11.4% in construction or the real estate sector. Further, the results show there are fewer companies in other industries (see Table 5.2.)

However, the survey results reveal minimal variations in the companies across the industries between the IFRS adopters and non-adopters. For example, there are about 20.5% IFRS adopters in the financial services industry, followed by 15.6% in the services industry and 14.7% in the conglomerates industry. The largest number of IFRS non-adopters is in the financial services industry (16.1%), followed by the construction or real estate industry (15.5%), 15.5% in utilities and 14.1% in services. There are also some similarities between the IFRS adopters and non-adopters in the agricultural sector. For example, the agricultural sector comprised 5.1% IFRS adopters and 5.3% non-adopters (see Table 5.2).

The significance of the chi-square test among the industries with $p \leq 0.001$, shows that the companies in some industries have a greater likelihood of adopting IFRS than other industries. This variation among the type of industry is associated with the inherent challenges in some industries, such as oil and gas industry where successful effort and full cost accounting policies have been found to be practically difficult in preparing financial statements (Ibrahim, 2014; Nobes, 2014).
5.3. Companies’ Awareness on IFRS Adoption

The companies required to adopt IFRS were not adequately informed about the importance of IFRS adoption in Nigeria and their responsibilities in adopting the IFRS requirements. From the report, some companies were unaware of the adoption of IFRS (Isenmila & Adeyemo, 2013a). This implies the companies were not informed that IFRS was mandatory from 2012 onwards. Consequently, there was no preparation for changes in the companies’ accounting systems. This section describes the general information about the companies’ awareness of IFRS adoption prior to the FRC enforcement.

Table 5.3 shows that only 1 percent of IFRS adopters were unaware that IFRS was mandatory prior to 2012. Surprisingly, 33 percent of non-adopters indicated they are unaware IFRS is mandatory for their financial reporting beginning from 2012. The variation between IFRS adopters and non-adopters is statistically significant based on the chi-square test ($\rho \leq 0.05$). The result suggests that companies that have adopted IFRS were aware of the changes required in the accounting system prior to 2012.

One of the issues in the roadmap for IFRS adoption is the definition of companies required to adopt IFRS (Isa, 2014). Listed companies are companies listed on the NSE or any other stock exchange. However, the term “public interest entities” was used to define non-listed companies required to adopt IFRS. Many of the companies expected to adopt IFRS may not be aware they are defined as public interest entities. The survey result shows 70 percent of the companies revealed they are public interest entities. Surprisingly, 12 percent are unaware they are classified as public interest entities and 18 percent are unsure if they are in the category of public interest entities. The chi-square test shows a significant variation in the number of companies aware of changes in the accounting system prior to 2012 between IFRS adopters and non-adopters with $\rho \leq 0.001$.

Contrary to the public interest entities, the survey result shows that many of the surveyed companies are unaware they are public interest entities even though they are classified as public interest entities. The lack of awareness about IFRS adoption makes the companies unprepared to meet the changes in the accounting systems (Isenmila & Adeyemo, 2013a).
<table>
<thead>
<tr>
<th>Variables</th>
<th>Features</th>
<th>Sample Adopters</th>
<th>Non-Adopters</th>
<th>( X^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory IFRS Adoption Awareness</td>
<td>Yes</td>
<td>73</td>
<td>99</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>27</td>
<td>1</td>
<td>33</td>
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<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Public Interest Companies</td>
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<td>70</td>
<td>98</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>12</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Don’t Know</td>
<td>18</td>
<td>1</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Company Accountability Type</td>
<td>Financial Institutions</td>
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<td>1</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Open to the Public investment</td>
<td>70</td>
<td>98</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>Accountable to the Public</td>
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<td>1</td>
<td>38</td>
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<tr>
<td></td>
<td>Total</td>
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<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Importance of Accounting Standards for</td>
<td>Very Important</td>
<td>67</td>
<td>61</td>
<td>75</td>
</tr>
<tr>
<td>Companies</td>
<td>Somewhat Important</td>
<td>29</td>
<td>32</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Not Important at all</td>
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<td>0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>IFRS Adoption for Foreign Investment Attraction</td>
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<td>57</td>
<td>82</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>Somewhat Important</td>
<td>39</td>
<td>16</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Not Important at all</td>
<td>4</td>
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<td>Total</td>
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<td>Prior Experience with IFRS</td>
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<td>77</td>
<td>95</td>
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<td>9</td>
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<td>IFRS and IAS Similarity</td>
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<td>10</td>
<td>13</td>
<td>5</td>
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<td>Not Similar at all</td>
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</tr>
</tbody>
</table>

Note: *, ** and *** indicate the level of significance at 1, 5 and 10 percent, respectively and NS indicates not significant.
For example, 70 percent of the surveyed companies were open to public investment, 18 percent declared that they are accountable to the public and 12 percent indicated they were financial institutions. Based on the definition of public interest entities by FRC, these companies can be classified as public interest entities. This is supported by the IASB’s definition of publicly accountable companies to which IFRS applies (Epstein & Jermakowicz, 2008). This finding is based on the company type of accountability reported in Table 5.3.

The definition of companies is a major challenge because the companies required to adopt IFRS are not clearly informed of their classifications. This finding is consistent with Perera and Chand (2015) investigation of practical issues in the SMEs adoption of IFRS among IFRS jurisdictions. The variations of SMEs’ definition around the world was considered to hinder the adoption of IFRS. Saucke (2015) discussed the implications of companies’ classifications and types of IFRS applicable to the companies. These include the misclassification of companies as SMEs when the characteristics of public accountability such as the need for triple bottom line reporting do exist in addition to general purpose financial statements. The lack of clear classifications of companies is a factor that inhibits the companies’ IFRS adoption.

The companies included in this study have different viewpoints on the importance of accounting standards. The survey result shows 67 percent of the companies indicate that accounting standards are very important to their companies while 29 percent disagreed that accounting standards are important. However, only 4 percent strongly disagreed that accounting standards are not important at all. The responses between IFRS adopters and non-adopters are significantly different based on the chi-square test ($p \leq 0.001$). This implies that some of the companies required to adopt IFRS do not consider IFRS important. Consequently, such companies have little or no motivation to adopt IFRS. This finding confirms Sunder (2009) statement on the lack of theoretical basis to justify why accounting standards or accounting regulation are important.

Following the response to the importance of accounting standards, there were mixed reactions to the FRC claim that mandatory IFRS adoption will lead to foreign investment attraction. The survey result shows only 57 percent of the companies reported that IFRS adoption was very important to attract foreign investment in Nigeria. This is consistent with Fond, Hu, Hung, and Li (2011) findings

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*Triple line reporting is the three dimensions of accounting. These include social, environmental or ecological and financial information required to assess the companies’ actual profit and business ethics.*
that most IFRS adopters perceived IFRS adoption would increase the level of foreign investors’ interests in the company’s business activities. Some companies slightly agreed that IFRS adoption would attract foreign investment (39%) while 4 percent of the companies stated IFRS adoption does not attract foreign investment.

Some companies had no prior IFRS experience before adopting IFRS. For example, 84 percent of the companies specified they had no IFRS experience before the adoption. Further, only 10 percent of the surveyed companies reported they had prior experience before IFRS adoption, while 6 percent were unsure whether or not the companies had previously used IFRS in their financial reports. The variation between IFRS adopters and non-adopters is marginally significant at $p \leq 0.1$ in terms of their experiences prior to IFRS adoption (see Table 5.3).

The results show that less than half of the companies (41%) considered IFRS and SAS dissimilar. However, some companies indicated that SAS and IFRS are similar (22%) while others reported they are unsure about the level of similarity (26%). Ikpefan (2012) showed the dissimilarities between IFRS and SAS (see Appendix D). For example, SAS was identified as a rule based accounting standards, while IFRS have been considered a principle based accounting standards that require qualitative information and use of financial preparers’ discretions in determining accounting values (Ikpefan & Akande, 2012). The responses between IFRS adopters and non-adopters were significantly different for this question. The differences could be related to the companies’ adoption status. Companies that have adopted IFRS have more information to confirm the similarity between IFRS and SAS. The significance of the difference was confirmed by the chi-square test with $p \leq 0.1$.

**5.3.1. Difficulties in Applying International Financial Reporting Standards**

The companies were presented with a series of practical difficulties identified in the literature and archival. These were presented in the form of multiple response questions. The results are presented in Table 5.4 based on the t-test analysis and show 233 of the companies reported financial difficulties such as the cost of adopting IFRS and 208 companies experienced difficulties in understanding IFRS accounting policies. A similar result was reported in Jones & Higgins (2006) in the case of Australian companies’ adoption of IFRS, but little is known about the impacts of the lack of understanding of IFRS accounting policy on companies in developing countries, specifically in the West African countries. This issue is further investigated in this study.
### Table 5.4 Practical Issues in IFRS Adoption - IFRS Adopters

<table>
<thead>
<tr>
<th>Statements</th>
<th>N=313</th>
<th>Observed</th>
<th>df</th>
<th>Significance of difference $^b$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding procedures in applying IFRS</td>
<td>61.0</td>
<td>191</td>
<td>1</td>
<td>16.723*</td>
</tr>
<tr>
<td>Understanding IFRS accounting policies</td>
<td>66.5</td>
<td>208</td>
<td>1</td>
<td>36.245*</td>
</tr>
<tr>
<td>Calculation of accounting values</td>
<td>55.3</td>
<td>173</td>
<td>1</td>
<td>4.181**</td>
</tr>
<tr>
<td>Changes in Information Technology (IT) system</td>
<td>55.9</td>
<td>175</td>
<td>1</td>
<td>5.161**</td>
</tr>
<tr>
<td>Management accounting system</td>
<td>47.3</td>
<td>148</td>
<td>1</td>
<td>6.632 NS</td>
</tr>
<tr>
<td>Implementation of appropriate internal control systems with IFRS</td>
<td>48.2</td>
<td>151</td>
<td>1</td>
<td>3.206***</td>
</tr>
<tr>
<td>Staff knowledge and experience</td>
<td>62.3</td>
<td>195</td>
<td>1</td>
<td>20.645*</td>
</tr>
<tr>
<td>Costs of IFRS adoption</td>
<td>74.4</td>
<td>233</td>
<td>1</td>
<td>78.503*</td>
</tr>
<tr>
<td>Increases in cost of producing financial statements</td>
<td>61.7</td>
<td>193</td>
<td>1</td>
<td>18.632*</td>
</tr>
<tr>
<td>Negative reactions of main business partners</td>
<td>45.7</td>
<td>143</td>
<td>1</td>
<td>1.858 NS</td>
</tr>
<tr>
<td>Negative reactions from subordinates</td>
<td>33.9</td>
<td>106</td>
<td>1</td>
<td>30.981*</td>
</tr>
<tr>
<td>Inability of stakeholders to understand financial statements</td>
<td>32.6</td>
<td>102</td>
<td>1</td>
<td>36.245*</td>
</tr>
<tr>
<td>Difficulty in forecasting future cash flow from IFRS financial statements</td>
<td>39.9</td>
<td>125</td>
<td>1</td>
<td>11.613*</td>
</tr>
<tr>
<td>Difficulty in forecasting profitability from IFRS financial statements</td>
<td>36.1</td>
<td>113</td>
<td>1</td>
<td>22.761*</td>
</tr>
<tr>
<td>Inconsistency with different accounting regulators' requirements</td>
<td>49.2</td>
<td>154</td>
<td>1</td>
<td>5.013 NS</td>
</tr>
<tr>
<td>Conflict of interest between management and stakeholders</td>
<td>29.7</td>
<td>93</td>
<td>1</td>
<td>49.600*</td>
</tr>
<tr>
<td>Increases in company taxes</td>
<td>21.7</td>
<td>68</td>
<td>1</td>
<td>97.665*</td>
</tr>
</tbody>
</table>

Note: * and ** indicates significance levels at 1 and 5 percent, respectively. NS indicates not significant.

One-samples $t$-test is used to test the significance of difference within the groups. The number is the value of the $t$-test.

The results showed 195 of the preparers of financial statements faced inadequate knowledge and experience in IFRS adoption. This implies that staff will be required to undergo some training and development which could possibly increase the cost of IFRS adoption. However, the increase in the cost of producing financial statements can be related to the increase in disclosure requirements. Table 5.4 also shows that 191 of the companies’ staff have some difficulties in understanding the procedures in applying IFRS. Interestingly, there were mixed reactions among IFRS adopters on the experience with the cost of IFRS adoption. This is supported with the $t$-test result of a 1 percent significance level. The significant difference is an indication that some companies are more likely to experience high cost in IFRS adoption than others. Table 5.4 shows the practical difficulties faced by companies that have adopted IFRS.

The $t$-test result shows that most of the companies’ staff have a limited understanding of IFRS policies and procedures. This is significant at the 1 percent level (see Table 5.4). These findings are consistent with Jones & Higgins’ (2006, p. 649) results which show that most Australian companies
reported that IFRS were “more complex and less understandable than Australian accounting standards” following IFRS adoption. Similarly, the study by Zakari (2014) and Istrate (2015) also shows that many of the companies required to adopt IFRS in Libya were unable to understand IFRS requirements.

The results confirm Jones & Higgins (2006) findings of inadequate IFRS knowledge among financial statement preparers. The IFRS 11 is developed to serve as a guideline for first-time adopters of IFRS (Deloitte, 2015; International Accounting Standards Board, 2013). This implies that the guidelines provided in IFRS 1 with regard to the procedures for first-time adopters do not provide adequate information to meet the intended objectives of IFRS 1.

Table 5.4 also shows that 175 of the 313 companies that have adopted IFRS exhibited difficulties in meeting the information technology (IT) requirements to adopt IFRS, followed by 173 companies that experienced challenges in calculating accounting values according to IFRS policies. In addition, 154 companies indicated inconsistency with different accounting regulatory requirements as challenges in adopting IFRS and 151 companies experienced difficulties in the implementation of appropriate internal control. Further, 148 companies experienced difficulties in the management accounting practices while 143 companies reported negative reactions from business partners. The t-test shows dissimilarities in the context of the companies’ experience of practical issues in information technology, internal control system and calculation of accounting values (see Table 5.4).

Further, the results show 125 companies experienced difficulties in forecasting future cash flow following IFRS adoption. This implies that projects with positive returns may be rejected while projects with negative returns may be accepted due to inaccurate future cash-flow forecast. Therefore, this presents possible losses for companies and investors who make judgments based on cash-flow forecasts from their IFRS financial statements. In addition to the difficulties in forecasting future cash-flow, 113 companies experienced difficulties in forecasting profitability based on their IFRS financial statements. The finding suggests that management’s overall performance can be difficult following the unpredictability of profits for companies that adopted

11 IFRS 1 is one of the accounting standards developed by IASB. It sets out the procedures that an entity must follow during IFRS adoption for the first time.
IFRS. The t-test result shows a significant difference among the companies in regard to a cash-flow forecast from IFRS financial statements at the 1 percent significance level.

In terms of stakeholders’ ability to understand IFRS financial statements, 102 companies of the 313 IFRS adopters indicated stakeholders do not understand the IFRS financial statements, followed by 93 companies who reported a conflict of interest between the management and stakeholders. Further, 68 companies reported increases in taxes as difficulties in IFRS adoption.

Differently from IFRS adopters, the concerns identified by non-adopters are presented in Table 5.5. The results show most of the companies experienced challenges, such as the high cost of IFRS adoption. This finding is based on the evidence that none of the statements measuring the reasons for not adopting IFRS is greater than the 1 percent significance level from the t-test results (see Table 5.5). For example, a total of 145 IFRS non-adopters reported that IFRS is very expensive to adopt. The finding is similar to 233 IFRS adopters who reported financial difficulties in IFRS adoption based on the significance of the t-test at the 1 percent level.

<table>
<thead>
<tr>
<th>Statements</th>
<th>N=206</th>
<th>Observed</th>
<th>df</th>
<th>Significance of difference $^b$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management accounting system</td>
<td>53</td>
<td>109</td>
<td>1</td>
<td>18.128*</td>
</tr>
<tr>
<td>Company does not have accountant with IFRS knowledge</td>
<td>88</td>
<td>182</td>
<td>1</td>
<td>22.694*</td>
</tr>
<tr>
<td>IFRS is very expensive to adopt</td>
<td>70</td>
<td>145</td>
<td>1</td>
<td>25.108*</td>
</tr>
<tr>
<td>Inconsistent regulatory requirements</td>
<td>75</td>
<td>154</td>
<td>1</td>
<td>25.207*</td>
</tr>
<tr>
<td>Understanding procedures in applying IFRS</td>
<td>75</td>
<td>154</td>
<td>1</td>
<td>15.907*</td>
</tr>
<tr>
<td>Calculation of accounting values</td>
<td>84</td>
<td>174</td>
<td>1</td>
<td>18.054*</td>
</tr>
<tr>
<td>Increases in company taxes</td>
<td>63</td>
<td>130</td>
<td>1</td>
<td>18.054*</td>
</tr>
<tr>
<td>Implementation of appropriate internal control system with IFRS</td>
<td>15</td>
<td>31</td>
<td>1</td>
<td>15.283*</td>
</tr>
<tr>
<td>Understanding IFRS accounting policies</td>
<td>57</td>
<td>118</td>
<td>1</td>
<td>22.258*</td>
</tr>
</tbody>
</table>

Note: * and ** indicates significance at 1, 5 and 10 percent levels, respectively. Ns indicates not significant

$^b$ One-samples t-test is used to test the significance of difference within the groups. The number is the value of the t-test.

Further, some IFRS non-adopters identified other difficulties, such as the lack of qualified IFRS accountants (88%) and confusion in IFRS procedures and policies (57%) (see Table 5.5). It is documented by the World Bank (2004, 2011) that the inadequate number of qualified professional accountants to meet the increasing demand for certified accountants in Nigeria is one of the challenges facing the Nigerian accounting system. In addition, inconsistent regulatory requirements is one of the many challenges experienced by 130 companies that did not adopt IFRS.
The t-test result suggests that the major practical challenge in IFRS adoption is the lack of IFRS knowledge among IFRS non-adopters at the 1 percent significance level. The majority of IFRS non-adopters (88%) indicated they have no accountants with IFRS knowledge (see Table 5.5). The t-test results show significant differences in the companies’ experiences with IFRS adoption in relation to the practical difficulties included in the survey. The most common challenge among non-adopters is the lack of accountants knowledgeable in IFRS (88%). Therefore, the majority of IFRS non-adopters would require accountants with IFRS knowledge to successfully adopt IFRS.

5.4. Factor Analysis

This section examines the underlying dimensions in explaining accounting practice among the surveyed companies. These include the companies’ cultural factors in the Nigerian context based on Borker (2013b) and Gray (1988) companies’ cultural factors that influence the accounting system. The factor analysis also reduces the items that measure the impacts of practical difficulties on IFRS adoption to a common set of factors. The loading power of the items with a minimum of a 0.3 cutoff point is used as a factors selection criterion similar to Hair et al. (2006). The purpose of this section is to identify the survey items that have similar correlations for the empirical analysis.

5.4.1. Dimensions of the Cultural Factors Influencing IFRS Adoption

The cultural factors focus on the theoretical dimensions of accounting practices based on the theoretical framework discussed in Chapter 3. Eight factors emerged from the exploratory factor analysis in uncovering the relationship between the items measuring the preference for accounting standards (see Table 5.6). In order to perform the factor analysis based on the EFA, the survey questionnaires met the sample size requirements for social science research consistent with Hair et al. (2006).

The majority of the items in the exploratory factor analysis were more than the 0.3 cutoff point and Bartlett’s Test of Sphericity was highly significant ($X^2 = 904.779, df = 210, P \leq 0.001$), which confirms the significant correlations across similar statements measuring the accounting values statements. This is applied to explore the impact of companies culture on IFRS adoption.

Further, the measure of sampling adequacy (MSA) value of 0.790 is an acceptable benchmark for factor analysis. Therefore, the data set was appropriate to conduct factor analysis. The selected value converged when a number of factors were established after several iterations.
Table 5.6 Rotated Component Matrix of the Companies’ Accounting Practice

<table>
<thead>
<tr>
<th>Statements</th>
<th>Varimax rotated loading</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F1</td>
<td>F2</td>
</tr>
<tr>
<td><strong>Factor 1: Flexibility</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting standards should be prescribed but adoption should be voluntary</td>
<td>0.707</td>
<td></td>
</tr>
<tr>
<td>Accounting practice should be self-regulated</td>
<td>0.740</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 2: Optimism</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption of accounting standards is very important for my company’s future business opportunities</td>
<td>0.865</td>
<td></td>
</tr>
<tr>
<td>Prescription of accounting standards provides non-financial benefits to companies and ensures future business success</td>
<td>0.945</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 3: Transparency</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prescription of accounting standards provides reliability on financial statements in Nigeria</td>
<td>0.524</td>
<td></td>
</tr>
<tr>
<td>Financial statements should be published for public use rather than be restricted to shareholders</td>
<td>0.459</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 4: Statutory control</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The depreciation rule should be set externally and specifically in financial reporting for separate groups of financial assets and liabilities</td>
<td>0.656</td>
<td></td>
</tr>
<tr>
<td>Preparing financial statements that deviate from prescribed accounting standards should result in sanctions by government regulatory agencies</td>
<td>0.694</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 5: Professionalism</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My company accountants are in the best position to judge what to report in financial statements without accounting standards</td>
<td>0.686</td>
<td></td>
</tr>
<tr>
<td>Professional accountants of companies are the best judges of what to include in financial statements</td>
<td>0.571</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 6: Uniformity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The level of detailed standardisation of financial statements should be increased</td>
<td>0.675</td>
<td></td>
</tr>
<tr>
<td>Once accounting policies and measurement are chosen they should not be changed</td>
<td>0.488</td>
<td></td>
</tr>
<tr>
<td>Financial statements should be standardised</td>
<td>0.669</td>
<td></td>
</tr>
</tbody>
</table>
Table 5.6 Rotated Component Matrix of the Companies’ Accounting Practice (Continued)

<table>
<thead>
<tr>
<th>Statements</th>
<th>Varimax rotated loading</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F1</td>
<td>F2</td>
</tr>
<tr>
<td>Factor 7: Secrecy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management of financial performance forecasting should be included in the company’s financial statements</td>
<td>0.791</td>
<td></td>
</tr>
<tr>
<td>The amount of information in financial statements should be minimised</td>
<td>0.682</td>
<td></td>
</tr>
<tr>
<td>Information about shareholders and management of listed and non-listed companies should be reported in financial statements</td>
<td>0.846</td>
<td></td>
</tr>
<tr>
<td>Factor 8: Conservatism</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed and non-listed companies should use market value instead of historical cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In rising price periods, LIFO should be used instead of FIFO in measurement and estimation of accounting value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If in doubt of accounting policies and procedure, profit and assets should be measured downwards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market values are generally less relevant than historical costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eigenvalues</td>
<td>2.421</td>
<td>1.585</td>
</tr>
<tr>
<td>Variance explained (%)</td>
<td>25.53</td>
<td>17.54</td>
</tr>
<tr>
<td>Cumulative variance (%)</td>
<td>0 3 8</td>
<td>3</td>
</tr>
<tr>
<td>Cronbach’s Alpha</td>
<td>0.817</td>
<td>0.684</td>
</tr>
<tr>
<td>KMO = 0.790</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bartlett’s Test of Sphericity $X^2 = 904.779, df = 210, P ≤ 0.001</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Extraction method: principal component analysis with an orthogonal rotation (VARIMAX).
Excluded “Prescription of accounting standards provides financial benefits to companies” due to the low score below 0.3.
Excluded “High ethical conduct should be a prerequisite for professional accountants” due to a negative correlation of -0.560.
The eight-factors solution (see Table 5.6) was extracted from 21 items with the eigenvalues (the Kaiser’s criterion) ranging from 2.00 to 1.00. The variance explained by the eight factors was 81.4 percent of the total variance, which is considered satisfactory in social sciences research (Hair et al., 2006).

Further, the factor matrix was rotated using orthogonal (VARIMAX) and oblique (OBLIMIN) rotations to obtain estimates of the components’ structure. In the data matrix, orthogonal and oblique rotations produced similar results when the same items were loaded with the same factors in both rotation solutions. Therefore, the results are based on the orthogonal rotation outcome due to the simplicity in interpretation. Table 5.6 shows the items included in the factor analysis with the related factor loading results and commonalities.

The first factor labelled “flexibility” explained 25.53 percent of the variation. Flexibility consists of “accounting standards should be prescribed but adoption should be voluntary” and “accounting practice should be self-regulated”. The second factor labelled “optimism” explained 17.55 percent of the variance and consists of the following items: “adoption of accounting standards is very important for my company’s future business opportunities” and “prescription of accounting standards provides non-financial benefits to companies but ensures future business success”. The third factor labelled “transparency” explained 10.1 percent of the variance and consists of “prescription of accounting standards provides reliability on financial statements in Nigeria” and financial statements should be published for public use rather than be restricted to shareholders. The fourth factor labelled “statutory control” explained 6.14 percent of the variance and converged with the statement “depreciation rule should be set externally and specifically in financial reporting for separate groups of financial assets and liabilities” and “preparing financial statements that deviate from prescribed accounting standards should result in sanctions by government regulatory agencies”.

Further, the factor labelled “professionalism” explained 5.96 percent of the total variance (81.39%). This consists of three items including “the regulatory, technical judgment aspect of professionalism, and the ethical aspect” of accounting practice (Chanchani & Willett, 2004, p. 18). The professionalism dimension is somewhat different from that of Chanchani & Willett.
(2004, p. 18) due to the negative convergence of “ethical conduct should be a prerequisite for professional accountants” which was included in the case of New Zealand and India.

The “uniformity” factor explained 5.77 percent of the eight-factor solution variance. The sixth factor includes the “measurement aspect of uniformity” and the “disclosure aspect of uniformity”. In addition, Factor 7 labelled “secrecy” explained 5.26 percent of the variance, which consists of items examining the secrecy dimension of accounting values which is consistent with Chanchani & Willett (2004). The secrecy dimension of accounting practice includes the “absence of transparency” and the “level of detail aspect of secrecy”. Lastly, factor 8 labelled “conservatism” consists of four items identifying conservative accounting practice among the respondents and it explained 5.12 percent of the variance explained by the eight-factor solution. The conservatism dimension includes conservatism in terms of measurement and disclosure of financial transactions.

The convergence of some of the constructs measuring the cultural factors and the companies’ accounting practices from the factor analysis reveals a new dimension that could possibly explain the companies’ response to IFRS in relation to differences in companies’ culture. Further, the key findings from the EFA include the correlation of the constructs measuring the cultural factors which are different from the findings reported in Chanchani and Willett (2004). For example, a high ethical prerequisite for professional accountants (-0.560) is negative. This means a high ethical prerequisite is less representative of professionalism, while other items are positively correlated. The correlated factors are used in the empirical analysis to examine the impacts of companies’ cultural factors on IFRS adoption.

5.4.2. Factor Dimensions of the Practical Difficulties in IFRS Adoption

This section explains the six factors of practical difficulties in IFRS adoption obtained from the EFA. The factors are obtained from a six-factor solution. The test for sphericity indicates that the selection of EFA to examine the factor dimensions as practical difficulties in IFRS adoption is significant, where $X^2 = 785.131$, df = 51, $P \leq 0.001$ and the MSA results (KMO = 0.873). The six-factor solution (see Table 5.7) was extracted from 18 items with the eigenvalues (the Kaiser’s criterion) greater than 1.00. The six extracted factors explained 69.5 percent variation of the survey items. Two items were later excluded from further analysis due to the negative score in the items’ scale (see Table 5.7).
# Table 5.7 Rotated Component Matrix for the Practical Difficulties in IFRS Adoption

<table>
<thead>
<tr>
<th>Statements</th>
<th>Varimax rotated loading</th>
<th>Commonalities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuation of Accounting Items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calculation of accounting values</td>
<td>0.589</td>
<td>0.520</td>
</tr>
<tr>
<td>Difficulty in forecasting future cash flow from IFRS financial statements</td>
<td>0.574</td>
<td>0.513</td>
</tr>
<tr>
<td><strong>Changes in Information Technology systems</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in Information Technology (IT) system</td>
<td>0.597</td>
<td>0.591</td>
</tr>
<tr>
<td>Difficulty in forecasting profitability from IFRS financial statements</td>
<td>0.563</td>
<td>0.611</td>
</tr>
<tr>
<td>IFRS is very expensive to adopt</td>
<td>0.680</td>
<td>0.519</td>
</tr>
<tr>
<td><strong>Staff knowledge and experiences</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding IFRS accounting policies</td>
<td>0.551</td>
<td>0.535</td>
</tr>
<tr>
<td>Staff knowledge and experience</td>
<td>0.441</td>
<td>0.594</td>
</tr>
<tr>
<td>Negative reactions from subordinates</td>
<td>0.423</td>
<td>0.462</td>
</tr>
<tr>
<td>Inability of stakeholders to understand</td>
<td>0.515</td>
<td>0.581</td>
</tr>
<tr>
<td>IFRS financial statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unawareness IFRS is mandatory</td>
<td>0.412</td>
<td>0.405</td>
</tr>
<tr>
<td>Company does not have accountant with IFRS knowledge</td>
<td>0.531</td>
<td>0.538</td>
</tr>
<tr>
<td><strong>Internal Control System</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding procedures in applying IFRS</td>
<td>0.443</td>
<td>0.467</td>
</tr>
<tr>
<td>Management accounting system</td>
<td>0.590</td>
<td>0.733</td>
</tr>
<tr>
<td>Implementation of appropriate internal control system with IFRS</td>
<td>0.601</td>
<td>0.691</td>
</tr>
<tr>
<td><strong>Costs of adoption</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of IFRS adoption</td>
<td>0.776</td>
<td>0.694</td>
</tr>
<tr>
<td>Increases in cost of producing financial statements</td>
<td>0.739</td>
<td>0.688</td>
</tr>
<tr>
<td><strong>Inconsistent legal requirements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inconsistency with different accounting regulators’ requirements</td>
<td>0.620</td>
<td>0.684</td>
</tr>
<tr>
<td>Conflict of interest between management and stakeholders</td>
<td>0.574</td>
<td>0.588</td>
</tr>
<tr>
<td><strong>Eigenvalues</strong></td>
<td>3.682</td>
<td></td>
</tr>
<tr>
<td>Variance explained (%)</td>
<td>15.536</td>
<td></td>
</tr>
<tr>
<td>Cumulative variance (%)</td>
<td>40.621</td>
<td></td>
</tr>
<tr>
<td>Cronbach’s Alpha</td>
<td>0.572</td>
<td></td>
</tr>
<tr>
<td>KMO = .975</td>
<td>1.653</td>
<td></td>
</tr>
<tr>
<td>Bartlett’s Test of Sphericity $X^2 = 780.134$, $df = 45$, $P &lt; 0.0001$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Extraction method: principal component analysis with an orthogonal rotation (VARIMAX).

Excluded “Negative reactions of main business partners” due to the negative factor score of -0.425.

Excluded “increases in company taxes” due to the negative factor score -0.341.

Factor 1 “Valuation of Accounting Items” includes statements measuring the challenges in IFRS adoption in terms of the difficulties the companies face in measuring the value of accounting assets and liabilities. Calculation of accounting values and difficulty in forecasting future cash flow show a positive correlation. This means that the concerns in the valuation of accounting items can be interpreted from two perspectives which include challenges the companies face when calculating accounting items and challenges when forecasting future.
cash flow based on their IFRS financial statements. The Valuation of Accounting Items explained 15.5 percent of the total variance explained by the six-factor solution.

Factor 2 consists of similarly loaded statements measuring “changes in information technology”. The loaded statement includes changes in the information technology system, difficulty in forecasting profitability from IFRS financial statements and IFRS is very expensive to adopt. These correlated items are positive which indicates they collectively measure the practical difficulty related to the information technology system for IFRS adoption.

Therefore, information technology can be explained from the willingness to change the company’s information system infrastructure, the use of technology to operationalise IFRS financial statements for profit projection and the cost of changing the information system consistent with IFRS requirements. Changes in information technology explained 13.3 percent of the variance explained by the six-factor solution.

Factor 3 converged with 7 items. This factor is labelled as “staff knowledge and experiences”. It measures the practical difficulty companies experienced in IFRS adoption associated with IFRS knowledge and experience among the staff. Some of the items explaining the practical difficulty related to knowledge of IFRS are similarly loaded while others are not. For example, understanding IFRS accounting policies consists of a factor score of 0.551, followed by the company does not have an accountant with IFRS knowledge with a factor score of 0.531 and the inability of stakeholders to understand IFRS financial statements (0.515). These three factors are different from other items that consist of factors with less than 0.5 (see Table 5.7).

However, the practical difficulty in IFRS adoption in terms of knowledge and experience is explained across the seven items since the cut off for factor selection is 0.3. The negative reactions of main business partners is -0.425. This indicates the item inconsistently explains the issues of knowledge as challenges in IFRS adoption compared with other items. Therefore, the item is excluded from factor 3. The variance explained by factor 3 is 13.2 percent of the variance explained by the six-factor solution.

Factor 4 labelled “internal control system” includes statements that measure the issues in the implementation of an internal control system. These include the lack of understanding the procedures of IFRS application, issues in the management accounting system and implementation of an appropriate internal control system pertinent to IFRS requirements.
The minimum score among the three items is 0.443. The score is greater than the cut-off point of 0.3 for the items selection. Therefore, concerns about the internal control system in IFRS adoption are measured from procedures in IFRS application, management accounting system and implementation of a relevant internal control system. A relevant internal control system is required for audit purpose and holistic accounting information management (Turner, 2013).

The EFA shows a stronger commonality between management accounting system (0.733) and implementation of the internal control system (0.691) different from the procedures in IFRS application (0.467). This suggests that more emphasis can be placed on issues in management accounting and implementation of the internal control system when measuring and interpreting internal control from the challenges in IFRS adoption. The items that scaled to factor 4 explained 10.2 percent of the total variance explained by the six-factor solution.

Factor 5 is labelled as the “cost of adoption”. Three items converged to the cost of adoption. These include costs of IFRS adoption, increases in company taxes and increases in the cost of producing financial statements. However, only two of the items are positively correlated i.e. costs of IFRS adoption and increase in cost of producing financial statements.

Increases in company taxes are negative which means it may explain something different from the cost of adoption. Therefore, the measurement in terms of the cost of adoption includes costs of IFRS adoption and increase in cost of producing financial statements. The cost of adoption has a factor score of 0.776 while the increase in the cost of producing financial statement is 0.739. There is a strong commonality between the two items which is 0.694 for the cost of adoption and 0.688 for an increase in the cost of producing financial statements. Factor 5 explained 8.9 percent of the total variance.

Lastly, factor 6 is labelled as “inconsistent legal requirements”. Two statements loaded similarly for factor 6. These include inconsistency with different accounting regulators’ requirements (0.620) and conflict of interest between management and stakeholders (0.574). The inconsistent legal requirements explained 8.3 percent of the total variance. The commonality between the two items is 0.684 for inconsistency with different regulatory requirements and 0.588 for conflict of interest between management and stakeholders. This suggests that challenges in IFRS adoption related to inconsistency with regulatory
requirements can be similarly explained from the multiplicity of laws and information asymmetry between preparers of financial statements and users of financial statements.

The correlation of items in the EFA for practical difficulties in IFRS adoption exploratory analysis indicates the items included in the survey questions can be consistently applied in the empirical examination of the challenges constraining IFRS adoption. However, negative reactions of main business partners (-0.425) and increases in company taxes (-0.341) consist of negative correlation values, therefore they are excluded from further analysis.

The reliability of the internal consistency among the items in the factors was calculated using the Cronbach’s Alpha. The coefficients of the Cronbach’s Alpha presented in Table 5.7 indicate the internal consistency of all the items that are correlated with each factor. The Cronbach’s Alpha is obtained after excluding the negatively correlated statements. Therefore, the final factors presented in Table 5.7 are used to investigate the impacts of the practical difficulties in IFRS adoption.

5.5. Summary of the Chapter

This chapter discussed the response rate and characteristics of the respondents, followed by a description of the characteristics of the companies included in the study. Thereafter, issues associated with the companies’ awareness about IFRS adoption are discussed. This is followed by the descriptive results of the practical difficulties in IFRS adoption. The descriptive results are based on chi-square test and independent-samples t-test to test the differences between the IFRS adopters and non-adopters. In terms of the constructs that measure the cultural factors, EFA was conducted to identify the factors underlying the cultural factors.

The majority of the respondents who completed the survey questionnaire are chief financial officers of the companies with least a Bachelor’s degree qualification. Most of the respondents are between 30 and 40 years of age. The number of listed companies is less than non-listed companies. However, most of the IFRS adopters are listed companies, while the majority of non-IFRS adopters are non-listed companies but are also publicly accountable companies. In terms of the age of the companies, the chi-square test shows a significant difference between IFRS adopters and non-adopters. Some IFRS adopters were incorporated earlier than non-adopters. The survey shows there is a confusion among the companies
whether or not they are in the groups of companies classified as public interest entities. In terms of the practical difficulties, the t-test indicates significant differences among the companies’ experience with the cost of IFRS adoption, calculation of accounting values, and IFRS accounting policies. The result shows that issues in the management accounting is significant among the IFRS non-adopters, while it is insignificant among IFRS adopters. Eight factors were identified from the companies’ cultural factors. These consist of different items included in the survey. In regard to the practical difficulties in IFRS adoption, six factors were identified and consist of different statements measuring the practical difficulties the companies faced in IFRS adoption. Further, the items that measured the practical difficulties in IFRS adoption were scaled to reduce the number of items for empirical analysis. The next chapter presents the empirical results and hypotheses test.
Chapter 6
Empirical Results and Discussion

This chapter discusses the empirical results of the study. Section 6.1 discusses the diagnostic test and multicollinearity analysis, followed by the findings, and discussion of the cultural factors in Section 6.2. Section 6.3 discusses the findings of the practical difficulties in IFRS adoption, while Section 6.4 discusses the effects of industry type on IFRS adoption. Lastly, Section 6.5 summarises the chapter.

6.1. Diagnostic Tests

The challenges in IFRS adoption are examined based on three perspectives. These include the companies’ cultural influences on IFRS adoption, practical difficulties in IFRS adoption and the effects of industry on IFRS adoption. These are investigated using logistic regression analyses.

In order to correctly perform the logistic regression, the independent variables were tested for outliers and multicollinearity to confirm if the surveyed data were suitable for a logit model. Multicollinearity diagnosis helps to identify the outliers in logistic regression (Feng, Xu, Mannor, & Yan, 2014; Harrell, 2015).

The values of the outlying cases that involved errors in data entry were modified or deleted. The multicollinearity problem was examined through correlation analysis and collinearity diagnostics tests. This is used to assess correlation estimates with a cut off of less than 0.8. Pallant (2007) states that a correlation value above 0.8 is considered to be problematic for social science research, therefore a cut off of 0.8 was considered acceptable in this study.

The Pearson correlation coefficients between pairs of independent variables showed low and moderate correlations ($r < 0.8$). The assessment of collinearity was further analysed through collinearity diagnostics tests (see Appendix B). This includes the Tolerance and Variance Inflation Factor (VIF) (Menard, 2002).

A small value of the tolerance or a higher value of the VIF reveals that the independent variable has a high linear combination with other independent variables (Pallant, 2007; Simonoff & Chatterjee, 2013). The acceptable cut off value for a tolerance is less than 0.10. A variance inflation factor above 10 is considered as a relatively high degree of collinearity.
(Baltagi & Baltagi, 2008; Pallant, 2007). The tolerance values for all independent variables included in the study models are greater than 0.10 while the VIF value is below 10.

The independent variables in the model are considered not to have multicollinearity problems. The logistic regression results include the coefficients, the significance of the $p$-value and the marginal effects. Since the dependent variables in the models are discrete, marginal effects are computed to investigate the impact of the factors on IFRS adoption.

The marginal effects in this study show the instantaneous rate of change and predict the probability of the companies’ responses to IFRS adoption following a unit change in the factors included in each model i.e. measuring the effects of the covariates. The marginal effects were estimated using stata mfx which produces the extent of each of the variables’ impact on the dependent variable IFRS adoption (IFRS_Adop). The marginal effects are then discussed according to the significance of each factor. A similar approach is used for Model 2 and Model 3 respectively.

6.2. **Model 1: Impact of the Company’s Cultural Factors on IFRS Adoption (RQ1)**

The empirical model for how the company’s cultural factors affect IFRS adoption is based on the eight factors solution presented in Chapter 5. These include professionalism, statutory control, optimism, conservatism, transparency, secrecy, flexibility, uniformity and company’s characteristics used as control variables. Model 1 results include the maximum likelihood (ML) estimates, $t$-values, the marginal effects and summary statistics of the model.

The result shows the goodness-of-fit test confirmed the data met Model 1 requirements and has significant explanatory power. The chi-square statistics is 252.94 ($P \leq 0.001$). The Hosmer and Lemeshow tests showed there is no significant difference between the observed and predicted values in the cultural model ($R^2 = 0.733$, $P > 0.1$).

The cultural model correctly predicted 78 percent of the companies’ cultural factors impacts on IFRS adoption. The collinearity diagnostics was conducted using the tolerance and VIF and the data was found suitable for logistic analysis. The standard deviation of the variables used in the cultural model is less than 1. This indicates none of the variables was considered as an outlier that could potentially influence the significance of the results.
The descriptive statistics of the variables used in the model are shown in Table 6.1. On an average, each mean in the summated scale variables is between 3 and 4 while the control variables are between 0 and 0.5 (see Table 6.1). The means of the summated scale are used in the logistic model in addition to the control variables.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPT</td>
<td>1</td>
<td>5</td>
<td>3.449</td>
<td>0.322</td>
</tr>
<tr>
<td>FLEX</td>
<td>1</td>
<td>5</td>
<td>3.321</td>
<td>0.791</td>
</tr>
<tr>
<td>TRANS</td>
<td>1</td>
<td>5</td>
<td>3.979</td>
<td>0.432</td>
</tr>
<tr>
<td>STAT_CON</td>
<td>1</td>
<td>5</td>
<td>3.426</td>
<td>0.978</td>
</tr>
<tr>
<td>PROF</td>
<td>1</td>
<td>5</td>
<td>3.358</td>
<td>0.831</td>
</tr>
<tr>
<td>UNIF</td>
<td>1</td>
<td>5</td>
<td>3.385</td>
<td>0.639</td>
</tr>
<tr>
<td>CONS</td>
<td>1</td>
<td>5</td>
<td>3.138</td>
<td>0.575</td>
</tr>
<tr>
<td>SEC</td>
<td>1</td>
<td>5</td>
<td>3.701</td>
<td>0.436</td>
</tr>
<tr>
<td>AUD_TYP</td>
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<td>1</td>
<td>0.326</td>
<td>0.437</td>
</tr>
<tr>
<td>COM_SIZE</td>
<td>0</td>
<td>1</td>
<td>0.379</td>
<td>0.410</td>
</tr>
<tr>
<td>COM_LIS_STA</td>
<td>0</td>
<td>1</td>
<td>0.366</td>
<td>0.482</td>
</tr>
<tr>
<td>OWN_TYP</td>
<td>0</td>
<td>1</td>
<td>0.290</td>
<td>0.500</td>
</tr>
</tbody>
</table>

The Pearson R coefficients are presented in Table 6.2. Most of the factors’ coefficients in Model 1 indicate positive and negative correlations between IFRS adoption and the companies’ cultural factors. For example, the coefficient of flexibility in accounting standards as a preferred accounting practice among the companies is positively associated with IFRS adoption.

However, other estimated coefficients such as secrecy show a negative association between IFRS adoption and secrecy in companies’ disclosure of confidential accounting information. The significance of the cultural factors is discussed from the results of the logistic model and marginal effects.

The Pearson R coefficients appear to exhibit positive correlations between IFRS adoption and flexibility, professionalism, audit type, and companies’ listing status. Contrary to the study hypotheses, the correlation matrix indicates negative correlations between IFRS adoption and transparency, ownership structure and optimism. It is expected these factors would have positive relationships with IFRS adoption. However, the results state otherwise. Other factors included in the study are consistent with the a priori description of the cultural factors in Chapter 4.
Table 6.2 Correlation Matrix for the Companies’ Cultural Factors Model 1 Variables

<table>
<thead>
<tr>
<th></th>
<th>ifrs_a~p</th>
<th>opt</th>
<th>flex</th>
<th>trans</th>
<th>stat_Con</th>
<th>prof</th>
<th>unif</th>
<th>cons</th>
<th>sec</th>
<th>aud_typ</th>
<th>com_size</th>
<th>com_fit~a</th>
<th>own_typ</th>
</tr>
</thead>
<tbody>
<tr>
<td>obs=519</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>IFRS_ADOP</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>OPT</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>FLEX</td>
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<td>0.0142</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRANS</td>
<td>-0.2681</td>
<td>-0.08</td>
<td>0.0216</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STAT_CON</td>
<td>-0.101</td>
<td>-0.0321</td>
<td>-0.0321</td>
<td>0.037</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROF</td>
<td>0.4004</td>
<td>0.0324</td>
<td>0.0312</td>
<td>0.0424</td>
<td>-0.112</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNIF</td>
<td>-0.3234</td>
<td>-0.1916</td>
<td>-0.0934</td>
<td>0.2079</td>
<td>0.2402</td>
<td>0.1739</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONS</td>
<td>-0.007</td>
<td>-0.0028</td>
<td>0.0032</td>
<td>-0.0639</td>
<td>0.0103</td>
<td>-0.0089</td>
<td>-0.0288</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEC</td>
<td>-0.3459</td>
<td>-0.0001</td>
<td>-0.005</td>
<td>0.1804</td>
<td>0.0538</td>
<td>-0.0034</td>
<td>0.1403</td>
<td>0.1178</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUD_TYP</td>
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<td>0.1217</td>
<td>0.0614</td>
<td>-0.3262</td>
<td>-0.1344</td>
<td>-0.0505</td>
<td>-0.339</td>
<td>0.033</td>
<td>-0.2022</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COM_SIZE</td>
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<td>-0.0798</td>
<td>-0.0857</td>
<td>0.0867</td>
<td>0.2112</td>
<td>0.0323</td>
<td>0.1134</td>
<td>0.0398</td>
<td>-0.0235</td>
<td>-0.1782</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COM_LIS_STA</td>
<td>0.6002</td>
<td>-0.0797</td>
<td>0.2976</td>
<td>-0.1219</td>
<td>0.0163</td>
<td>-0.1362</td>
<td>-0.1773</td>
<td>0.0225</td>
<td>-0.1856</td>
<td>0.1036</td>
<td>-0.1986</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>OWN_TYP</td>
<td>-0.5593</td>
<td>-0.0268</td>
<td>-0.2526</td>
<td>0.0318</td>
<td>0.0433</td>
<td>0.0994</td>
<td>0.177</td>
<td>-0.0426</td>
<td>0.1474</td>
<td>-0.1601</td>
<td>0.0849</td>
<td>-0.3193</td>
<td>1</td>
</tr>
</tbody>
</table>

The logit results presented in Table 6.3 identified the cultural factors’ influences on decisions to adopt IFRS among the Nigerian listed and non-listed companies. The significant factors include FLEX, TRANS, STAT_CON, PROF, UNIF and SEC. Further, only the AUD_TYP and OWN_TYP are statistically significant among the control variables.

6.2.1. Flexibility and Uniformity Dimension

Table 6.3 shows the flexibility (FLEX) coefficient is positive and statistically significant at the 1 percent level. This implies that the more flexible a company’s accounting system is, in relation to transactionary activities and financial reporting, the greater the probability that the company will adopt IFRS. Consequently, companies that have accounting systems that are less flexible will consider IFRS adoption a challenge.

Jermakowicz and Epstein (2011, p. 46) found “that the choice among alternative acceptable accounting policies that do not depend solely on given circumstances but reflect flexibility,” provides incentives for IFRS adoption. However, there are issues in IFRS flexibility such as subjectivity in recognition, measurement, and disclosure of financial transactions.

Souza, Botinha, Silva, and Lemes (2015) state that the flexibility in IFRS policies impacts IFRS adoption. However, flexibility in accounting practice could be a motivating factor for some companies, while a prohibitive factor to some others that experience a uniform type of accounting practice. This is most likely when the companies have conservatively applied uniform accounting standards prior to IFRS adoption (Luo, 2016).
Table 6.3 Logit Result of Model 1

| Cultural Factors | Coef. | Std. Err. | T-Statistics | P>|z| | Marginal Effects |
|------------------|-------|-----------|--------------|------|-----------------|
| OPT              | -0.048| 0.095     | -0.510       | 0.609| -0.004          |
| FLEX             | 0.435*| 0.078     | 5.570        | 0.000| 0.039           |
| TRANS            | -0.099**| 0.045 | -2.220       | 0.026| -0.009          |
| STAT_CON         | -0.163**| 0.070 | -2.340       | 0.019| -0.015          |
| PROF             | 6.082*| 0.888     | 6.850        | 0.000| 0.502           |
| UNIF             | -0.222*| 0.063 | -3.500       | 0.000| -0.020          |
| CONS             | -0.005| 0.071     | -0.080       | 0.939| 0.030           |
| SEC              | -0.288*| 0.065 | -4.450       | 0.000| -0.026          |
| AUD_TYP          | 2.239*| 0.546     | 4.100        | 0.000| 0.143           |
| COM_SIZE         | -0.902| 0.605     | -1.490       | 0.136| -0.066          |
| COM_LIS_STA      | -0.037| 0.062     | -0.590       | 0.553| -0.003          |
| OWN_TYP          | -3.714*| 0.482 | -7.710       | 0.000| -0.392          |
| _CONS            | 5.491**| 2.179 | 2.520        | 0.012|                 |

Number of observation 519
Log Likelihood function 92.812
Chi squared 252.94***
Prob > chi2 0.001
df 10
Pseudo R² 0.733
Hosmer-Lemeshow’s 2.48
PCP 0.783

*, **, *** denote statistical significance at the 1, 5 and 10 percent levels. NS indicates not significant.

In terms of the extent of the flexibility factor that impacts on IFRS adoption, the result indicates a unit change in the company’s flexibility in accounting practice will most likely increase IFRS adoption by 3.9 percent (see Table 6.3). Flexibility in accounting practice implies applying a particular accounting measurement method in a given situation related to the objective of the financial report instead of following a prescribed method that does not allow changes in financial reporting.

Alternatively, the flexibility factor can be explained in terms of applying discretionary recognition, measurement and disclosure in financial reporting (Hann et al., 2007; Kaplan, 2012). The flexibility influence on IFRS adoption is related to the characteristics of IFRS which allow greater flexibility and use of discretion by preparers of financial statements (Epstein & Jermakowicz, 2008).

The valuation and measurement choice that exists in IFRS indicates some high level of flexibility in financial reporting. Therefore, the result confirms the study hypothesis which is similar to Borker (2013b) that companies with flexible accounting orientation will be more successful in adopting IFRS than companies whose accounting orientations are otherwise.
Further, the significance of the flexible coefficient also implies that companies that have flexible accounting systems and believe that accounting practice should be flexible are likely to adopt IFRS. This result is consistent with the characteristic of IFRS which allows certain flexibility and use of discretion in some circumstances to determine accounting values (Carmona & Trombetta, 2008; Nobes & Parker, 2008; Phillips, 2010).

There is no doubt accounting practices are determined by companies culture (Mulawarman, 2012), but the development of IFRS in the globalisation of accounting practices suggests a change from a uniform to a flexible approach in financial reporting (Jermakowicz, 2004). The Nigerian accounting system has been practised as a uniform financial reporting system where the policies and procedures are strictly followed. There are less consideration and room for the variability in financial reporting based on the differences in financial transactions.

The impact of flexibility on IFRS adoption in this study confirms Kurniawan et al. (2014) finding that adoption of IFRS would be embraced by some companies but opposed by others. The finding also supports an earlier statement by Borker (2013) that companies with flexible accounting systems are more likely to adopt IFRS, while companies with less flexible accounting systems would face challenges in IFRS adoption.

The Uniformity (UNIF) coefficient in accounting practice is negative and significant at the 1 percent level. The results show that a unit increase in the companies’ strictly standardised accounting system has the likelihood to decrease the level of IFRS adoption by 2 percent. Uniformity in accounting is one of the companies’ cultural factors contributing to IFRS non-adoption. However, the impact of uniformity is significant and consists of -0.020 marginal effect.

Uniformity in accounting practice can be interpreted in two ways i.e. from relatively strict inter-company to inter-temporary uniformity (Gray, 1988). The interpretation of the uniformity effects on IFRS adoption is based on Gray (1988) Framework. The uniform accounting system perceives accounting practice to be uniform across the companies being regulated in the same business environment. This result shows the contrast between the companies’ attitude to strict control in their accounting practices and companies’ discretion in recognition, measurement and reporting of accounting information.

The results further confirm Borker (2013b, p. 174) proposition that “the more a particular
accounting value profile is at variance with the IFRS-favourable profile, the greater the exposure to subtle cultural forces that may present a challenge to successful adoption and evolution with IFRS”. This finding is consistent with a previous study where uniformity in accounting practice was found to be associated with the challenges in IFRS adoption. For example, Salewski and Zülch (2015) reported that the German listed companies were challenged by the lack of uniformity in IAS 19. The companies were found to be resilient to changes from the GAAPs’ accounting regime to IFRS.

Companies tend to follow a uniform set of accounting standards more easily than other types of accounting standards. However, the disadvantage of a uniform accounting system is that the more uniform the accounting practice, the less probability the financial statements will support the users’ decisions (Hann et al., 2007).

There is support for a uniform accounting system in eliminating the “moral hazard problem” in financial reporting (Dye & Verrecchia, 1995; Hann et al., 2007, p. 113). Although, the lack of value relevance of financial statements from uniform accounting practice shows the need to change from uniform to a more qualitative accounting system. Consequently, accounting value should be determined based on a situational analysis of financial transactions (Nobes & Stadler, 2015). Therefore, such analysis which is part of IFRS orientation poses a challenge to companies with limited familiarity in qualitative analysis and inadequate analytic tools to determine accounting values in some business environments such as Nigeria.

6.2.2. Transparency versus Secrecy Dimension

The transparency (TRANS) coefficient is negative and significant at the 5 percent level. Transparency (TRANS) in financial reporting implies the companies’ willingness to disclose their financial transaction activities to the users of financial information (see Table 6.3). The adoption of GAAPs in Nigeria prior to IFRS adoption is perceived by Nigerian companies as transparency in financial reporting. This indicates that Nigerian companies were transparent in their financial reporting prior to IFRS adoption. Therefore, the financial statements preparers do not perceive IFRS provide greater transparency.

It is perceived that by adopting certain accounting standards such as SAS or IFRS, companies are transparent in their financial reporting (Uche, 2002). Therefore, the adoption of SAS prior to IFRS adoption suggests that the Nigerian companies are transparent in their financial
reporting. However, the adoption of IFRS indicates that companies are more likely to incur additional cost in the financial reporting rather than economic benefits. Such cost is more likely at the early stage of IFRS adoption where most companies in Nigeria did not adopt IFRS. This implies that financial statements preparers will resist to adopt the accounting principles following IFRS adoption (Loyeung, Matolcsy, Weber & Wells, 2016).

The logit result shows that transparency in financial reporting has a negative association with IFRS adoption. The impact of transparency is relatively high. This means a unit increase in IFRS financial statements’ level of transparency will decrease the likelihood of IFRS adoption by -0.09. The result implies companies that disagreed with the publication of financial statements using IFRS exhibit less probability of IFRS adoption. Companies’ perceptions of the presence of transparency in their financial statements based on SAS accounting principles could have contributed to the probability of non-adoption. However, the resistance by companies indicates the companies do not perceived the need for greater transparency which is the motivating factor for FRC decision to adopt IFRS (Sanyaolu, Iyoha, & Ojeka, 2017).

The probability of companies not adopting IFRS as a result of greater transparency is more pervasive in societies lacking a tradition of having individual equity investors dependent upon public information for investment decisions in open equity markets (Borker, 2013a). Considering that financial statements in Nigeria are mostly used by companies rather than individuals, this provides further support for the negative relationship between IFRS adoption and the transparency factor in this study (Barde, 2009; Wallace, 1987).

The direction of a priori hypothesis sign for transparency is different from the estimated result which means the companies are concerned the need for greater transparency in their financial statements associated with greater financial cost (Loyeung et al. 2016). It is expected that the transparency factor could positively influence financial statement preparers’ decisions to adopt IFRS (Borker, 2013a, 2013b; Gray, 1988; Kaplan, 2012; Nurunnabi, 2016; Tsalavoutas & Dionysiou, 2014) but the finding from this study states otherwise.

For example, Gray (1988) found that preparers of financial statements are more open and publicly accountable about their financial information in some business environments than others, therefore, determining the likelihood of adopting different types of accounting standards. Further, Borker (2013a, p. 682) states that IFRS adoption “increases stability,
stewardship, accountability and transparency at both the company and government institutional level”.

Therefore, companies are more likely to adopt IFRS because of the perception that IFRS enhances transparency in financial reporting. However, the negative correlation and significance of transparency in Model 1 indicates that the study sampled companies do not perceived the need for greater transparency, more openness or greater publicly accountable approach different from the financial statements prepared using other GAAPs, such as SAS. This finding differs from Tsalavoutas and Dionysiou (2014) who reported that IFRS adoption is associated with companies’ perceived level of transparency following IFRS adoption which means that non-adopters who have adopted other accounting standards such as SAS are less likely to increase their level of transparency in their financial reporting.

One of the reasons for IFRS adoption in Nigeria is the perception that IFRS increases financial reporting transparency (Iyoha & Oyerinde, 2010; Madawaki, 2012; Odia & Ogiedu, 2013; Osemeke & Adegbite, 2016). In the former Central Bank of Nigeria report on IFRS adoption, it was stated that IFRS adoption is “expected to enhance market discipline, and reduce uncertainties which limit the risk of unwarranted contagion” (Sanusi, 2010, p. 15). However, the adoption of IFRS for the purpose of transparency in financial reporting is a significant challenge to Nigerian companies due to the companies unwillingness to increase the level of disclosure to increase greater level of transparency (Bakre & Lauwo, 2016).

This finding is consistent with the concept of earnings management and the likelihood of IFRS non-adoption (DeGeorge, Li, & Shivakumar, 2016). The reasons underlining this type of response to IFRS as discussed in an earlier study are related to political cost, labour union agitation or managers’ incentives (Pathak & Sun, 2013; Watts & Zimmerman, 1986). The negative significance of transparency in Model 1 is expected to encourage the culture of secrecy exhibited by a grounded rationale of commercial confidentiality among preparers of financial statements (Zadek, Evans, & Pruzan, 2013). Therefore, adoption of IFRS would pose a significant challenge to Nigerian companies.

The secrecy (SEC) coefficient is negative and significant at the 1 percent level. The result implies that the greater the companies’ concern about disclosure of financial information to stakeholders, the less likely they are to adopt IFRS.
The result shows that a unit change in the companies’ secrecy in disclosing financial information will result in a 2.3 percent likelihood the companies will not adopt IFRS. The significance of the secrecy coefficient in this study can be interpreted as “a preference for confidentiality and the restriction of disclosure of financial information to those who are closely involved with its management as opposed to a more transparent, open, and publicly accountable approach” (Douplnik & Perera, 2009, p. 41).

The result is similar to Barth, Landsman, and Lang (2008) where companies that have adopted IFRS were found to exhibit less confidentiality in their financial statements than non-adopters. The finding from Barth et al. (2008) further shows that companies adopting IFRS exhibit less earnings management, more timely loss recognition and provide more value relevant information than IFRS non-adopters. This indicates the heterogeneity between IFRS and companies’ likelihood to maintain some level of confidentiality in their financial reporting.

Secrecy involves companies maintaining strict confidentiality of their financial information. This can vary according to the ownership of the companies and the management system which is similarly linked to concerns about political cost, labour union agitation and contractual covenants (Cannizzaro & Weiner, 2015; Khalil & Simon, 2014; Watts & Zimmerman, 1986). For example, Cannizzaro and Weiner (2015) found that companies in the extractive industries were more involved in withholding financial information to mitigate political risks and reduce or increase disclosure based on the capital providers’ expectations.

Bakre & Lauwo, (2016) reported similar results where some Nigerian companies are more likely to withhold financial information due to the lack of legitimacy in the companies’ assets. Bakre & Lauwo found some Nigerian private companies have assets bought from family members who are also employees in government agencies. These assets are sold below market values which could lead to political cost. Therefore, the significance of secrecy in Model 1 indicates the likelihood of some companies are required to maintain secrecy will therefore resist IFRS adoption.

An earlier study also reported company’s ownership significantly impact on the informativeness of stock which is linked to the unwillingness to disclose private financial information for public use (Ben-Nasr & Cosset, 2014). Vashishtha (2014) found that companies are more interested in secrecy and maintain some reservations in adopting certain accounting standards when a violation of contractual covenants occur. Further, an earlier
study by Wallace (1987) reported how management type determines whether a company maintains secrecy in its financial statement and how the Nigerian socioeconomic environment encourages such practice due to the weak legal system. Considering the issues of reliability in the Nigerian judiciary system, the disparity between IFRS adoption and secrecy is expected as companies are likely to reduce the disclosure level. The significance of secrecy further implies that companies’ preferred accounting standards are inconsistent with IFRS mandates.

6.2.3. Statutory Control Versus Professionalism Dimension

The statutory control (STAT_CON) coefficient is negative and significant at the 5 percent level. Based on the marginal effect, the result indicates a unit change in the compliance with rigid legal requirements having the likelihood to decrease IFRS adoption by 0.015. The negative coefficient of statutory control indicates challenges for companies that have developed accounting systems as compliance with rigid legal requirements and legislative control in contrast to professional judgment and self-regulation. The result confirms Borker (2013b) statement of the unfavourable profile of statutory control accounting practice and IFRS adoption. The result also confirmed the a priori hypothesis of this present study that statutory control has negative impacts on Nigerian companies’ IFRS adoption.

This means that companies whose accounting systems depend on accounting regulators’ guidelines and prescribed methods for recognition, measurement, and disclosure are more likely to resist IFRS adoption. International Financial Reporting Standards are known for their professionalism rather than statutory control.

Therefore, strict methods and detailed guidelines for preparing financial statements are not often the objectives of IFRS (De George, Ferguson, & Spear, 2012; Schipper, 2003). For example, IFRS allows companies to use professional judgment in certain situations when assets and liabilities are valued, specifically assets that have no comparable market price.

Borker (2012, 2013b) found that in a business environment where companies practised accounting as a compliance with statutory requirements which can otherwise be interpreted as a rule or strict legal requirements, IFRS adoption is unfavourable. One of the reasons IFRS is unfavourable among companies that have practised accounting as statutory requirements is the qualitative characteristics of IFRS accounting principles including the requirements for
professional judgment (Borker, 2016b; Gillis, Suddaby, & Botzem, 2014; Perera, Cummings, & Chua, 2012). Therefore, the adoption of IFRS is a challenge to Nigerian companies because the SAS is rule based rather than principle based (Ikpefan & Akande, 2012; Uche, 2002).

This finding differs from Askary, Yazdifar, and Askarany (2008), where companies’ accounting practice was identified to have shifted from compliance with regulators’ strict prescriptions to the application of judgment in financial statements following IFRS adoption in Turkey. However, a later study of the companies’ financial statements found some evidence that the companies’ accounting practices were highly compliant with statutory legal requirements rather than applying professional judgment to determine accounting values (Misirlioglu et al., 2013). The result, therefore, confirms Borker (2013) preposition statement that statutory control has a negative impact on the success of IFRS adoption.

The professionalism (PROF) coefficient has a positive impact on IFRS adoption at the 1 percent level. This means that companies that apply professional judgment in determining accounting values are more likely to adopt IFRS. The marginal effect is 0.502 (see Table 6.3). This means a unit change in the level of a company’s professionalism will likely increase IFRS adoption by 50.2 percent. Considering that IFRS adoption is very recent in Nigeria, the level of IFRS knowledge is very meagre.

The significance of the professionalism coefficient indicates the likelihood of increasing IFRS adoption and reducing the challenges (statutory control). Professionalism focuses on the financial preparers’ professional judgment in recognition, measurement, and disclosure of financial information (Askary, 2006; Houqe et al., 2016; Perera et al., 2012).

Professionalism is among the factors influencing financial statements preparers’ decisions to adopt IFRS. Eddie (1990) found professionalism is more associated with the New Zealand accounting system than other countries from the Association of Southeast Asian Nations included in his study. This means professionalism has a negative correlation with the accounting practice in some countries.

The challenges faced in IFRS adoption by companies in countries classified as highly professional in Hofstede (2001) such as New Zealand have minimal impact on IFRS adoption (Chanchani & Willett, 2004; Stent, Bradbury, & Hooks, 2010; van Zijl & Bradbury, 2006). However, the correlation between professionalism and IFRS adoption in Model 1 is consistent
with other studies, where professionalism is found to be associated with IFRS adoption (Barth et al., 2008; Hope, Kang, Thomas, & Yoo, 2008; Houqe et al., 2016). For example, Houqe et al. (2016) found a positive relationship between professionalism and IFRS adoption. This was attributed to consultancy services by the Big 4 audit firms that exhibit professionalism in determining what constitutes accounting values.

6.2.4. Optimism Versus Conservatism Dimension

The optimism (OPT) coefficient is insignificant. This means that there is not sufficient evidence to conclude there is a relationship between the optimism of future business opportunities and IFRS adoption. In addition, the coefficient value for optimism is relatively small (0.048) against other factors in Model 1 (see Table 6.3).

The challenge in terms of conservative (CONS) accounting systems is also insignificant. However, the direction of the coefficient shows that a conservative accounting practice can hinder IFRS adoption. This is based on the negative coefficients of the conservatism factor.

There is insufficient evidence in this study to conclude that a conservative accounting practice inhibits IFRS adoption. Consequently, the argument presented in Borker (2013a) that companies tend to use conservatism in financial reporting as a risk management system and use optimism as a risk taking approach cannot be confirmed in the case of Nigerian companies as a challenge in IFRS adoption.

The companies’ ownership (OWN_TYP) coefficient is positive and significant at the 1 percent level. The result indicates that non-family owned companies are more likely to adopt IFRS. This result further confirms the significant difference between the ownership structure of IFRS adopters and non-adopters discussed in Chapter 5. In the ownership structure and IFRS adoption, it was discussed in Chen & Nowland (2010) that companies that are not family owned are more likely to adopt transparent financial reporting frameworks such as IFRS than other types of ownership. Table 6.3 shows that ownership structure is likely to have a 39.2 percent impact on IFRS adoption. The finding is consistent with a previous study where ownership structure influences companies’ decisions to adopt IAS 41 (Gonçalves & Lopes, 2014).

In addition, the audit type (AUD_TYP) coefficient is positive and significant at the 1 percent
level. This means companies using international audit firms in Nigeria such as Deloitte, Ernst and Young, KPMG and PricewaterhouseCoopers have a greater probability of adopting IFRS than companies that used local audit firms. The significance of audit firms on IFRS adoption confirms Souza et al. (2015) report on the impact of Big 4 audit firms on IFRS adoption. In the case of Nigeria, the Big 4 audit firms are considered as international audit firms in this present study.

6.3. **Model 2: Practical Difficulties in Complying with IFRS Requirements in Nigeria (RQ2)**

Model 2 examines the practical difficulties Nigerian companies face in the preparation of IFRS financial statements. These difficulties include issues in recognition, measurement, disclosure and internal control systems.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTCON_SYS</td>
<td>0</td>
<td>1</td>
<td>0.423</td>
<td>0.285</td>
</tr>
<tr>
<td>VAL_IT</td>
<td>0</td>
<td>1</td>
<td>0.354</td>
<td>0.365</td>
</tr>
<tr>
<td>COS_ADOP</td>
<td>0</td>
<td>1</td>
<td>0.459</td>
<td>0.372</td>
</tr>
<tr>
<td>CHA_IT</td>
<td>0</td>
<td>1</td>
<td>0.401</td>
<td>0.365</td>
</tr>
<tr>
<td>STAF_KNO_EXP</td>
<td>0</td>
<td>1</td>
<td>0.466</td>
<td>0.246</td>
</tr>
<tr>
<td>LEG_REQ</td>
<td>0</td>
<td>1</td>
<td>0.600</td>
<td>0.368</td>
</tr>
<tr>
<td>COM_SIZE</td>
<td>0</td>
<td>1</td>
<td>0.785</td>
<td>0.411</td>
</tr>
<tr>
<td>INTL</td>
<td>0</td>
<td>1</td>
<td>0.457</td>
<td>0.499</td>
</tr>
<tr>
<td>AUD_TYP</td>
<td>0</td>
<td>1</td>
<td>0.258</td>
<td>0.438</td>
</tr>
<tr>
<td>COM_AGE</td>
<td>0</td>
<td>1</td>
<td>0.107</td>
<td>0.309</td>
</tr>
</tbody>
</table>

The descriptive statistics of the independent variables used to measure the extent these practical difficulties influence IFRS adoption are presented in Table 6.4. The means of the practical difficulties range from 0.1 to 0.6 while none of the standard deviations is greater than 0.5 (see Table 6.4).

The Pearson R coefficients show the relationship between IFRS adoption and the practical difficulties in IFRS adoption (see Table 6.5). Further analysis includes marginal effects estimates of the practical difficulties on IFRS adoption. The logistic regression results of the practical difficulties in IFRS adoption are presented in Table 6.6.

Table 6.6 shows the goodness-of-fit test confirmed the data met Model 2 requirements and
has significant explanatory power. The postestimation analysis shows chi-square statistics of 210.82 \((P \leq 0.001)\). The Hosmer and Lemeshow tests showed there is no significant difference between the observed and predicted values in the practical difficulties model \((R^2 = 0.5846, P > 0.1)\).

The model correctly predicted 89.1 percent of the companies’ practical difficulties in IFRS adoption. The collinearity diagnostics was conducted using the tolerance and VIF and the data was found suitable for logistic analysis. The standard deviation of the variables used in the cultural model is less than 1. This indicates none of the variables was considered as an outlier that could potentially influence the significance of the results. Similarly, the mean values of the variables are less than 1.

Model 2 result shows \textit{INTCON_SYS, VAL_IT, COS_ADOP, STAF_KNO_EXP, LEG_REQ} are significant (Table 6.6). The company’s characteristics used as control variables in the study are similarly significant except the \textit{a priori} sign parameter for company size changes from positive to negative. The control variables include \textit{COM_SIZE, INTL, AUD_TYP} and \textit{COM_AGE} (Table 6.6). Only changes in information technology (\textit{CHA_IT}) are not significant in the practical difficulties in IFRS adoption.

Table 6.6 shows the change in information technology requirements (\textit{CHA_IT}) coefficient is insignificant. In addition, the changes in the information technology requirements coefficient do not indicate a negative correlation with IFRS adoption. This means that, even though the coefficient is relatively large \((R = 22.6)\), there is no evidence that this factor is a challenge to Nigerian companies’ IFRS adoption.
Table 6.5 Correlation Matrix for the Practical Difficulties Model 2 Variables.

<table>
<thead>
<tr>
<th></th>
<th>ifrs_a~p</th>
<th>intcon~s</th>
<th>val_it</th>
<th>cos_adop</th>
<th>cha_it</th>
<th>staf_k~p</th>
<th>leg_req</th>
<th>com_size</th>
<th>intl</th>
<th>aud_typ</th>
<th>resp_qua</th>
<th>com_age</th>
</tr>
</thead>
<tbody>
<tr>
<td>ifrs_a~p</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INTCON_SYS</td>
<td>-0.2185</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAL_IT</td>
<td>-0.3076</td>
<td>0.4619</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COS_ADOP</td>
<td>-0.2667</td>
<td>0.2362</td>
<td>-0.1563</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHA_IT</td>
<td>-0.0279</td>
<td>0.2525</td>
<td>0.3687</td>
<td>0.1637</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STAF_KNO_EXP</td>
<td>-0.4222</td>
<td>0.4143</td>
<td>0.361</td>
<td>0.2059</td>
<td>0.3307</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEG_REQ</td>
<td>-0.4755</td>
<td>-0.2936</td>
<td>0.315</td>
<td>-0.0298</td>
<td>0.1244</td>
<td>0.2299</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COM_SIZE</td>
<td>-0.1416</td>
<td>-0.0841</td>
<td>-0.113</td>
<td>-0.159</td>
<td>-0.0255</td>
<td>-0.0909</td>
<td>-0.0375</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>INTL</td>
<td>0.2217</td>
<td>0.0203</td>
<td>0.043</td>
<td>0.0744</td>
<td>0.0355</td>
<td>-0.0491</td>
<td>0.0842</td>
<td>-0.1347</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUD_TYP</td>
<td>0.3022</td>
<td>0.0428</td>
<td>0.0481</td>
<td>0.0706</td>
<td>-0.053</td>
<td>0.0251</td>
<td>0.1173</td>
<td>-0.1767</td>
<td>0.2061</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COM_AGE</td>
<td>0.1239</td>
<td>0.0302</td>
<td>0.0266</td>
<td>-0.0044</td>
<td>0.0506</td>
<td>-0.033</td>
<td>0.0515</td>
<td>-0.0943</td>
<td>0.0359</td>
<td>-0.0312</td>
<td>-0.0127</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 6.6 Logit Result of Model 2

<table>
<thead>
<tr>
<th>Practical Difficulties</th>
<th>Coef.</th>
<th>Std. Err.</th>
<th>T-Statistics</th>
<th>P-Value</th>
<th>Marginal Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTCON_SYS</td>
<td>-0.882*</td>
<td>0.464</td>
<td>-1.900</td>
<td>0.057</td>
<td>-0.191</td>
</tr>
<tr>
<td>VAL_IT</td>
<td>-0.919*</td>
<td>0.369</td>
<td>-2.490</td>
<td>0.013</td>
<td>-0.199</td>
</tr>
<tr>
<td>COS_ADOPT</td>
<td>-0.767*</td>
<td>0.316</td>
<td>-2.430</td>
<td>0.015</td>
<td>-0.166</td>
</tr>
<tr>
<td>CHA_IT</td>
<td>0.226</td>
<td>0.332</td>
<td>0.680</td>
<td>0.497</td>
<td>0.049</td>
</tr>
<tr>
<td>STAF_KNO_EXP</td>
<td>-2.697*</td>
<td>0.571</td>
<td>-4.730</td>
<td>0.000</td>
<td>-0.584</td>
</tr>
<tr>
<td>LEG_REQ</td>
<td>-3.592*</td>
<td>0.412</td>
<td>-8.720</td>
<td>0.000</td>
<td>-0.778</td>
</tr>
<tr>
<td>COM_SIZE</td>
<td>-0.818*</td>
<td>0.305</td>
<td>-2.680</td>
<td>0.007</td>
<td>-0.160</td>
</tr>
<tr>
<td>INTL</td>
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<td>0.001</td>
<td>0.159</td>
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<td>1.804**</td>
<td>0.317</td>
<td>5.690</td>
<td>0.000</td>
<td>0.317</td>
</tr>
<tr>
<td>COM_AGE</td>
<td>1.034**</td>
<td>0.411</td>
<td>2.510</td>
<td>0.012</td>
<td>0.186</td>
</tr>
<tr>
<td>_CONS</td>
<td>-0.150</td>
<td>0.410</td>
<td>-0.370</td>
<td>0.714</td>
<td></td>
</tr>
</tbody>
</table>

Number of observation 516
Log Likelihood function -247.435
Chi-squared 210.82
Prob > chi2 0.001
df 21
Pseudo $R^2$ 0.5846
Hosmer-Lemeshow’s 16.96
PCP 0.89.1

*, **, *** denote statistical significance at the 1, 5 and 10 percent levels.
NS indicates not significant.

The control variables used to measure the effects of international affiliations (INTL) of the companies are significant and positive at the 1 percent level. This means the more the company trades internationally, the greater the likelihood it will adopt IFRS. In regard to companies’ size (COM_SIZE), the coefficient is negative but significant at the 1 percent level. The result shows the smaller the company the more likely the company will not adopt IFRS. Further, company age (COM_AGE) is positive and significant at the 5 percent significance level. The result implies the older the company the more likely the company will adopt IFRS. This finding may be associated with the companies’ long experience with different accounting standards including IFRS, and therefore they find IFRS less challenging to adopt. The finding is consistent with Shiab (2003) study which reported that company age influences the extent of accounting standards’ adoption in Jordan.

Further, the audit type coefficient is positive and significant at the 1 percent level. This means that the type of audit the companies use impacts the companies’ likelihood to adopt IFRS. This could relate to the audit firm’s experience in IFRS application which contributes to the audit firm’s knowledge of and experience in IFRS adoption. For example, Rudzani and Manda (2016, p. 156) reported “that larger audit firms would influence financial reporting practices in terms of both the quantity and quality of disclosed information” which often have influences on
financial statements preparers’ decision to adopt IFRS. “Although, empirical support for such associations has not been systematically found” (Rudzani & Manda, 2016, p. 156).

Therefore, the significance of audit type in this study has confirmed the association between type of audit firm and IFRS adoption. Further, an earlier study reported a positive association between international audit firms and higher financial information quality (Hooghiemstra, Hermes, & Emanuels, 2015), but the link between the audit firms and IFRS adoption by companies was not reported.

Companies that use local audit firms are likely to be limited to the knowledge of SAS which was previously used in Nigeria with little or no exposure to IFRS accounting policies. The duration of SAS in Nigeria and the inadequate continuous improvement on the accounting standards contribute to the limited knowledge of local audit firms about changes in the international accounting practices (Uche, 2002).

The significance of companies’ size, company age and international affiliation has impacted on IFRS adoption in previous studies. Souza et al. (2015) identified the relationship between companies’ size, company age, international affiliation, and companies’ choice of IFRS for investment property in Brazil. A similar finding was also reported in Simone (2016) investigation of tax avoidance among multinational companies. International affiliates were used to circumvent taxes among EU members. Earlier studies also identified company age as a factor influencing the adoption of IFRS in the case of Portugal (Guerreiro, 2012) and among Jordanian companies (Shiab, 2003). The significant practical difficulties in IFRS adoption are discussed next.

**6.3.1. Valuation of Accounting Items**

The valuation of the accounting items \( (VAL\_IT) \) coefficient is negative and significant at the 1 percent level. This implies there are difficulties in calculating accounting values in compliance with IFRS policies. The difficulties are issues that could arise in the valuation of assets and liabilities. These include inaccurate measurements of accounting value, early or late recognition of revenue and loss, and applying some IFRS to the wrong financial transactions (Bova & Pereira, 2012; Sommer, Rose, & Wöhrmann, 2014).

The result shows that a unit increase in the level of the difficulty in calculating accounting values will simultaneously reduce IFRS adoption by 19.9 percent (see Table 6.6).
difficulties in IFRS adoption can be observed in the case of applying different assets valuation models such as the Black-Scholes model in IFRS 2 (Share base payment IFRS) (Horton & Serafeim, 2010), actuarial valuation in Employee Benefits (IAS 19) and other measurement models available in IFRS (Epstein & Jermakowicz, 2008; Lavi, 2016). This finding is supported by Isenmila & Adeyemo (Isenmila & Adeyemo, 2013a) report which identified the difficulties Nigerian companies will encounter in preparing IFRS financial statements.

The valuation of assets and liabilities that follows some IFRS policies, such as IFRS 6 and IAS 41 can lead to different financial results that are often difficult to estimate by locally trained accountants, who are more familiar with SAS than IFRS. This finding is consistent with the case of IFRS adoption in Iraqi extractive companies. The IFRS for extractive companies was problematic specifically in applying IFRS for the valuation of assets and liabilities (Ibrahim, 2014).

This means that the procedures in applying IFRS remain difficult as a result of the measurement and valuation policies that are beyond the scope of the accounting profession. For example, the measurement of a biological asset among the agricultural companies will require an agricultural scientist to estimate the probable future income from assets transformation that a farmer would earn from work in progress. This is a problematic task for preparers of financial statements in agriculture related companies and farmers (Gonçalves & Lopes, 2014; Guo & Yang, 2013; Ibrahim, 2014; Wentzel et al., 2008).

However, an earlier study has reported a significant improvement in the measurement of accounting values, particularly in the case of intangible assets. For example, Quilligan (2006) reported a significant shift from higher book value to the higher market value of assets. This shift came as a result of the recognition of other intangible assets such as brands, innovation, and customer relationships. This was difficult to include in the balance sheet during the GAAPs system in the case of Ireland. The recognition of these items is attributed to IFRS 3 (Business Combinations). However, a later report by Uwadiae (2013) following IFRS adoption in Nigeria, noted the potential issues in financial statements due to the subjectivity in using IFRS 13 to determine the fair value of accounting items.

The practical difficulties in the measurement of accounting value among the sampled companies is an example of continuous inherent difficulties in valuation and estimation of
accounting value using IFRS accounting policies. This study confirms the report by Uwadiae (2013) in the discussion of the navigation of difficulties in IFRS adoption in Nigeria. Uwadiae (2013) indicated that Nigerian companies would encounter difficulties such as difficulties in the application of IAS 19 for pension annuity, IFRS 13 for fair value measurement and the lack of financial data to measure the market value of assets and liabilities relevant to the Nigerian business environment.

Further, the finding is consistent with Kurniawan et al. (2014) study where IFRS was found to be difficult in the valuation of biological assets in Indonesia. Other studies have also reported similar findings such as the case of Turkish and Kenyan companies (Bova & Pereira, 2012; Misirlioglu et al., 2013). In the case of Turkey, it was found that companies were only complying with legal requirements in terms of preparing statutory financial statements rather than reporting the economic situation using IFRS policies.

Bova and Pereira (2012) clearly identified that Kenyan companies have experienced similar difficulties in the valuation of accounting items following IFRS adoption. This resulted in major errors in the financial statements, including non-disclosure of revenue, exclusion of notes on inventory valuation policies, and inaccurate values of property, plant, and equipment. Other examples of minor errors in the financial statements include inadequate disclosure of contingent liabilities, gains recognised directly in equity (i.e., not segregated), or a lack of disclosure on related party transactions.

Using the industry type, Sommer et al. (2014) similarly discussed some difficulties in the valuation of accounting items among the EU companies. The Sommer et al. (2014) study attributed these difficulties to differences in valuation models, particularly the imperfect use of similar accounting procedures for all industries without a focus on industry specific calculation of accounting value to create a fairer market price that is consistent in the industry. The significance of the valuation of accounting items in this present study implies that the challenges associated with using IFRS is not over. However, Zhou, Birt, and Rankin (2015) using Ohlson’s model found some issues in IFRS such as IFRS 6 has been resolved through improved recognition and measurement policies which inversely improved the value relevance of the companies’ financial information.
6.3.2. Staff Knowledge and Experience

Model 2 also shows the staff knowledge and experience (STAF_KNO_EXP) coefficient is negative and significant at the 1 percent level. This means the companies that lacked IFRS knowledge and experience among the staff are less likely to adopt IFRS. Staff knowledge and experiences measure the financial preparers’ ability to apply IFRS recognition, measurement and disclosure policies in the preparation of financial statements. Therefore, the significance of staff knowledge and experience implies challenges to companies consisting of accounting staff with limited knowledge of IFRS policies and procedures.

The staff knowledge and experience are factors associated with the human resource aspect of the companies. The marginal effect of staff knowledge and experience on IFRS adoption is -0.584. This means that a unit decrease in staff knowledge of and experience in IFRS, will likely decrease adoption by 58.4 percent.

In addition, inadequate IFRS knowledge is one of the most recurring reflexive difficulties reported in previous studies in other countries such as South Africa and Kenya (Bova & Pereira, 2012; Edwards et al., 2007). Similar findings were reported in the case of Australian, New Zealand and Romanian companies. Some of the companies in these countries applied IFRS incorrectly, or partially adopted IFRS applicable to the companies (Ball et al., 2015; Brüggemann et al., 2013; Istrate, 2015; Jones & Higgins, 2006; van Zijl & Bradbury, 2006). This implies that the lack of IFRS knowledge and experience is not only applicable to Nigeria but also evident in other countries that have implemented IFRS.

6.3.3. Inconsistent Legal Requirements

The inconsistent legal requirements (LEG_REQ) coefficient is negative and significant at the 1 percent level. This means inconsistencies in legal requirements are a challenge for the sampled companies. It implies companies are required to apply different regulatory requirements in the preparation of financial statements in addition to IFRS. The finding is consistent with Isenmila and Adeyemo (2013b) and Osemeke and Adegbite (2016) which identified the lack of specificities in the Nigerian accounting regulatory requirements.

Similar findings are also reported in the case of South African and Kenyan companies’ IFRS adoption (Bova & Pereira, 2012; Edwards et al., 2007; Wentzel et al., 2008), while this is not
an issue in IFRS adoption in Australia, Romania and New Zealand (Istrate, 2015; Jones & Higgins, 2006; Stent et al., 2010).

The inconsistent legal requirements which can otherwise be referred to as the multiplicity of laws have a marginal effect of 0.778. This implies that a unit increase in the number of regulatory requirements or another form of financial reporting legislation will decrease the likelihood of IFRS adoption by 77.8% percent. Therefore, the greater the number of specific accounting reporting requirements (different from other accounting regulators), the higher the probability of non-adoption.

Further, inconsistent financial reporting requirements would lead to higher costs in IFRS adoption because the companies will need to prepare different sets of financial statements in compliance with the regulatory agency specifications (Madawaki, 2012; Osemeke & Adegbite, 2016). This finding confirms a similar conclusion that IFRS adoption in addition to other national requirements increases the difficulties in accounting practice that can lead to confusion among preparers of financial statements (Haller, 2002; Larson & Street, 2004).

6.3.4. Cost of IFRS Adoption

The cost of IFRS adoption (COS_ADOP) coefficient is positive and significant at the 5 percent level. This means that companies that face an increase in the cost of preparing financial statements exhibit a lower probability of IFRS adoption by 16.6 percent. The significance of cost focuses on the companies’ costs of converting the SAS accounting information system to IFRS. This cost factor includes consultancy, hiring of new accountants and fees to FRC to certify the financial statements as IFRS compliant as prescribed in the Corporate Affairs Commission (2016).

The effect of cost on IFRS adoption shows -0.166. The result indicates the higher the cost of preparing financial statements following IFRS adoption, the greater the likelihood the companies will not adopt IFRS. Therefore, a unit change in the cost of preparing IFRS financial statements will decrease IFRS adoption by 16.6 percent. This indicates challenges associated with IFRS adoption among companies that have a lower return on investment in Nigeria.

This finding confirms the report prior to IFRS adoption that the cost of IFRS will be prohibitive among financial statement preparers in Nigeria (Iyoha & Oyerinde, 2010; Owolabi & Iyoha,
The cost of IFRS adoption could also include the cost of developing the internal control system of the company, the cost of compliance with IFRS requirements, and the cost of acquiring relevant information technology (Borker, 2016b; Taipaleenmäki & Ikaheimo, 2013).

The finding is consistent with Jones and Higgins (2006) investigation of companies’ concerns about the cost of IFRS adoption in Australia. De George et al. (2012) also reported similar findings on the high cost of IFRS adoption in Australia which was mainly contributed by audit fees for IFRS financial statements. The finding further confirms the report from Nigeria after IFRS adoption which identified cost as one of the main determinants of IFRS adoption (Uwadiae, 2012b).

The significance of cost in Model 2 is consistent with prior studies in Kenya, Australia and the EU (Bova & Pereira, 2012; De George et al., 2012; Edwards et al., 2007; Jermakowicz & Gornik-Tomaszewski, 2006; Jermakowicz et al., 2014). For example, Bova and Pereira (2012) noted that the cost of complying with IFRS is substantially greater than the cost of complying with GAAPs, particularly among companies with limited financial resources. This is similar to early evidence where 47 percent of the Australian companies reported that the cost of IFRS adoption outweighs the benefits (Jones & Higgins, 2006).

Therefore, the cost of IFRS adoption is a universal challenge to preparers of financial statements. Previous studies have reported that IFRS adoption is costly as a result of the cost of preparing consolidated financial statements (Jermakowicz & Gornik-Tomaszewski, 2006; Jermakowicz et al., 2014) and consultation during IFRS adoption and exorbitant audit fee (De George et al., 2012; Sunder, 2009). However, this finding includes the cost of transition from national GAAPs to IFRS which include consolidated statements and consultation. Similarly, Sunder (2008) documented the impacts of cost on IFRS adoption as one of the disadvantages in developing a single accounting system globally.

### 6.3.5. Internal Control System

The internal control system (INTCON_SYS) coefficient is negative and significant at the 5 percent level. This means that an appropriate internal control system is required for IFRS adoption. Companies with no appropriate internal control system have a greater likelihood of non-adoption than companies that have set up an appropriate internal control system.
which involves the setting up of both IT and non-IT infrastructure to converge management, management accounting and IFRS requirements (Borker, 2016b).

The effects of an internal control system on IFRS adoption is -0.191. This means a unit change in a company’s internal control system in terms of its relevance to IFRS financial information requirements, the greater the probability the company will not adopt IFRS by 19.1 percent. The literature on the internal control system and IFRS adoption are limited. However, this study confirms a recent finding of the difficulties in the convergence of an internal control system with IFRS requirements (Hemmer & Labro, 2008).

One of the reasons companies experience issues in setting the appropriate internal control is management perceptions that internal control systems for management accounting and financial reporting are independent. Hemmer and Labro (2008) and (Taipaleenmäki & Ikäheimo, 2013, p. 324) identified that “management and financial accounting are not independent rather they are interconnected”. This means the internal control system must interlink with the financial reporting system of the companies.

Hooghiemstra et al. (2015) using Gray (1988) model found that the concern in the integration of an internal control system with financial reporting is the company’s culture. The majority of companies with different sub-cultural characteristics of secrecy exhibit weak internal control systems compared with companies with professionalism and transparency.

However, the significance of an internal control system in this study focuses on the lack of the companies’ acquisition or development of an appropriate accounting information system that helps to collect relevant management financial data. Such data should be representative of internal financial activities for the companies to prepare IFRS financial statements with less fatigue, accurate information, and reduction of errors in recognition and measurement of accounting estimates (Serdarevic, 2012).

Following Taipaleenmäki and Ikäheimo (2013) study, it is common for companies that adopt IFRS to develop an appropriate internal control system to integrate management accounting information and financial accounting to ease the process of preparing financial statements. This is not the case in IFRS adoption among the companies examined in this study. The role of internal control systems and the companies’ ability to adopt IFRS lies in the acquisition or investment in the internal control system (Taipaleenmäki & Ikäheimo, 2013).
The implementation of an appropriate internal control system covers the entire continuum of processes from efficiency and enhancement to a more abstract mediating role (Granlund, 2011). This is most important in the case of IFRS adoption because an internal control system creates an information environment that enhances the integrated and flexible operation essential for the accuracy, efficiency and lower cost of financial reporting in the long term (Arnold, Benford, Canada, & Sutton, 2011; Granlund, 2011).

The significance of an internal control system in Model 2 indicates that the companies did not have relevant internal control systems to gather business information for periodic IFRS financial statements at the time of the study.

6.4. Model 3: Effects of Industry Types on IFRS Adoption in the Nigerian Financial Reporting Environment (RQ3)

It is documented in Chapter 1 that companies required by FRC to adopt IFRS are from different industries with specific accounting disclosure requirements according to the industry regulations. Model 3 specifically identifies the effects of industries on IFRS adoption. This includes the industries listed on the NSE.

Table 6.7 Descriptive Statistics of Independent Variables – Model 3

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
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The collinearity diagnostics were conducted using the tolerance and VIF and the data was found suitable for logistic analysis. The standard deviation of the variables used in the industry model is less than 1. This indicates none of the variables was considered as an outlier that could potentially influence the significance of the results. Similarly, the mean values of the variables are less than 1 (see Table 6.7).
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The Pearson $R$ coefficients show mixed relationships between IFRS adoption and the industry type (see Table 6.8). Further analysis includes the estimates of the marginal effects of the industry type on adoption of IFRS.

Table 6.9 shows the goodness-of-fit test confirmed the data met the requirements for Model 3 and has significant explanatory power. The chi-square statistics is 164.230 ($P < 0.001$). The Hosmer and Lemeshow tests showed there is no significant difference between the observed and predicted values in the industry model ($R^2 = 0.692, p > 0.1$).

Overall, the industry models correctly predicted 71.4 percent of the industries’ impact on IFRS adoption in Nigeria. The results show agriculture (AGRIC), construction (CONST), financial services (FINS_SER), and oil and gas (OIL_GAS) coefficients have significant influences on IFRS adoption. Other industries such as health (HEALTH), services (SERV), utilities (UTIL) and conglomerates (CONGLO) are insignificant. Surprisingly, these industries have the characteristics of services distinct from the financial services industry and are not collectively significant.

It is not clear from this study if the eclectic nature of service industry business activities has contributed to the insignificant effects on IFRS adoption. This is because many of the companies that would have been identified as part of the service industries may not have adopted any accounting standards in the first place (Lavi, 2016).

Further, the size of service (SERV) and conglomerates (CONGLO) coefficients are relatively large, but there is no evidence the companies in these service industries are likely to adopt IFRS. This finding is consistent with previous studies that examined accounting standards adoption among Japanese companies. Cooke (1992) found that companies in the manufacturing industry showed a greater likelihood of accounting standards’ adoption than other industries, such as the transportation industry in the case of Japanese business activities classification.

Further study of industry effects on accounting standards’ adoption with a focus on IFRS, found a positive relationship between IFRS and some companies classified as a service industry. However, there is a negative relationship between the transportation sector classified in the service industry and IFRS adoption from Aubert and Grudnitski (2011).
Table 6.9 Logit Result of Model 3

| Industry Types    | Coef.  | Std. Err. | T. Statistics | P>|z|  | Marginal Effects |
|-------------------|--------|-----------|---------------|-----|-----------------|
| AGRIC             | -3.066** | 1.588   | -1.930        | 0.053 | -0.106          |
| CONST             | 3.761*  | 0.418    | 9.000         | 0.000 | 0.435           |
| FINS_SER          | 2.898*  | 0.452    | 6.410         | 0.000 | 0.196           |
| HEALTH            | -0.991  | 0.654    | -1.520        | 0.130 | -0.086          |
| OIL_GAS           | 1.202** | 0.357    | 3.370         | 0.001 | 0.115           |
| SERV              | -0.326  | 0.588    | -0.560        | 0.579 | -0.003          |
| UTIL              | -0.002  | 0.502    | -0.000        | 0.998 | -0.026          |
| CONGLO            | -0.140  | 0.485    | -0.290        | 0.772 | -0.007          |
| COM_LIS_STA       | 6.194** | 0.817    | 7.580         | 0.000 | 0.040           |
| OWN_TYP           | -0.527  | 0.609    | -0.860        | 0.387 | -0.546          |
| COM_SIZE          | -0.420  | 0.499    | -0.840        | 0.399 | -0.030          |
| AUD_TYP           | 0.113   | 0.514    | 0.220         | 0.826 | 0.037           |
| CONS              | 0.858   | 0.575    | 1.490         | 0.135 |                |

number of observations 519
Log Likelihood function 127.315
Chi-squared 164.230
Prob > chi2 0.001
df 10
Pseudo $R^2$ 0.692
Hosmer-Lemeshow's 6.429
PCP 0.714

*, **, *** denote statistical significance at 1, 5 and 10 percent levels. NS indicates not significant.
Therefore, the significant effects of industry type and IFRS adoption are different across different studies which could be related to the variations in the business environment of the companies studied.

The companies’ listing status (COMSTA) coefficient is one of the control variables used in the industry model which has a positive correlation with IFRS adoption, and significant at the 1 percent level. This implies that a unit change in the listing status of the sampled companies will likely increase IFRS adoption by 4 percent. This finding is consistent with previous studies such as companies listed on the Japanese or international stock exchanges are more likely to adopt accounting standards than non-listed companies (Cooke, 1992).

Further, recent studies examining IFRS adoption also found that listed companies are “12.93 percent times more likely to adopt IFRS” than not listed companies in the case of Portugal IFRS adoption (Guerreiro, Rodrigues, & Craig, 2012, p. 494). The finding is consistent with this study, where the majority of IFRS adopters are listed on the NSE as discussed in Chapter 5. In addition, listed companies are generally believed to be large in terms of assets and shareholders. Therefore, the findings are consistent with earlier studies that large companies are more likely to adopt IFRS requirements (Dumontier, 1998; Glaum, 1997; Tarca, 2004).

Differently from listing status, the ownership structure (OWNERS) coefficient is insignificant in the industry type model. However, Bova & Pereira (2012) study on publicly and privately owned companies in Kenya, identified ownership type as a significant factor in IFRS adoption. A different finding is also reported in Ebrahim & Fattah (2015) which indicates a positive association between non-family owned companies and IFRS adoption. Further, the result indicates the type of audit does not have a significant impact on IFRS adoption. This means that whether or not the companies use an international audit firm does not contribute to the industries’ effects on IFRS adoption. The significant industries in Model 3 are discussed the following sections.

### 6.4.1. Construction Industry

The construction industry coefficient is positive and significant at the 10 percent level. From the marginal effects (see Table 6.9), the construction industry contributed to IFRS adoption by 0.435. This implies a unit increase in the number of companies in the construction industry will likely increase IFRS adoption by 43.5 percent.
Although the construction industry in Nigeria is significant and exhibits the likelihood of IFRS adoption, however, there are criticisms of the industry specific IAS 11 in relation to accounting estimates and reliability of reported financial performance. For example, previous studies have identified the financial statements from the construction industry do not reflect the economic reality of the transactionary activities (Opall, 2014). This shows the susceptibility of financial statements from the industry to higher risk in investment (Lavi, 2016).

The International Accounting Standards Board has reviewed these challenges and proposed IFRS 15 effective from January 2017. The financial reporting development in the construction industry means a five-step revenue recognition model specific for the industry has shifted from the concept of “risks and rewards” to the “concept of control” (Lim, Devi, & Mahzan, 2015).

The IAS 11 has been specifically designed for the construction industry since 1981 (Opall, 2014). However, the risk management issues and reliability of the financial statements from the industry are sufficient reasons for IFRS non-adoption. From 1981 to 2016, IAS 11 permits companies in the construction industry to recognise revenue as soon as the contract is formed. This led to several issues on premature recognition of revenue in the industry. Therefore, the significance of the construction industry was unexpected due to the issues associated with IFRS in the industry.

The different reaction to IFRS by Nigerian companies in the construction industry could be associated with the ownership of the companies, considering the majority of the companies are owned by international and local investors and are not specifically family owned. Thus, this study shows companies in the construction industry are not a factor that inhibits IFRS, rather it enhances the IFRS adoption.

**6.4.2. Financial Services Industry**

The financial services industry \((FINS_{SER})\) coefficient is positive and significant at the 1 percent level. Based on the marginal effect results, Table 6.9 shows companies in the financial services industry exhibit the likelihood of IFRS adoption. This implies that a unit increase in the number of companies required to adopt IFRS in the financial services industry will simultaneously increase IFRS adoption by 0.196.
A similar study by Jones and Higgins (2006) found that companies in the financial industries are more willing to invest in IFRS adoption than companies in other industries. Considering the globalisation of financial services such as the IOSCO, IMF, World Bank and the BRIC, it is not surprising that the financial services industry is positively associated with IFRS adoption.

As banks compete around the world and within a country, the need for greater transparency and accountability suggests that the financial service industry would have a significant impact on IFRS adoption (Ogbenjuwa, 2016; Oheneba et al., 2011). This finding confirms the report which states that almost all the banks in Nigeria have adopted IFRS following the adoption in 2012 (Lena, 2013).

### 6.4.3. Oil and Gas Industry

The oil and gas industry (OIL_GAS) coefficient is positive and significant at the 1 percent level. This finding is different from the *a priori* statement of the hypothesis that companies in the oil and gas industry would not adopt IFRS based on previous studies related to value relevance in the oil and gas industry.

Surprisingly, the result shows that companies in the oil and gas industry exhibit a positive relationship with IFRS adoption. In terms of IFRS requirements, full cost and successful effort method accounting principles are permitted in the IFRS. These can lead to different financial performances by the companies (Nichols, 2012; Othman, 2012). The finding in the oil and gas industry contradicts previous studies where such companies are less likely to adopt IFRS. This is due to the difficulties associated with the valuation and measurement of accounting items in the industry (Ibrahim, 2014).

In previous studies, companies in the oil and gas industry were either excluded or reported as negatively significant with accounting standards’ adoption. For example, Khokan, Rahman, & Abu (2014), Street, Gray, & Trust (2001) and Cooke (1992) found companies in the commercial services and supplies industries, consumer services and the durable sector, food, beverage and the staple retailing sector, healthcare equipment and services sector, transportation, automobiles and components sector were positive and more likely to adopt accounting standards than companies in the material sector or extractive sector which includes oil and gas.
However, this current study shows there is an 11.5 percent probability that companies in the oil and gas industry will adopt IFRS. In other words, a unit increase in the number of companies in the oil and gas industry will increase IFRS adoption by 11.5 percent. This finding is consistent with the previous study of oil and gas companies in Nigeria. Specifically, Barde (2009, p. 158) found that most of the oil and gas companies (Agip, Chevron, Conoil and ExxoMobil) strictly adopted SAS 2 and SAS 17. The adoption of IFRS in the industry suggests that the companies’ connections to individual and institutional investors, listing status and international affiliation may have influenced their willingness to adopt IFRS for transparency and legitimacy purposes.

6.4.4. Agricultural Industry

The agricultural industry coefficient is negative and significant at the 10 percent level. This means companies in the agricultural industries are less likely to adopt IFRS. Table 6.9 shows that if a company is in the agricultural industry, there are 10.6 percent chances the company will not adopt IFRS. Alternatively, this implied 1 percent increase in the number of companies in the agricultural industry will reduce the level of IFRS adoption by 10.6 percent.

The result is consistent with Elad (2007, p. 774) findings that, although IASB has had significant success from 1996 to 1999 in developing accounting principles for the agricultural industry, the application of IAS 41 in the industry has resulted in “unintended socio-economic consequences”. This is due to the differences in farming systems and motives for farming which relate to the country’s cultural differences and accountability (Elad, 2007).

The relevance of IAS 41 for the agricultural industry is further discussed in Kurniawan, Mulawarman, & Kamayanti et al. (2014) based on a postmodern paradigm. Kurniawan, Mulawarman, & Kamayanti et al. (2014) reported that IAS 41 will not produce value relevant financial statements for agricultural companies. The industry model result (Table 6.9) has empirically confirmed that companies in the agricultural industry are less likely to adopt IFRS following IFRS adoption at the national level in Nigeria.

Previous studies have shown that accounting for the agricultural industry is associated with the local business environment (Askary, 2006; Kurniawan et al., 2014). This implies that the globalisation of international accounting standards for companies in the agricultural industry will confront challenges and result in companies comply with legal accounting
requirements rather than substance over form if IFRS replaces locally developed accounting standards (Argilés & Slof, 2001; Kurniawan et al., 2014; Wentzel et al., 2008). The marginal effect of the agricultural industry is expected to be negative due to the difficulties in applying IAS 41, specifically the valuation of biological assets (Lavi, 2016).

6.5. Summary of the Chapter

This chapter discussed the factors that impact on IFRS adoption in Nigerian companies. Logistic regression is used to estimate the factors that influence IFRS adoption. The results show that companies’ culture, practical difficulties, and industry types are important in explaining the challenges in IFRS adoption. Companies’ characteristics are also identified as factors contributing to IFRS adoption. The study shows there are inherent challenges in IFRS adoption at different magnitudes. Specifically, there is a negative relationship between IFRS adoption and cultural factors based on the marginal effects result in Model 1. This implies that IFRS adoption will confront challenges in some business environments due to cultural differences. However, management attitudes towards transparency, professionalism and international exposure are required for successful IFRS adoption based on the empirical results. Some of the results are consistent with previous studies that investigated the challenges in IFRS adoption in other countries, while others are specific to the case of Nigeria. Some industries included in the study are likely to adopt IFRS at different levels except for the agricultural industry. The next chapter concludes the study.
Chapter 7
Summary and Conclusion

This chapter concludes the research and summarises the major findings. Section 7.1 presents the overview of the research, followed by a summary of the research process in Section 7.2. The major findings of the study are discussed in Section 7.3. The next section discusses the theoretical and practical implications of the study. Limitations of the study are discussed in Section 7.5. Finally, the research outlined areas for future research in Section 7.6.

7.1. An Overview of the Rationale for the Research

The adoption of IFRS has experienced worldwide reactions since 2005 following the EU adoption of IFRS for all member countries. Shortly after, other countries with similar or different economic environments also implemented IFRS. For example, IFRS were implemented in Australia in 2005 (Jones & Higgins, 2006), New Zealand in 2006 (Bradbury & Baskerville, 2008), South Africa in 2007 (Edwards et al., 2007), China in 2007 (Liu, Yao, Hu, & Liu, 2011), Kenya in 2008 (Bova & Pereira, 2012) and Nigeria in 2010 (Madawaki, 2012) among other countries. At the time of this study, more than 140 countries have implemented IFRS (International Accounting Standards Board, 2016). Companies in these countries are required to adopt IFRS for the preparation of financial statements. The adoption of IFRS shows the possibility of internationalising accounting practice around the world. This convergence of accounting systems is also an emerging phenomenon following a reduction in international trade barriers across boundaries.

Previous studies have revealed there are countries that have not implemented or adopted IFRS. Notwithstanding, there are some indications that those countries are indirectly adopting IFRS requirements. For example, the US is mostly referred to as IFRS non-compliant. However, the US Security Exchange Commission permits foreign companies registered in the US capital market to adopt FASB or IFRS requirements (Nobes, 2013). Therefore, IFRS can be identified directly or indirectly in many countries’ accounting systems.

Following the rise in IFRS adoption from 2005, the FRC required all companies in Nigeria to adopt IFRS beginning from January 2012. However, some challenges were inadequately reported in doing so and therefore, non-adoption of IFRS was widespread among Nigerian
companies. This gave rise to warnings of sanctions, such as compulsory business closure by accounting regulators for non-adopters. The sanctions also include the deletion of IFRS non-adopters from the NSE. There were series of reports that companies required to adopt IFRS face mounting challenges in adopting IFRS requirements. However, the challenges experienced by the companies were not reported. Therefore, the study attempts to bridge the limited research on the challenges Nigerian companies face in IFRS adoption.

Further, some reports indicated that some companies adopted IFRS as required by FRC while others did not adopt. The dichotomous reactions to IFRS adoption in Nigeria was irrational based on the FRC objectives of IFRS adoption. These objectives include transparency in financial reporting and other economic benefits for the companies. This phenomenon also motivated the study to examine what factors influence Nigerian companies to adopt IFRS.

This study examines the challenges in IFRS adoption by identifying the factors inhibiting preparers of financial statements’ decisions to adopt IFRS. However, there is no clear definition of the word “challenge.” The Oxford Dictionary has however defined a challenge as (i) a call to someone to participate in a competitive situation or fight to decide who is superior in terms of ability or strength, (ii) a task or situation that tests someone's abilities and (iii) a call to prove or justify something.

The last two definitions are more consistent with what previous studies referred to as challenges in accounting standards’ adoption, specifically in IFRS adoption (Faraj & Firjani, 2014; Ibrahim, 2014; Odia & Ogiedu, 2013; Ogbenjuwa, 2016). Further, no previous studies have attempted to define the word challenges so as to forge a specific area of focus when investigating challenges in IFRS adoption.

From the literature review, there are many theories explaining the challenges in accounting practice including IFRS adoption. For example, positive accounting theory presents a justification for what accounting value is, while normative accounting theory explains what accounting value should be, and cultural theory explains societal influences on accounting practice. The cultural theory includes some positive and normative theoretical dimensions in the accounting value. Therefore, the positive and normative accounting theories are confined to the cultural theory. This is used to identify the cultural factors that influence Nigerian companies to adopt IFRS in this study based on Borker (2013) research.
Some studies investigating the challenges in IFRS adoption focused on socio-cultural and non-cultural factors that inhibit financial statements preparers’ ability to meet the regulatory requirements. Such factors include companies’ characteristics (Shammari et al., 2008), industry business activities (Christensen et al., 2007; Cooke, 1992; Ibrahim, 2014; Tsunogaya et al., 2015), cultural factors (Borker, 2013b; Deegan, 2006; Gray, 1988) and practical difficulties in recognition, measurement and disclosures in applying accounting standards in financial statements (Ibrahim, 2014; Jones & Higgins, 2006; Uwadiae, 2012a, 2012b, 2013). Thus these factors are what accounting researchers considered to be the challenges in IFRS adoption.

However, there is limited understanding of the challenges in IFRS adoption in the case of Nigerian companies. To understand these challenges and the reasons some companies have adopted IFRS while others have not, this present study examined the relationship between IFRS adoption and different factors influencing preparers of financial statements’ decisions to adopt IFRS. These includes cultural factors, practical difficulties, and the industry types. The investigation of these challenges in relations to IFRS adoption is consistent with the documentation of the factors associated with IFRS adoption by Ogbenjuwa (2016), Ibrahim (2014), Borker (2013b), (Deegan, 2013) and Gernon & Wallace (1995).

The main research objectives of this study include the identification of the influences of companies’ cultural factors on IFRS adoption in the Nigerian financial reporting environment. The research also examined the practical difficulties in preparing financial statements in accordance with IFRS requirements. Further, the effects of industry types on IFRS adoption were also identified.

7.2. The Research Process

This study started by reviewing the financial reporting environment in Nigeria. It progressed by reviewing relevant literature on international accounting standards and the development and adoption of IFRS. Related theories were also reviewed. The research design and methodology for the study were determined consistent with data availability. Thus, a survey questionnaire was deemed appropriate for this study. A preliminary analysis of the collected data was carried out based on chi-square test, t-test and factor analysis. Finally, the research hypotheses were tested to show the impacts of the factors on IFRS adoption. A detailed summary of the research process is discussed as follows.
Chapter 2 reviewed the Nigerian financial reporting environment. It was identified that the Nigerian accounting system has existed since 1957 and consists of a set of accounting standards known as statements of accounting standards. The accounting standards developed by the FRC are required to be complied with under the CAMA 2004. There was a setback in the enforcement and adoption of accounting standards among Nigerian companies. This is attributed to the weak enforcement mechanism and multiplicity of laws in Nigeria. Further, there was a lack of continuous improvement in the accounting standards from 1957 – 2010 which led to IFRS adoption.

Following, the World Bank (2004) recommendations, IFRS was implemented in Nigeria with an effective date from January 2012. Different challenges were reported following the adoption, for example, companies’ resistance to adopt IFRS requirements, different regulatory requirements contrary to IFRS, the lack of IFRS knowledge and incompatibility with industry specific business activities and company’s unwillingness to adopt the IFRS requirements.

Media reports showed most of the companies are expected to adopt IFRS but resisted conforming to the FRC directive. The reasons for the resistance include preparers of financial statements’ concerns about unintended consequences of applying IFRS requirements in preparing financial statements and inconsistency with industry business activities. Other reasons for non-adoption include difficulties in applying IFRS for measurement, recognition and disclosure of accounting items (Ikpefan & Akande, 2012; Odia & Ogiedu, 2013; Uwadiae, 2012a, 2012b, 2013). However, these challenges have not been widely researched. Consequently, there was a limited understanding of what inhibits IFRS adoption in Nigeria. Thus, this study identified these challenges more explicitly.

Chapter 3 reviewed the related literature and theories. The literature review identified characteristic inconsistencies in the arguments for and against IFRS adoption. While some scholars support IFRS adoption for transparency, legitimacy, reliability and stewardship in financial reporting, others debate against IFRS adoption on the basis of cultural differences, difficulties in IFRS applications and industry specific accounting information requirements.

This study identified that the challenges in IFRS adoption are inconsistent throughout the literature. This means there are no clearly identified reasons companies adopt or resist adopting IFRS. Further, the literature revealed some concerns companies are likely to face in
IFRS adoption. These include practical difficulties, industries’ compatibility with IFRS accounting principles and companies’ cultural factors influencing accounting values.

Despite the volume of research investigating the challenges companies face in IFRS adoption, studies on the challenges in IFRS adoption in the context of Nigerian companies are limited. Following the increase in IFRS adoption, different studies have attempted to identify the associated challenges. However, the challenges are inexhaustible and different around IFRS jurisdictions.

From a theoretical perspective, there are several theories explaining the adoption of accounting standards. Chapter 3 discussed the related theories that explained how companies’ respond to accounting standards differently. Based on the theories and previous studies, a conceptual model was developed centred on cultural factors, industry type and practical difficulties to examine the challenges in IFRS adoption.

The study methodology and data were discussed in Chapter 4. A self-administered survey questionnaire was employed to collect data from financial statement preparers about their experiences in IFRS adoption. The survey instrument covers accounting practice, perceptions of IFRS adoption in Nigeria, practical difficulties in adopting IFRS, companies’ characteristics and demographic information of the employees who completed the survey questionnaire. The questionnaires were delivered and collected by five survey assistants. The companies’ senior accountants and CFOs who gave consent to participate in the research completed the questionnaires on behalf of the companies.

Based on time and budget constraints and practical difficulties in obtaining a complete mailing list of the target population from FRC’s Directorate of Accounting Standards Private Sector, the study used a convenience sampling method to select the sampled companies. The sample consisted of companies in Abuja, Benin City and Lagos Nigeria. These are some of the largest cities in Nigeria and where the majority of Nigerian businesses are located, except for Benin City which has fewer companies.

The respondents who completed the survey questionnaires had different educational qualifications. A Bachelor’s degree was the most common qualification held by the respondents followed by a Higher National Diploma. The majority of the respondents that completed the survey questionnaire were chief financial officers of the companies with least
a Bachelor’s degree qualification. Most of the respondents were between 30 to 40 years of age. Following the data collection, descriptive statistics were used to describe the characteristics of the companies in Chapter 5. The chi-square tests and independent t-tests were used to test the differences and similarities between IFRS adopters and non-adopters and the probability that the sample companies experienced the same challenges. In addition, EFA was employed to identify the underlying dimensions in explaining the inter-relationships among the companies’ accounting values and practical difficulties in adopting IFRS. The study used EFA to reduce the items from the survey instrument into a smaller set of factors as explanatory variables. Logistic regression was used to estimate how the explanatory variables influenced the preparers of financial statements’ decisions towards IFRS adoption and to what extent they affected IFRS adoption successes.

7.3. **Summary of Major Findings**

Listed and non-listed companies were included in the study. The descriptive statistics showed that the IFRS adopters were mainly listed companies, while the majority of non-adopters were non-listed companies. Further, companies that did not adopt IFRS were largely owned by families compared to IFRS adopters that were mainly non-family owned.

Most of the companies in the study were non-subsidiaries or parent companies. However, IFRS non-adopters comprised fewer parent companies. Further, financial services is the dominant industry with the majority of the companies adopting IFRS, followed by utilities and service industries. The survey results also showed fewer companies used international audit firms, while most companies used Nigerian audit firms which impacted on their decisions regarding IFRS adoption.

The companies examined were incorporated at different times. However, there were more companies incorporated between 1970 and 1980 and 1980 and 1990. Similarly, IFRS non-adopters mainly consisted of companies incorporated in 1980 to 1990 followed by 1990 to 2000. Further, the descriptive statistics revealed a significant difference between the number of companies that traded internationally and those that did not. The IFRS adopters consisted of more companies that traded internationally than non-adopters.

Surprisingly, the descriptive statistics showed that some IFRS non-adopters were not aware of their requirements to adopt IFRS. In terms of the importance of international accounting
standards, slightly more than average reported accounting standards were very important to their businesses. This implies close to half of the companies do not consider accounting standards as important.

The results further show that slightly above half of the companies believed that IFRS are important in attracting foreign investors to Nigeria. However, the majority of the respondents who supported such importance were IFRS adopters. The descriptive statistics indicated the majority of IFRS adopters had no prior experience in applying IFRS in preparing financial statements before IFRS were implemented in 2010. Only a marginal number of companies had prior experience in using IFRS to prepare financial statements.

The t-test results in terms of the practical difficulties in IFRS adoption varied among the companies. The descriptive statistics indicate some of the companies faced more challenges than others. However, management accounting systems, implementation of appropriate internal control systems with IFRS and inconsistency in accounting regulatory requirements were insignificant in the descriptive analysis.

Some of the items in the factor analysis exhibit positive correlations with other items, while some have negative corrections or are below the cut-off selection criterion of 3.0. The final results of the factor analysis consist of 8 factors in the cultural model. These include optimism, conservatism, secrecy, uniformity, transparency, flexibility, statutory control and professionalism. In regard to the practical challenges, 6 factors which include valuation of accounting items, changes in information technology, staff knowledge and experience, costs of adoption, inconsistent legal requirements and internal control system iterated in the EFA. These factors in addition to industry type were further used in the empirical analysis to test the factors that inhibit IFRS adoption.

Chapter 6 uses the econometric method to estimate the impacts of the factors on IFRS adoption. A series of hypotheses were developed in Chapter 1 to test the impacts of the challenges on IFRS adoption. The hypotheses were developed to reflect the three areas of the study. In terms of the companies’ cultural factors, the following hypotheses were tested:

**H1:** The higher a company ranks in terms of professionalism and the lower it ranks in terms of statutory control the more likely it ranks highly in terms of IFRS adoption.
**H2:** The higher a company ranks in terms of optimism and the lower it ranks in terms of conservatism the more likely it ranks highly in terms of IFRS adoption.

**H3:** The higher a company ranks in terms of transparency and the lower it ranks in terms of secrecy the more likely it ranks highly in terms of IFRS adoption.

**H4:** The higher a company ranks in terms of flexibility and the lower it ranks in terms of uniformity the more likely it ranks highly in terms of IFRS adoption.

Further, the impacts of industry business activities and practical challenges were also tested as follows:

**H5.** There is no relationship between IFRS adoption and practical difficulties in IFRS application to financial statements

**H6.** There is no significant difference in the companies’ IFRS adoption in terms of industry types

The results of the test hypotheses are presented in Table 7.1.

### Table 7.1 Summary of the Hypotheses

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<tr>
<th>Hypothesis</th>
<th>Supported</th>
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Three logit models were used in the empirical analysis to examine the challenges in IFRS adoption from three perspectives. Each model focuses on each research objective. The focus of the first model is to investigate how companies’ cultural factors influenced IFRS adoption. In the second model, the challenge in IFRS adoption is investigated based on the practical difficulties companies experience when IFRS are applied in their financial statements’ preparation. Further analysis includes an examination of industry effects on IFRS adoption in Model 3. The significant factors related to each model are presented in Table 7.2.
Some of the companies’ cultural factors were significant while others were not. The followings are summaries of the cultural variables that influenced IFRS adoption.

- **Statutory control** has a significant and negative impact on IFRS adoption. This implies statutory control poses a challenge to IFRS adoption based on preparers of financial statements’ expectations of detailed guidance and strict application of accounting standards without the choice of professional judgment. The significance of statutory control means financial preparers’ decisions to adopt IFRS were inhibited by their perceptions that the accounting system should be statutorily controlled with strict compliance and less professionalism.

- **Professionalism** is positive and significant. The impact of professionalism is relatively high. The marginal effect of the professionalism coefficient is greater than statutory control. The findings show that companies that believed accounting values should be determined in relation to different circumstances have a greater likelihood of IFRS adoption. Based on this finding, we can conclude that professionalism appears to have a greater impact on IFRS adoption than statutory control. Therefore, the impact of statutory control is surpassed by professionalism. Consequently, statutory control is not an absolute challenge in IFRS adoption in Nigeria even though it has a significant impact on IFRS adoption.
• A company’s system of flexible accounting practice exhibits a positive relationship with IFRS adoption. Further, the marginal effect of the flexibility coefficient is greater than uniformity. This means flexibility enhances IFRS adoption rather than being a challenge.

• The practice of following a strictly uniform accounting system is significant and influenced IFRS adoption. This implies that the companies followed a uniform accounting practice with less discretionary application of accounting standards. However, the impact of uniformity on IFRS adoption is lower than flexibility. Therefore, the relationship between the company’s flexible accounting system surpassed the challenge posed by the uniform accounting practice.

• Transparency is a challenge in IFRS adoption rather than an enhancing factor as hypothesised in the H3. The empirical analysis shows the transparency factor inhibits IFRS adoption which implies it contributes to non-adoption as most companies do not see the need for greater transparency. This finding contradicts the literature which states companies are motivated to adopt IFRS because it leads to transparency. However, this is not the case in IFRS adoption in Nigeria.

• The result reveals a relationship between secrecy and IFRS adoption. The presence of secrecy in financial information disclosure has a negative influence on the companies’ willingness to adopt IFRS. In other words, companies that maintain secrecy in disclosing their financial activities to users of financial statements are less likely to adopt IFRS. This result further confirms the ownership structure and companies’ willingness to adopt IFRS as discussed in Chen & Nowland (2010).

• There is no significant relationship between optimism and conservatism and IFRS adoption. Similarly, company listing status and company size are insignificant in the first model.

• Overall, the impacts of cultural factors on IFRS adoption are minimal compared to the characteristics of the companies. For example, the marginal effects of audit type indicate a larger probability of IFRS adoption than cultural factors. However, it is important to state that the predictive influences of the cultural factors from the literature are confirmed in the empirical analysis.
The practical difficulties in IFRS adoption are examined in Model 2 and significantly impact IFRS adoption at different levels. The findings are summarised as follows.

- The lack of staff knowledge is one of the most practical difficulties in IFRS adoption among the companies. Model 2 results show that knowledge of IFRS has a negative impact on the companies’ IFRS adoption. This is due to the lack of IFRS professional expertise.

- The cost of IFRS adoption is a setback to the companies’ decisions to adopt IFRS. The empirical finding indicates the higher the cost of IFRS adoption, the higher the likelihood of non-adoption based on the significance of cost which focuses on the companies’ costs of converting the SAS accounting to the IFRS accounting system. This cost factor includes consultancy, hiring of new accountants and the cost incurred in fees to FRC to certify the financial statements as IFRS compliant.

- Another factor that significantly influenced IFRS adoption is the inconsistency in the legal requirements for financial reporting in Nigeria. Inconsistent regulatory requirements relate to the multiplicity of financial reporting requirements. The result shows that the higher the number of regulatory requirements the less likelihood of IFRS adoption. This means that the greater the number of specific accounting reporting requirements (different from IFRS), the less probability of IFRS adoption.

- In terms of valuation of assets and liabilities, the calculation of accounting values following IFRS requirements impacted on the companies’ decisions whether or not to adopt IFRS. This means companies that face difficulties in calculating accounting values are less likely to adopt IFRS. This finding confirms the t-test results that difficulty in calculating accounting value is one of the reasons some companies have not adopted IFRS.

- Overall, the practical difficulties in IFRS application are prohibitive in IFRS adoption. The practical difficulties contribute to the reasons some sampled companies did not adopt IFRS.

Finally, the study examines the effects of industry type on IFRS adoption in Model 3. Some of the industries significantly influenced IFRS adoption while others did not. The
empirical results are summarised below.

- The companies in the financial services industry exhibited the highest likelihood of adopting IFRS. This implies there is a greater probability the companies in the financial services industry will adopt IFRS than companies in the other industries.

- The service industry coefficient is insignificant, however, it exhibits a negative relationship with IFRS adoption and the coefficient is relatively large whilst the marginal effect is relatively smaller than other industries. This implies that the impact of the service industry on IFRS adoption is not supported in this study. The service industry consists of companies whose business activities are dissimilar.

- The construction industry coefficient exhibits a positive relationship with IFRS adoption. This means that if a company is in the construction industry, there is a greater likelihood the company will adopt IFRS. However, the study discussed some of the practical difficulties in the construction industry related to IAS 11 and IFRS 15. It is identified that financial statements of companies in the construction industry are likely to consist of pre-matured revenue recognition and overstating financial performance.

- Surprisingly, the result showed that companies in the oil and gas industry are likely to adopt IFRS at a greater likelihood than the research initially expected. The finding is contrary to previous studies which state that companies in this industry are less likely to adopt IFRS. The positive impacts of the oil and gas industry in Nigeria may be related to the dominance of foreign investors in some oil and gas companies such as ExxonMobil, Nigeria LNG Limited, Nigeria Agip Oil Company Limited among others.

- Lastly, the results in Model 3 showed the agricultural industry has a negative impact on IFRS adoption. Specifically, it is less likely that a company will adopt IFRS if the business activities are associated with agriculture. The reasons for this type of reaction by companies in the agriculture industry are related to the difficulties in measuring some accounting values such as biological assets consistent with IAS 41.
7.4. Contribution / Implications of the Study

There is a lack of research concerning IFRS adoption in Nigeria, particularly the challenges in IFRS adoption. The findings of this study are evident in its theoretical and practical contributions to the international accounting research literature, accounting practice and financial reporting.

This is the first research that empirically investigates the impact of cultural factors on IFRS adoption based on Borker (2013b) and Gray (1988) cultural theory. The research expands on the challenges cultural differences posed to the development of international accounting standards. Research in this area of international accounting has been alienated since the development of IFRS. Further, the study is the first research in Nigeria and one of the few conducted in developing countries on challenges in IFRS adoption. Secondly, the research distinctly examined the causal relationship of IFRS adoption and practical difficulties. Thirdly, the study is the first research and one of the few in Africa that investigates the impact of industry type on IFRS adoption. The research expands on the literature on the relationships between industry type and the likelihood of IFRS adoption. Finally, the research findings simultaneously provide useful information to support accounting regulators, users of financial statements and preparers of financial statements’ decisions to implement IFRS, adopt IFRS or adapt IFRS in Nigeria and countries with similar business environments. Further, the findings of the study reveal the challenges in IFRS application so that the IASB may consider improving the current IFRS and developing new ones in the future. The research findings also indicate what users of financial statements should expect from companies’ IFRS financial statements based on the company’s cultural orientation (i.e. whether the company is transparent or maintains some level of secrecy). The specific implications of the study are discussed in the following sections.

7.4.1. Theoretical Implications

This study enhances our understanding of factors inhibiting IFRS adoption by investigating the relationship between companies’ IFRS adoption and practical difficulties (such as cost of IFRS adoption, the lack of staff knowledge, appropriate internal control, information technology system, accounting valuation and inconsistent legal requirements), and industry type (such as agriculture, construction, financial services, oil and gas, health and services) (Faraj & Firjani, 2014; Guerreiro, 2012; Ibrahim, 2014; Jones & Higgins, 2006; Odia & Ogiedu,
Further, this study tests the relationship of cultural factors such as flexibility, uniformity, professionalism, statutory control, transparency, secrecy, optimism and conservatism which have not been previously studied since these factors were first identified in Borker (2013b). The findings in Model 1 confirm that cultural factors have significant impacts on IFRS adoption except for optimism and conservatism. The theoretical implications of this research are discussed below:

- **Cultural Factors as Challenges in IFRS Adoption**

Previous studies showed that cultural factors do not influence IFRS adoption, but the companies’ characteristics such as size influences the preparers of financial statements’ decisions to adopt IFRS (Clements, Neill, & Stovall, 2010). After controlling for companies’ size effect in Model 1, the study identified significant relationships between a set of cultural factors and the companies’ willingness to adopt IFRS.

Further, the study also confirms Perumpral et al. (2009) study that culture is one of the obstacles to international accounting standards’ adoption. The study however, identified that the traits of cultural factors that influence IFRS adoption differ from previous studies. Previous studies concluded the possible influence of culture on IFRS adoption without any specific reference to the traits of culture that influence IFRS adoption (Faraj & Firjani, 2014; Zakari, 2014). Based on these research findings, not all cultural traits positively or negatively affect IFRS adoption. For example, the literature reveals that the greater the transparency in IFRS financial statements the more likely the companies will adopt IFRS (Guerreiro, 2012). The empirical results in Model 1 show this perception is incorrect. The negative significance of transparency in this study implies that the impact can vary depending on the financial reporting environment.

The extent that each of the cultural factors affects IFRS adoption is shown in this study. The marginal effects in Model 1 show some cultural factors such as professionalism and flexibility have stronger and positive impact on IFRS adoption compared with other cultural factors such as statutory control, secrecy and uniformity, which have weaker and negative impacts.

Further, professionalism has been identified as the most important cultural trait that influences IFRS adoption. “It is only recently that researchers have realised the importance of culture in understanding professional and business practice” (Perera et al., 2012, p. 139).
Despite the awareness of the role of culture in accounting practice, little is known about the influence of professionalism prior to this study. The implication is that IFRS adoption can only be successful when accountants develop the relevant technical expertise in IFRS requirements prior to the adoption. This study confirms Borker (2012) finding that professionalism is a cultural factor that describes the success in IFRS adoption at both corporate and country levels, while statutory control hinders IFRS adoption.

- **Difficulties in IFRS Adoption**

Some previous studies identified a handful of practical difficulties in IFRS adoption. For example, the cost of adoption, IFRS knowledge and timeliness in IFRS adoption were reported in Jones & Higgins (2006). Other studies are simple commentaries or assumed factors that could affect IFRS adoption such as Gernon & Wallace (1995), Ali, (2005), Madawaki (2012) in the case of Nigeria, Brüggemann et al. (2013) in the case of EU and Misirlioglu et al. (2013) in the case of Turkey. However, this present study specifically identified what the companies considered as the challenges in IFRS adoption in Nigeria and presents the significant relationship between different challenges such as internal control system, the cost of IFRS adoption, difficulty in accounting valuation, different legal requirements and changes in information technology requirements. It appears many international accounting researchers have little or no awareness of the influences of the internal control system on IFRS adoption prior to this study. Only recently, the Institute of Management Accountants of the UK realised the need to integrate financial reporting with management accounting using an integrated internal control system (Borker, 2016a). This research confirms the need to include the internal control system as part of the challenges in IFRS adoption and provides insights into the threats posed by the lack of appropriate internal control systems on IFRS adoption.

Some of the challenges identified in this present study are similar to previous studies such as the cost of IFRS adoption and staff knowledge of IFRS. Other challenges identified in this present study are somewhat different from previous studies. For example, this study identified different regulatory requirements and valuation of accounting assets and liabilities as practical difficulties among the sampled companies. This expansion of the challenges in IFRS adoption broadens our knowledge of the practical difficulties companies face in preparing IFRS financial statements.
Industry Effects on IFRS Adoption

The study expands on the impacts of industry on IFRS adoption. The limited knowledge of industry effects on IFRS adoption in the literature has been addressed by this study. The effects of industry type included in previous studies such as Ibrahim (2014) and Wentzel et al. (2008) have been extended to other industries in this present study (i.e. agriculture, oil and gas, financial services, construction, conglomerates, health and services and utility). Moreover, the perceptions that IFRS is unlikely to be adopted by companies in the oil and gas industry have revealed a new dimension in this study that the adoption of IFRS by companies in different industries can vary by countries. The result in Model 3 shows the companies in the oil and gas industry in Nigeria exhibited a positive relationship with IFRS adoption. The business environment would have contributed to this finding because the majority of the oil and gas companies in Nigeria are held by Nigerians and foreign investors who have an influence on the companies’ willingness to adopt IFRS as directed by the FRC.

Overall, the study investigated the challenges in IFRS adoption from three perspectives. These includes companies’ cultural factors on IFRS adoption, practical difficulties in IFRS adoption, and the effects of industry type on IFRS adoption. This differs from previous studies that do not specifically define the aspect of challenges investigated (Faraj & Firjani, 2014; Guerreiro, 2012; Ibrahim, 2014; Jones & Higgins, 2006; Odia & Ogiedu, 2013; Zeghal & Mhedhbi, 2006).

7.4.2. Practical / Policy Implications

The research findings provide information to (1) users of financial statements (2) IFRS adopters and non-adopters, and (3) accounting regulators in countries where IFRS are currently applied and countries intending to implement IFRS in the future. The findings can be used to develop effective IFRS adoption strategies. The results also provide useful information for the continuous improvement of IFRS. The information includes insights into current challenges companies face in IFRS adoption. The specific practical and policy implications of this study are discussed as follows.

• Users of Financial Statements

Firstly, the cultural model showed the evidence that companies are challenged by different cultural factors. For example, a company tends to shift away from IFRS adoption when the
financial statements from IFRS appear to be more transparent (see Table 6.3). The result also shows that companies that are likely to maintain strict confidentiality in the financial transactions are more likely to decline IFRS adoption, thereby finding IFRS a challenge due to the level of transparency in IFRS financial statements. Therefore, the users of financial statements can specifically identify IFRS financial statements of the companies that require further analysis, particularly when such companies are aligned with a cultural dimension of secrecy. This is because the company’s financial statement is less likely to comply with IFRS requirements.

Further, the significance of the statutory control in Model 1 indicates some sampled companies are likely to adopt IFRS simply to comply with FRC regulations rather than adopting IFRS to report the financial transactions of the company. Therefore, users of financial statements would require further information from the preparers of financial statements for the substance over form of the companies’ financial activities. This implication does not only apply to Nigerian companies but other countries such as Turkey based on the finding reported in Misirlioglu et al. (2013), in which companies were only complying with the statutory requirements rather than reporting the economic situation. The implication is that, by relying on some financial statements because they are prepared based on IFRS requirements may increase investment risk in companies adopting IFRS based on regulatory requirements, rather than objectivity principles in financial reporting.

- **Preparers of Financial Statements**

Secondly, the research shows that Nigerian audit firms require further training on IFRS policies and applications. This will enhance the Nigerian audit firms’ capabilities to provide audit services to companies adopting IFRS requirements. To be successful in IFRS adoption, a company requires technical support from international audit firms based on this research finding. This is the implication of inadequate Nigerian audit firms to provide the technical support for companies’ transiting from GAAPs to IFRS. Consequently, the majority of IFRS adopters will choose to use international audits which could limit the competitiveness of local audit firms in the transition from GAAPs to IFRS (Chu, Simunic, Ye, & Zhang, 2015).

Previous studies have identified that for companies to attain the full benefits of IFRS, relevant training and new accounting skills must be acquired prior to the transition from GAAPs to IFRS.
Therefore, preparers of financial statements should ensure existing and new accounting staff are trained in IFRS financial statement preparation and review and develop the existing internal control system ahead of IFRS adoption. The Nigerian IFRS Academy should extend the training programs to publicly accountable companies at affordable costs. The implication of the significance of knowledge of IFRS and IFRS adoption means that continuous professional development should be encouraged to adapt to new changes in IFRS which occur almost annually (Nobes & Stadler, 2015).

- **Accounting Standard Settings and Regulation**

Thirdly, the FRC can use some of the findings to frame policies in IFRS adoption and enforcement in Nigeria. For example, the challenges from cultural factors, practical difficulties and industry type on IFRS adoption varied among the companies. The differences revealed that some companies are willing to adopt IFRS with little or no enforcement, while others are unlikely to adopt IFRS. The diverse factors influencing IFRS adoption can cause adoption challenges for accounting regulators. The factors identified in this study can be used by accounting regulators to develop enforcement strategies. For example, the findings showed that the type of industry contributes to the companies’ willingness to adopt IFRS. Based on the significance of the industry variable, the FRC requires a review of the type of companies to adopt IFRS in relation to their industry business activities. This indicates that the companies in the financial services industry require fewer enforcement efforts. However, the construction and oil and gas industries are also likely to adopt IFRS requirements but marginally. Therefore, these industries required greater enforcement and monitoring. The significance of the oil and gas industry variable indicates the uniqueness of how companies in Nigeria reacted to IFRS adoption which differs from prior findings by Ibrahim (2014). Further, the adoption of IFRS in the oil and gas industry provides an optimism that the financial statements from companies in the oil and gas industry in Nigeria would meets foreign investors financial reporting requirements. This therefore reduces or eliminate the fatigues and difficulties in comparing companies’ financial performance by users of financial statements.

The results show company’s listing status has a significant impact on IFRS adoption in Model 3. This implies that the level of IFRS adoption can be increased following IFRS adoption if the companies are listed on the stock exchange. Therefore, some companies should be permitted
to apply IFRS voluntarily such as the application of GAAPs in non-listed companies. This method is currently used in the case of EU IFRS adoption, where only listed companies of member countries are required to adopt IFRS requirement, while non-listed companies are given the options to adopt IFRS or otherwise GAAPs (Jung et al., 2016).

Lastly, the ownership structure of the companies significantly influences the decision to adopt or not to adopt IFRS. There is a likelihood of material misrepresentations of financial information in a family owned company based on previous studies (Bakre & Lauwo, 2016; Wallace, 1987). Therefore, enforcement of IFRS adoption should include enforcement strategies directed at the companies whose shareholders are family related. The Directorate of Accounting Standards Private Sector of the FRC should give more attention to and increase the risk level when examining compliance with IFRS requirements among family owned companies.

### 7.5. Limitations of the Study

This study has a number of limitations related to the survey data and methodology. These are summarised as follows:

- The scope of the survey area of this study is restricted to the Nigerian metropolitan cities where the majority of listed and non-listed companies are concentrated. Therefore, the results of this study may not be generalisable to the companies in the 36 states of Nigeria. Further, the results cannot represent the diverse set of companies operating in the less commercialised environment in Nigeria.

- The respondents’ inability to complete the questionnaires as required is another limitation identified in the study. A number of questions were not answered by some respondents, especially the characteristics of the companies such as whether the companies has traded internationally or not. This could be partially due to the timeliness of the respondents’ employment in the companies and when the survey was conducted. Thus, this hinders the respondents’ ability to answer some of the survey questions.

- The selection of the sampling method is another limitation. A convenience sampling method was employed by visiting only the companies accessible to the researcher. Preparers of financial statements from companies accessible to the researcher were
invited to voluntarily participate in the self-administered questionnaire. This tended to be relatively biased for excluding companies with restricted access. Further, only the companies situated in the cities where the survey was conducted had the chance to participate in the study.

- Another limitation caused by the convenience sampling is the large representation of listed companies in the study as compared to non-listed companies. The majority of the companies sampled are in the metropolitan cities of Nigeria where most listed companies are likely to be located compared to non-listed companies. This increases the chances of selecting almost all listed companies compared to non-listed companies. The research findings show this method results in the samples being slightly biased towards listed companies (See Table 5.2). This may also be related to the fact that companies can only be listed on the NSE if they have adopted IFRS, and the accessibility of listed companies for research compared to non-listed companies in Nigeria based on previous studies (Barde, 2009; Wallace, 1987).

- Another concern is the negative and lower correlation coefficients of some items in the factor analysis of cultural variables (see Table 5.6) and practical difficulties variables (see Table 5.7). There may be two possibilities that would have led to the constructs not positively correlating with the other constructs or lower than the factor selection criteria. First, the number of the respondents that answered the survey question related to the constructs may be inadequate for EFA which violates the guidelines set in Hair et al. (2006). Second, the negative correlation of the constructs may be related to the respondents interpreting the question differently from what it is intended to mean in the survey questionnaire (Chanchani & Willett, 2004). However, the exclusion of the items that resulted in the lower cut-off and negative correlation did not affect the Cronbach’s Alpha’s internal consistency measurement. The Cronbach’s Alpha was at acceptable levels which confirmed the other constructs correlation coefficients are adequate for the selected factors based on the internal consistency and mean inter-item correlation (Briggs & Cheek, 1986; Pallant, 2007). Therefore, the only exclusion is non-correlated constructs in the subsequent analysis.

- The survey was designed to collect data related to IFRS for publicly accountable companies. However, IASB developed other sets of accounting standards, such as IFRS
for SMEs and IPSAS designed for government related institutions (Giner, Hellman, Jorissen, Quagli, & Taleb, 2016). Ball (2016) identified that the challenges in IFRS adoption could exist across different types of IFRS developed by IASB. This study could not include IFRS for SMEs and IPSAS because they were required to be adopted in later years. Thus, the companies’ cultural factors, practical difficulties in IFRS adoption and industry type identified in this study cannot be interpreted as the challenges in IFRS for SMEs and IPSAS. The data used in this study is specifically applicable to IFRS for publicly accountable companies.

7.6. Future Research Opportunities

- This research is designed to identify the factors that impact on IFRS adoption and the difficulties companies experienced in adopting IFRS requirements among Nigerian companies. The study assumed that the sample companies exhibit the same experience in IFRS adoption. This is incorrect because the companies did not exhibit a high degree of homogeneity in the study. The relationships between the factors and IFRS adoption were derived from the empirical results. The results show that the cost factor is one of the barriers to IFRS adoption and the cost marginal effects varied among the companies studied. Therefore, it is useful to investigate how companies with fewer financial resources adopted IFRS and benefit from IFRS adoption in countries such as Nigeria. This is an area for further research. The argument commonly presented by many countries that have adopted IFRS is that the companies exhibit better financial performance following IFRS adoption. However, there is no conclusive empirical evidence to show there is a relationship between IFRS adoption and an increase in financial performance. Therefore, future studies may investigate the causal relationship between IFRS adoption and financial performance.

- Considering the uniqueness of our survey data, this study employs exploratory factor analysis and logistic regression to estimate the data. However, there are other estimation methods that may provide similar or different results and finding on the challenges to adopt IFRS. Future research could apply structural equation modelling (SEM) such as covariance-based structural equation modeling (Joreskog, 1973; Hair, Hult, Ringle, Sarstedt, & Thiele (2017). In addition, partial least squares structural equation modeling could provide further understanding of the cause-effects of
companies’ IFRS adoption and non-adoption (Hair, Sarstedt, Hopkins & Kuppelwieser, 2014).

- The difficulties influencing IFRS adoption decisions are inconclusive across the countries that have adopted IFRS. From the theoretical framework of this study, it can be understood that factors influencing decisions to adopt IFRS are identified from both normative and positive accounting theories encapsulated in cultural theory among the companies. This study is the first study that attempts to investigate how cultural values impact IFRS adoption using primary data. It is therefore recommended that future study examines the influences of cultural values on IFRS adoption by using secondary data such as financial statements.

- It is uncommon for companies in the oil and gas industry to adopt IFRS, especially in a developing country such as Nigeria. Future research could investigate why companies in oil and gas industry in Nigeria adopted IFRS contrary to those companies in other countries with a different economic environment.

- The agricultural industry exhibits a negative effect on IFRS adoption. Future studies should investigate the reasons associated with companies that adopt or do not adopt IFRS requirements in the agricultural industry. The resistance of the companies in the agricultural industry to adopt IFRS can be studied within a country and across the countries where IFRS have been implemented in order for IASB to make changes that can lead to harmony among the agricultural companies.

- Lastly, a continuous assessment of IFRS adoption and assessment of enforcement and monitoring mechanisms, along with changes from IASB are required in Nigeria to ensure that companies in Nigeria are not behind in the adoption of latest developments in IFRS. Such study should be periodically initiated by the FRC and accounting researchers who have access to accounting data from Nigerian companies. This can be a comparative analysis of IASB policies, FRC policies and financial statement contents analysis. For example, adoption of and compliance with IFRS 15 (Revenue from Contracts with Customers) which commences on 1 January 2018, with early adoption permitted in the construction industry can be investigated after the financial reporting period in 2018. This will help to identify the adoption and non-adoption
aspects of the standard and the potential challenges in the IFRS application to financial statements.

References


### Appendix A

#### Factor Analysis

**A.1 Correlation Matrix of EFA for Practical Difficulties in IFRS Adoption**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Valuation of Accounting Items</th>
<th>Valuation of Accounting Items</th>
<th>Changes in Information Technology systems</th>
<th>Changes in Information Technology systems</th>
<th>Staff knowledge and experiences</th>
<th>Staff knowledge and experiences</th>
<th>Staff knowledge and experiences</th>
<th>Staff knowledge and experiences</th>
<th>Intern al Control Syste m</th>
<th>Intern al Control Syste m</th>
<th>Cost of adoption</th>
<th>Cost of adoption</th>
<th>Inconsistent legal requirements</th>
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### A.1 Correlation Matrix of EFA for Practical Difficulties in IFRS Adoption (Continued)

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**Note:** The variables are in the order of items correlation presented in Table 5.7
A.2 Correlation matrix of EFA for Cultural Factors

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*Note:* The variables are presented in the order of factor correlation presented in Table 5.6
Appendix B
Logistic Regressions

B.1 Collinearity Diagnostics for Independent Variables

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A Dependent Variable: Has your company complied with IFRS mandatory adoption?
Appendix C
Survey Instrument

Faculty of Commerce

PO Box 84, Lincoln University
Lincoln 7647, Christchurch
New Zealand
www.lincoln.ac.nz
November 1, 2014

Dear Sir/Madam:

You are invited to participate in a survey that constitutes part of my Doctoral thesis at Lincoln University, New Zealand. This is part of my research project entitled *An Investigation of the Challenges in International Financial Reporting Standards’ Adoption: Evidence from Nigerian Publicly Accountable Companies*. The purpose of this research is to investigate the challenges in International Financial Reporting Standards (IFRS) adoption and the factors associated with the challenges in listed and non-listed companies.

Participation in the research is voluntary and you are free to decide not to participate in the research by returning the incomplete questionnaire. However, if you complete the questionnaire and return it to me, it will be understood that you are 18 years of age or older and have consented to participate in this survey and consent to publication of the results of this research with the understanding that anonymity will be preserved.

Your participation is of great assistance to this research. This survey will take a maximum of 35 minutes to complete. I would be grateful if you would complete the questionnaire and return it to me once you have finished by using the attached envelope enclosed in this survey questionnaire which has my name, address, and postal stamp.

Complete anonymity is assured in this survey, as the questionnaire is anonymous. No questions are asked which would identify you as an individual. Returning the questionnaire is completely anonymous and you do not need to include your name or details in any part of the questionnaire. All responses will be aggregated for analysis only, and the findings will not be reported in any way that could lead to the identification of individuals.

Please return your completed questionnaire within two weeks from the date of receipt and not later than January 30, 2015. A self-addressed franked envelope is included for returning the questionnaire. This project has been reviewed and approved by the Lincoln University Human Ethics Committee.

Thank you for your kind co-operation and assistance.

Yours sincerely,

Edeigba Jude
Faculty of Commerce
Lincoln University
Tel: (64)-3-423-0289
E-mail: Jude.Edeigba@lincolnuni.ac.nz.

Dr. Christopher Gan
Professor in Accounting and Finance
Faculty of Commerce
Lincoln University
(64)-3-423 0234
E-mail: Christopher.Gan@lincoln.ac.nz

Murray Clark
Senior Lecturer
Faculty of Commerce
Lincoln University
Tel: (64) 3 4230247 Ext 30247
E-mail: Murray.Clark@lincoln.ac.nz
Challenges in IFRS Adoption

For each question with answer brackets, please tick the reply that most closely matches your own. Otherwise, please follow the instructions given to respond to the questions. Only summary measures and conclusions from this survey will be reported. Your participation is voluntary and anonymous; all of your answers will be kept strictly confidential.

Section 1. General Information about IFRS Adoption (for ALL respondents)

1. Is International Financial Reporting Standards (IFRS) mandatory for your company?
   1. Yes [ ] (Go to question 4)
   2. No [ ] (Go to question 2)

2. Do you consider your company a public interest company?
   1. Yes [ ]
   2. No [ ]
   3. Don’t know [ ]

3. Is your business involved in the following? (Tick all that apply)
   1. Receipt of financial deposits from the public
   2. Open to public investment
   3. Accountable to the public

4. To what extent do you consider accounting standards important to your company?
   1. Very important [ ]
   2. Somewhat important [ ]
   3. Not important at all [ ]

5. To what extent is IFRS adoption important for Nigerian foreign investment attraction?
   1. Very important [ ]
   2. Somewhat important [ ]
   3. Not important at all [ ]

6. Has your company used IFRS voluntarily or restated financial statements prior to 2010?
   1. Yes [ ]
   2. No [ ]
   3. Don’t know [ ]

7. To what extent is Statement of Accounting Standards (SAS) similar to IFRS?
   1. Very similar [ ]
   2. Somewhat Similar [ ]
   3. Not similar at all [ ]
   4. Don’t know [ ]

8. Below is a series of statements about your preferences for accounting regulation and disclosure. Please CIRCLE how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1 = strongly disagree and 5 = strongly agree.
### Preference for Accounting Regulation

| 8.1.1. Accounting standards should be prescribed but compliance should be voluntary | 1 | 2 | 3 | 4 | 5 | 6 |
| 8.1.2. Compliance with accounting standards is very important for my company’s future business opportunities | 1 | 2 | 3 | 4 | 5 | 6 |
| 8.1.3. Prescription of accounting standards provides non-financial benefits to companies and future business success | 1 | 2 | 3 | 4 | 5 | 6 |
| 8.1.4. Prescription of accounting standards provides reliability on financial statements in Nigeria | 1 | 2 | 3 | 4 | 5 | 6 |
| 8.1.5. Prescription of accounting standards provides financial benefits to companies | 1 | 2 | 3 | 4 | 5 | 6 |
| 8.1.6. Preparing financial statements that deviate from prescribed accounting standards should result in sanctions by government regulatory agencies | 1 | 2 | 3 | 4 | 5 | 6 |

### Your Preference for Accounting Practice in Nigeria

<p>| 8.2.1. My company accountants are in the best position to judge what to report in financial statements without accounting standards | 1 | 2 | 3 | 4 | 5 | 6 |
| 8.2.2. The level of detailed standardisation of | 1 | 2 | 3 | 4 | 5 | 6 |</p>
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<td><strong>8.2.5.</strong> In rising price periods, LIFO should be used instead of FIFO in measurement and estimation of accounting value</td>
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Below is a series of statements about your perceptions of IFRS adoption. Please CIRCLE how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1 = strongly disagree and 5 = strongly agree.

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<td><strong>8.2.12.</strong> Depreciation rules should be set externally and specifically in financial reporting for separate groups of financial assets and liabilities</td>
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<td><strong>8.2.13.</strong> Financial statements should be standardised</td>
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<td><strong>8.2.14.</strong> High ethical conduct should be prerequisite for professional accountants</td>
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<td><strong>8.2.15.</strong> Information about shareholders and management of listed and non-listed companies should be reported in financial statements</td>
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<td><strong>8.2.16.</strong> Financial statements should be published for public use rather than restricted to shareholders</td>
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9. Below is a series of statements about your perceptions of IFRS adoption. Please CIRCLE how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1 = strongly disagree and 5 = strongly agree.

| **8.2.11.** The increasing international adoption of IFRS that has occurred in recent years has made adoption of IFRS by businesses of all kinds inevitable | 1 | 2 | 3 | 4 | 5 | 6 |
9.2. Most companies complied with IFRS adoption because of fear of being penalised by the law enforcement

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9.3. IFRS helps to eliminate financial risk in investment

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9.4. IFRS adoption enhances transparency, reliability and relevance of financial statements globally

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9.5. Family owned companies are most likely to avoid adopting IFRS

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9.6. FRCN harmonisation of Nigerian SAS is the right decision

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9.7. IFRS adoption in my company will be in the line of public interest

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9.8. Harmonisation of accounting standards eliminates restatement of financial statements by Nigerian companies doing business abroad

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9.9. The best way to adopt IFRS is to adopt all IFRS at once for all companies in Nigeria

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9.10. Adoption of IFRS will eliminate differences in financial statement contents from similar companies

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</thead>
</table>
9.11. Companies with no accountants qualified in IFRS procedures and policies are mostly likely to reject IFRS

10. Does your company have an accountant qualified in IFRS procedures and policies?
   1. Yes [   ]
   2. No [   ]

11. Please CIRCLE how concerned you are about the harmonisation of international accounting standards on a scale of 1 to 5, with 1 = very concerned and 5 = not concerned at all

<table>
<thead>
<tr>
<th></th>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don't Know</th>
</tr>
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<tbody>
<tr>
<td>11.1. Inconsistency with culture</td>
<td>1</td>
<td>2</td>
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</tr>
<tr>
<td>11.2. Inconsistency with Nigerian business environment</td>
<td>1</td>
<td>2</td>
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<td>6</td>
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<tr>
<td>11.3. Inconsistent IFRS application</td>
<td>1</td>
<td>2</td>
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<td>6</td>
</tr>
<tr>
<td>11.4. Absences of practicality in financial statement content</td>
<td>1</td>
<td>2</td>
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<td>5</td>
<td>6</td>
</tr>
<tr>
<td>11.5. Low level of enforcement of IFRS</td>
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<td>2</td>
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</tbody>
</table>

12. How likely is it that your company will engage in selecting accounting standards that best increase your company’s financial performance indicators against the ones that do not increase your company’s financial performance indicators following IFRS adoption?
   1. Very likely to select accounting standards that increase financial performance indicators [   ]
   2. Somewhat likely to select accounting standards that increase financial performance indicators [   ]
   3. Not likely to select accounting standards that increase financial performance indicators [   ]

13. Please CIRCLE how concerned you are about the adoption of IFRS on a scale of 1 to 5, with 1 = very concerned and 5 = not concerned at all
13.1. Loss of national sovereignty on accounting practice in Nigeria

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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</table>

13.2. Level of IFRS disclosure requirements

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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</table>

13.3. Changes in IFRS policies and procedures

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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<td>2</td>
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</table>

13.4. Availability of IFRS experts

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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</table>

13.5. IFRS Accounting measurement

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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13.6. IFRS Accounting Valuation

<table>
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<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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</table>

13.7. Stakeholder interference in your accounting policies

<table>
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<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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</table>

13.8. Changes in your company’s financial performance

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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</table>

13.9. Increase in cost of financial statement production

<table>
<thead>
<tr>
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<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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<td>3</td>
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</tbody>
</table>

13.10. Stakeholders’ ability to understand your Financial statements

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
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<th>Don’t Know</th>
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</table>

13.11. Increases in company’s taxes

<table>
<thead>
<tr>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Neutral</th>
<th>Not Concerned</th>
<th>Not Concerned at All</th>
<th>Don’t Know</th>
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</table>

14. How likely is it that your company’s competitors will engage in selecting accounting standards that best increase financial performance indicators against the ones that do not increase financial performance indicators following IFRS adoption?

1. They are very likely to select accounting standards that increase financial performance
2. They are somewhat likely to select accounting standards that increase financial performance indicators

3. They are not likely at all to select accounting standards that increase financial performance indicators

### Section 2: Your Motivation and Demotivation to Adopt IFRS (for ALL Respondents)

1. The following statements are about your motivation or demotivation to adopt IFRS. Please CIRCLE how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1 = strongly disagree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>Management Benefits</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1. My company will adopt IFRS because managers’ compensation will increase as profit on financial statements increases following IFRS adoption</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>1.2. The adoption of IFRS will increase the financial performance indicators of my company</td>
<td>1</td>
<td>2</td>
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<td>6</td>
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<tr>
<td>1.3. Stakeholders have more confidence in my company’s solvency since the adoption of IFRS in Nigeria</td>
<td>1</td>
<td>2</td>
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<td>4</td>
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<td>6</td>
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<tr>
<td>1.4. In an internationalisation context, adoption of IFRS will provide more business opportunities to my company</td>
<td>1</td>
<td>2</td>
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<tr>
<td>1.5. The level of compliance with IFRS in the financial statements will increase the prestige of my company</td>
<td>1</td>
<td>2</td>
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</tr>
<tr>
<td>1.6. Adoption of IFRS eliminates the restatement of my company’s financial statements when doing business abroad</td>
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<td></td>
<td>1.7. Adoption of IFRS reduces my company's cost of raising capital</td>
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<td></td>
<td>1.8. Adoption of IFRS will numerically increase my company's market liquidity</td>
<td>1</td>
<td>2</td>
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</tr>
<tr>
<td></td>
<td>1.9. Stakeholders have more confidence in my company's solvency since the adoption of IFRS in Nigeria</td>
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<tr>
<td></td>
<td>1.10. My company uses IFRS for transparent strategic financial reporting</td>
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<td></td>
<td><strong>Demotivating Factors</strong></td>
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<tr>
<td></td>
<td>1.11. IFRS are likely to lead my company to financial insolvency</td>
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<td>1.12. My company dislikes IFRS because IFRS have effects on my company's financial performance indicators</td>
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<td>1.13. It is difficult for my company to forecast future consequences from IFRS financial statements</td>
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<tr>
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<td>1.14. IFRS require high costs of training accounting personnel in my company</td>
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<tr>
<td></td>
<td>1.15. It is difficult for my company to establish effective internal control systems with IFRS adoption</td>
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<td>2</td>
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<td>5</td>
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<tr>
<td></td>
<td>1.16. It is difficult for my company investors to understand IFRS financial statements</td>
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<tr>
<td></td>
<td>1.17. My company dislikes IFRS because IFRS require too much disclosure</td>
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<td>1.18. Changes in IFRS procedures and policies are a problem for my company</td>
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</table>
2. Has your company complied with IFRS adoption?
   1. Yes [ ] (Please continue with Section 3)
   2. No [ ] (Please go to Section 4)

Section 3. IFRS Adopters

1. When did you know that IFRS were made mandatory for your company?
   1. 2010 [ ]
   2. 2011 [ ]
   3. 2012 [ ]
   4. 2013 [ ]
   5. 2014 [ ]

2. How did you understand IFRS are mandatory in Nigeria?
   1. Financial Reporting Council [ ]
   2. Parent Company [ ]
   3. Subsidiary Company [ ]
   4. Other(s) (Please specify) ______________________

3. Why did your company comply with IFRS adoption? (Tick all that apply)
   1. To attract foreign investors [ ]
   2. Concerned about being penalised by accounting regulators [ ]
   3. It provides financial benefits to my company [ ]
   4. It provides non-financial benefits to my company [ ]
   5. It enhances my company’s legitimacy [ ]
   6. It eases the cost of raising capital internationally [ ]
   7. It provides the opportunity to be listed on the International Stock Market [ ]
   8. It is a proof of transparency in my company [ ]
   9. It increases my company’s financial performance indicators [ ]
   10. It is the best determinant of my company’s financial performance [ ]
   11. IFRS accounting value is more value relevant than SAS [ ]
   12. Other(s) (Please specify) ______________________

4. What difficulties has your company encountered in complying with IFRS adoption? (Tick all that apply)
   1. Understanding procedures in applying IFRS [ ]
   2. Understanding IFRS accounting policies [ ]
   3. Calculation of accounting values [ ]
   4. Changes in Information Technology (IT) system [ ]
   5. Management accounting system [ ]
   6. Implementation of appropriate internal control systems with IFRS [ ]
   7. Staff knowledge and experiences [ ]
   8. Costs of adoption [ ]
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<tbody>
<tr>
<td>9.</td>
<td>Increases in cost of producing financial statements [ ]</td>
</tr>
<tr>
<td>10.</td>
<td>Negative reactions of main business partners [ ]</td>
</tr>
<tr>
<td>11.</td>
<td>Negative reactions from subordinates [ ]</td>
</tr>
<tr>
<td>12.</td>
<td>Inability of stakeholders to understand financial statements [ ]</td>
</tr>
<tr>
<td>13.</td>
<td>Difficulty in forecasting future cash flow from IFRS financial statements [ ]</td>
</tr>
<tr>
<td>14.</td>
<td>Difficulty in forecasting profitability from IFRS financial statements [ ]</td>
</tr>
<tr>
<td>15.</td>
<td>Inconsistency with different accounting regulators requirements [ ]</td>
</tr>
<tr>
<td>16.</td>
<td>Conflict of interest between management and stakeholders [ ]</td>
</tr>
<tr>
<td>17.</td>
<td>Increases in my company taxes [ ]</td>
</tr>
<tr>
<td>18.</td>
<td>Other(s) (Please specify) ________________________________</td>
</tr>
</tbody>
</table>

5. Which of the following accounting professionals provides your company with assistance or guidance when converting to IFRS?
   1. External auditors to my company [ ]
   2. Different external auditors [ ]
   3. Company staff [ ]
   4. Other(s) (Please specify) ________________________________

6. Did you receive any help from accounting regulators on how to adapt IFRS to your company?
   1. Yes [ ]
   2. No [ ]

7. Was the transition period for your company to adopt IFRS adequate?
   1. Yes [ ]
   2. No [ ]

8. What has been (or will be) included in assessing the impact of IFRS adoption on your company? (Tick all that apply)
   1. Procedures in applying IFRS to financial statements preparation [ ]
   2. Effects on company’s taxes [ ]
   3. Changes in accounting policies [ ]
   4. Impact on financial statements [ ]
   5. Effects on financial performance indicators [ ]
   6. Effects on Information Technology (IT) system [ ]
   7. Effects on the management accounting system [ ]
   8. Effects on internal control system and the documentation produced [ ]
   9. Staff training needs [ ]
   10. Costs involved [ ]
   11. Reactions of main business partners [ ]
   12. Level of disclosure requirements [ ]
   13. Changes in company’s taxes [ ]
   14. Other(s) (Please specify) ________________________________

9. Which of the followings IFRS adoption factor(s) has or have affected your company’s financial reporting? (Tick all that apply)
   1. Changes my company accounting system [ ]
   2. Increases my company’s taxes [ ]
3. Changes my company’s financial policies
4. Reduces financial statement performance indicators
5. Increases financial statement performance indicators
6. Required new Information Technology (IT) system
7. Changes in the management strategic financial reporting
8. Causes complexity in the internal control system
9. Increases staff training needs
10. Increases costs of preparing financial statements
11. Increases stakeholders’ demands for financial statement interpretations
12. Increases the level of disclosure
13. Reduces the level of disclosure
14. Other(s) (specify please) ________________________________

10. How did IFRS adoption affect your company’s financial reporting system? (Tick all that apply)
1. Contradicts different accounting regulators’ legal disclosure requirements
2. Contradicts my company’s measurement and valuation requirements
3. Requires restatement of financial statements for different legal requirements
4. Causes confusion with other accounting regulators’ requirements
5. Other (s) (Please specify) ________________________________

11. Did the level of knowledge about IFRS contribute to your decision to adopt IFRS?
   1. Yes
   2. No

12. What accounting standards did your company use to prepare 2013 financial statements?
   1. IFRS
   2. SAS
   3. Others (Please specify) ________________________________

13. Have any accounting regulators rejected your financial statements with the accounting standards you prepared with your answer in question 12?
   1. Yes. (Please specify) ________________________________
   2. No

Please go to Section 5 (Demographic Characteristics)

Section 4: Non IFRS Adopters
1. Why did your company not adopt IFRS? (Tick all that apply.)
   1. Management accounting system
   2. My company does not have an accountant with IFRS knowledge
   3. IFRS is very expensive to adopt
   4. Understanding procedures in applying IFRS
   5. Calculation of accounting values
   6. Increases in my company’s taxes
   7. Implementation of appropriate internal control systems with IFRS
   8. Understanding IFRS accounting policies
9. I am not aware IFRS is mandatory [ ]

2. To what extent do you believe market price is fundamentally misleading under conditions of extreme illiquidity?
   1. Very misleading [ ]
   2. Somewhat misleading [ ]
   3. Not misleading at all [ ]

3. Do you think IFRS is producing accounting values that give a good prediction of future market price?
   1. Yes [ ]
   2. No [ ]

4. Please CIRCLE how the level of knowledge and experience about IFRS influences your decision not to adopt IFRS on a scale of 1 to 5, with 1 = very influential to adopt and 5 = not influential at all

<table>
<thead>
<tr>
<th>Very influential</th>
<th>Influential</th>
<th>Neutral</th>
<th>Not Influential</th>
<th>Not influential at all</th>
<th>Don’t Know</th>
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<tbody>
<tr>
<td>4.1. Financial statement presentation</td>
<td>1</td>
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<td>4.2. Valuation procedure</td>
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<td>4.3. Measurement procedure</td>
<td>1</td>
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<td>4.4. Disclosure policies</td>
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</table>

5. Have your company’s financial statements been rejected by any accounting regulators?
   1. Yes [ ]
   2. No [ ]

6. What accounting standards do you use to prepare financial statements after the mandatory IFRS adoption date?
   1. SAS [ ]
   2. Others (Please specify) ________________________________

7. Have any accounting regulators rejected your financial statements with the accounting standards you prepared with your answer in question 6?
   1. Yes. [ ] (Please specify) ________________________________
   2. No [ ]

8. To what extent is SAS more important to your company than IFRS?
   1. Very important [ ]
   2. Somewhat important [ ]
   3. Not important at all [ ]
9. To what extent is IFRS more valuable to your company than SAS?
   1. Very valuable [ ]
   2. Somewhat valuable [ ]
   3. Not valuable at all [ ]

10. When did you assess the impact of IFRS on your company’s financial statements?
    1. Before 2010 [ ]
    2. 2010-2012 [ ]
    3. 2012-2014 [ ]
    4. Yet to assess [ ]
    5. No plan for assessment [ ]

11. How likely are you to adopt IFRS in the next 12 months?
    1. Very likely to adopt [ ]
    2. Somewhat likely [ ]
    3. Not likely at all [ ]

Please go to Section 5 (Demographic Characteristics)

| Section 5. Demographic Characteristics of Respondents (for All Respondents) |
|---|---|
| 1. Which of the categories defines your company’s status? |
| 1. Listed on the Nigerian Stock Exchange only [ ] |
| 2. Listed on the Nigerian Stock Exchange and a foreign stock exchange [ ] |
| 3. Never been listed on any stock exchange [ ] |
| 4. Listed on a foreign stock exchange [ ] |
| 2. To which of these categories does your company belong? |
| 1. Family owned [ ] |
| 2. Non family owned [ ] |
| 3. Not sure [ ] |
| 3. How many shareholders does your company have? |
| 1. Fewer than 10 [ ] |
| 2. 10-20 [ ] |
| 3. 20-50 [ ] |
| 4. 50-100 [ ] |
| 5. Over 100 [ ] |
| 4. Which of the following categories is applicable to your company? |
| 1. Subsidiary of a national company or group [ ] |
| 2. Subsidiary of an international company or group [ ] |
| 3. Parent company of a domestic company or group [ ] |
| 4. Parent company of international company or group [ ] |
| 5. None [ ] |
5. Which of the following Industries applies to your company consistent with Nigerian Stock Exchange (NSE) classification?
   1. Agriculture [ ]
   2. Construction/ Real Estate [ ]
   3. Financial Services [ ]
   4. Healthcare [ ]
   5. Oil & Gas [ ]
   6. Services [ ]
   7. Utilities [ ]
   8. Conglomerates [ ]
   9. Other(s) (Please specify) ____________________ [ ]
   10. Not sure [ ]

6. In the last five years including last year, the auditor of your company was (were)?
   1. International audit firms [ ]
   2. Nigerian local audit firms [ ]
   3. Both [ ]

7. When was your company incorporated?
   1. Before 1960 [ ]
   2. 1960-1970 [ ]
   3. 1970-1980 [ ]
   4. 1980-1990 [ ]
   5. 1990-20000 [ ]
   6. 2000-2010 [ ]
   7. 2010-2014 [ ]

8. Do your company trade abroad?
   1. Yes [ ]
   2. No [ ]
   3. I don’t know [ ]

9. Which is your age group?
   1. 18-30 years [ ]
   2. 30-40 years [ ]
   3. 40-50 years [ ]
   4. 50-70 years [ ]
   5. 70-80 years [ ]

10. What is your highest accounting education or professional qualification?
    1. No formal education [ ]
    2. Primary school [ ]
    3. Secondary school [ ]
    4. OND [ ]
    5. HND [ ]
    6. Bachelor degree [ ]
    7. PGD [ ]
    8. Master [ ]
9. PhD

10. Other(s) *(Please specify)*

11. Which institution granted your qualification? *(Tick all that apply)*

<p>| | |</p>
<table>
<thead>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Domestic institution</td>
</tr>
<tr>
<td>2.</td>
<td>Foreign institution</td>
</tr>
<tr>
<td>3.</td>
<td>No formal qualification</td>
</tr>
</tbody>
</table>

13. What is your job title?

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Senior Accountant</td>
</tr>
<tr>
<td>2.</td>
<td>CFO</td>
</tr>
<tr>
<td>3.</td>
<td>Other <em>(please specify)</em> ____________________________</td>
</tr>
</tbody>
</table>

*Your participation in this survey is greatly appreciated. Thank you for your time and effort. If you have further comments about IFRS adoption, please feel free to write these in the space provided below. Once again, we assure you that your identity will remain STRICTLY CONFIDENTIAL.*
## Appendix D

### Differences Between SAS and IFRS

<table>
<thead>
<tr>
<th>Subject</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components of Financial Statement</td>
<td>Comprises:</td>
<td>Comprises:</td>
</tr>
<tr>
<td></td>
<td>- Statements of Financial Position:</td>
<td>- Balance sheet</td>
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<tr>
<td></td>
<td>- Statement of Comprehensive Income (e.g. revaluation gains, foreign</td>
<td>- Profit and loss</td>
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<tr>
<td></td>
<td>exchange etc),</td>
<td>- Cash flows statement</td>
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<td></td>
<td>- Statement of Cash flow and</td>
<td>- Notes to Accounts</td>
</tr>
<tr>
<td></td>
<td>- Notes to Accounts</td>
<td></td>
</tr>
<tr>
<td>Format of Income Statement</td>
<td>IAS 1 prescribes the format of income statement</td>
<td>According to the format prescribed in the CAMA 1990, Banking Regulation Act for</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Banks etc</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>Mandatory for all entities</td>
<td>Not applicable for Non-listed companies</td>
</tr>
<tr>
<td>Presentation of Extraordinary Items</td>
<td>IFRS prohibits the presentation of extraordinary items in statement</td>
<td>Nigerian GAAP requires extraordinary items to be presented in the profit and</td>
</tr>
<tr>
<td></td>
<td>of comprehensive income or in the notes</td>
<td>loss statement of the entity distinct from the ordinary income and expenses for</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the period.</td>
</tr>
<tr>
<td>Dividends Proposed After the End of the</td>
<td>Dividends declared after the end of the reporting period but before</td>
<td>Dividends declared after the end of the reporting period but before the financial</td>
</tr>
<tr>
<td>Reporting Period</td>
<td>the financial statements are authorised for issue are not recorded</td>
<td>statements are approved and recorded as liabilities in the financial statements.</td>
</tr>
<tr>
<td></td>
<td>as liabilities in the financial statements.</td>
<td></td>
</tr>
<tr>
<td>Depreciation Rates</td>
<td>Allocated on a systematic basis to each accounting period during</td>
<td>Depreciation is based on the higher estimate of useful life of the asset.</td>
</tr>
<tr>
<td></td>
<td>the useful life of the asset.</td>
<td></td>
</tr>
<tr>
<td>Change in the Depreciation Method</td>
<td>Treated as a change in the accounting estimate and hence is</td>
<td>Treated as a change in the accounting policy and is accounted for retrospectively</td>
</tr>
<tr>
<td></td>
<td>accounted for prospectively.</td>
<td>(i.e. for all the relevant previous years). Any excess/deficit in the case of</td>
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<td></td>
<td></td>
<td>this kind of recalculation must be adjusted in the period in which the change</td>
</tr>
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<td></td>
<td></td>
<td>was effected.</td>
</tr>
<tr>
<td>Entire Class to be Revalued</td>
<td>If an item of property, plant and equipment is revalued, the entire</td>
<td>An entire class of assets can be revalued, or selection of assets for revaluation</td>
</tr>
<tr>
<td></td>
<td>class of assets to which that asset belongs should be revalued.</td>
<td>can be made on a systematic basis.</td>
</tr>
<tr>
<td>Functional and Foreign Currency</td>
<td>Functional currency is the currency of the primary economic</td>
<td>No concept of functional currency</td>
</tr>
<tr>
<td></td>
<td>environment in which</td>
<td></td>
</tr>
<tr>
<td>Topic</td>
<td>Description</td>
<td>Additional Information</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Goodwill</td>
<td>Goodwill is not amortised under IAS 38 but is subject to annual impairment test under IAS 36.</td>
<td>SAS 9 provides that goodwill arising on amalgamation in the nature of purchase is amortised over a period of 5 years.</td>
</tr>
<tr>
<td>Measurement of Intangible Assets</td>
<td>Can be measured at cost or revalued.</td>
<td>Are measured at cost only</td>
</tr>
<tr>
<td>Actuarial Gain or Loss</td>
<td>IAS 19 gives three choices for the treatment of actuarial gains or losses arising on the measurement of employee benefits.</td>
<td>Actuarial gains and losses should be recognised immediately in the statement.</td>
</tr>
<tr>
<td>Contingent Asset Disclosure</td>
<td>Contingent assets are disclosed in the financial statements only if the inflow of economic benefit is probable.</td>
<td>Contingent assets are disclosed as part of the director’s report and not disclosed in the financial statement but as a note. (off-balance sheet items)</td>
</tr>
<tr>
<td>Entities Operating in Hyper-Inflationary Economies</td>
<td>IAS 29 - Financial Reporting in Hyper inflationary economies prescribes reporting requirement for entities operating in hyperinflationary economies.</td>
<td>There is no equivalent standard.</td>
</tr>
</tbody>
</table>