FINANCIAL REPORTING PRACTICES IN ETHIOPIA

by

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SUMMARY

Financial reporting practices in Ethiopia

by

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Degree: Master of Philosophy in Accounting Sciences

Subject: Financial Accounting

Supervisor: Dr AA van Rooyen

Co-supervisor: Dr CN Chikutuma

The aim of this study was to assess the suitability of International Financial Reporting Standards (IFRS) adoption in Ethiopia. To this effect, the study focused on examining the key factors that would influence IFRS adoption in the context of Ethiopia, namely economic growth, economic openness, capital market development, level of accounting education as well as legal systems and government policies.

The study used a mixed-method approach, which involved a survey and content analysis. While the survey was the primary research approach in this study, the secondary data analysis was used to obtain additional evidence to corroborate the information gathered through the survey. Descriptive statistics was used to analyse and interpret the data. The study results show that the aforementioned factors examined were not conducive to adopting IFRS, and thus IFRS was not regarded as suitable in Ethiopia at the time of this study. The study also revealed an absence of a single set of accounting standards in Ethiopia.

Key terms: financial reporting; International Financial Reporting Standards (IFRS); adoption of IFRS; Ethiopia; accounting practices; economic growth; external economic openness; capital market development; accounting education; legal systems; government policies

TSHOBOKANYO

Tiragatso ya tlhagiso ya dipegelo kwa Ethiopia

ka

Tewodros Gobena Yirorsha

Dikirii: Masetara ya Filosofi mo Disaenseng tsa Palotlotlo

Serutwa: Palotlotlo ya Ditšhelete

Motlhokomedi: Ngk. AA van Rooyen

Motlhokomedi yo mongwe: Ngk. CN Chikutuma

Maikaelelo a thutopatlisiso eno e ne e le go sekaseka go tshwanelega ga go amogelwa ga Seemo sa Tlhagiso ya Dipegelo Tsa Ditšhelete sa Boditšhabatšhaba (IFRS) kwa Ethiopia. Go fitlhelela seno, thutopatlisiso e totile go tlhatlhoba dintlha tsa botlhokwa tse di tlaa susumetsang go amogelwa ga IFRS mo bokaong jwa Ethiopia, e leng kgolo ya ikonomi, go bulega ga ikonomi, tlhabololo ya mmaraka wa matlotlo, seelo sa thuto ya palotlotlo gammogo le dithulaganyo tsa semolao le dipholisi tsa puso.

Thutopatlisiso e dirisitse molebo wa mekgwa e e tswakaneng, o o akareditseng tshekatsheko ya diteng. Le fa tshekatsheko e ne e le molebo wa ntlha wa patlisiso mo thutopatlisisong eno, go dirisitswe tshekatsheko ya bobedi ya *data* go bona bosupi jwa tlaleletso go tshegetsa tshedimosetso e e kokoantsweng ka tshekatsheko. Go dirisitswe dipalopalo tse di tlhalosang go sekaseka le go ranola *data*. Dipoelo tsa thutopatlisiso di bontsha gore dintlha tse di tlhagisitsweng fa pele tse di tlhatlhobilweng di ne di sa siamela go amogela IFRS mme ka jalo IFRS ga e a tsewa e tshwanelegile go ka dirisiwa kwa Ethiopia ka nako ya thutopatlisiso eno. Gape thutopatlisiso e senotse gore ga go na le fa e le peelo e le nngwe ya palotlotlo kwa Ethiopia.

Mareo a botlhokwa: tlhagiso ya dipegelo tsa ditšhelete; Seemo sa Tlhagiso ya Dipegelo Tsa Ditšhelete sa Boditšhabatšhaba (IFRS): kamogelo ya IFRS; Ethiopia; ditiragatso tsa palotlotlo; kgolo ya ikonomi; go bulega ga ikonomi ya kwa ntle; tlhabololo ya mebaraka ya matlotlo; thuto ya palotlotlo; dithulaganyo tsa semolao; dipholisi tsa puso

OPSOMMING

Finansiële verslagdoeningspraktyke in Ethiopië

deur

Tewodros Gobena Yirorsha

Graad: Meester van Filosofie in Rekeningkundige Wetenskappe

Vak: Finansiële Rekeningkunde

Toesighouer: Dr AA van Rooyen

Medetoesighouer: Dr CN Chikutuma

Die doel van hierdie studie was om die geskiktheid van Internasionale Finansiële Verslagdoeningstandaarde-aanneming (IFRS-aanneming) in Ethiopië te assesseer. Die studie het derhalwe daarop gefokus om die sleutelfaktore te ondersoek wat die IFRS-aanneming in die konteks van Ethiopië sal beïnvloed, naamlik ekonomiese groei, ekonomiese oopheid, kapitaalmarkontwikkeling, vlak van rekeningkunde-opvoeding, asook regstelsels en regeringsbeleide.

Die studie het ’n gemengdemetodebenadering gebruik, wat ’n ondersoek en inhoudsontleding ingesluit het. Hoewel die ondersoek die primêre navorsingsbenadering in hierdie studie was, is die sekondêre ontleding gebruik om bykomende bewyse te bekom om die inligting wat deur middel van die ondersoek ingesamel is, te bevestig. Beskrywende statistiek is gebruik om die data te ontleed en te interpreteer. Die resultate van die studie dui daarop dat die bogenoemde faktore wat ondersoek is, nie bevorderlik is om die IFRS aan te neem nie en derhalwe is die IFRS as nie geskik vir Ethiopië ten tye van hierdie studie beskou nie. Die studie het ook ’n afwesigheid van ’n enkele stel rekeningkundige standaarde in Ethiopië aan die lig gebring.

Sleutelwoorde: finansiële verslagdoening; Internasionale Finansiële Verslagdoeningstandaarde (IFRS); aanneming van IFRS; rekeningkundepraktyke; ekonomiese groei; eksterne ekonomiese oopheid, kapitaalmarkontwikkeling; rekeningkunde-opvoeding; regstelsels; regeringsbeleide

Student number: 55772889

DECLARATION

I, the undersigned, declare that this dissertation, **Financial reporting practices in Ethiopia,** is my own work, and that all the sources that I have used or cited have been indicated and acknowledged by means of complete references.

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Signature	**Date**

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ABBREVIATIONS AND ACRONYMS

AABE	Accounting and Auditing Board of Ethiopia
ACAUS	Association of Chartered Accountants in the United States
ACCA	Association of Chartered Certified Accountants
CFOs	Chief Finance Officers
CIMA	Chartered Institute of Management Accountants
COMESA	Common Market for Eastern and Southern Africa
ECSU	Ethiopian Civil Service University
EIA	Ethiopian Investment Agency
EPA	Economic Partnership Agreement
EU	European Union
FASB	Financial Accounting Standards Board
FDI	foreign direct investment
G20	Group of Twenty
GAAP	Generally Accepted Accounting Principles
GDP	gross domestic product
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAA	Institute for Certification of Accountants and Auditors
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
KMO	Kaiser–Meyer–Olkin
NBE	National Bank of Ethiopia
PwC	PricewaterhouseCoopers
SD	standard deviation
SOEs	state-owned enterprise
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom
UN	United Nations
Unisa	University of South Africa
US GAAP	United States of America Generally Accepted Accounting Principles
US	United States

WEF	World Economic Forum
WTO	World Trade Organization

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CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

Unlike most other modern professions, the accounting profession has a history that is usually discussed in terms of the formalisation of the double-entry book-keeping process, and the profession has evolved over hundreds of years starting from the ancient and medieval times (Association of Chartered Accountants in the United States [ACAUS], 2002). Moreover, the nature of financial reporting has evolved over time due to the ever-changing needs of users of financial information, which, in turn, resulted from increasingly complex business transactions (International Auditing and Assurance Standards Board [IAASB], 2011). The changes in financial reporting include, but are not limited to; the move to international convergence in financial reporting standards (Institute of Chartered Accountants in England and Wales [ICAEW], 2009).

The globalisation of accounting standards through the development of International Financial Reporting Standards (IFRS) is one of the most important phenomena in financial reporting (Ramanna, 2012). IFRS are accounting standards issued by the International Accounting Standards Board (IASB), and are a globally recognised set of accounting standards for the preparation of financial statements by business entities (Ball, 2006; Pacter, 2015). Before IFRS, business entities made use of Generally Accepted Accounting Principles (GAAP), which focused on individual countries only.

According to Whittington (2008), since 2005, several countries, particularly the member states of the European Union (EU) aligned their GAAP with IFRS. Over 100 countries, including the world's major economies, either have adopted IFRS or have IFRS adoption programmes (Pacter, 2015:6-7). The most notable success in this regard is the decision by the United States (US) Security and Exchange Commission to accept financial reports prepared under IFRS for foreign registered companies in the US capital market without reconciliation to the US Generally Accepted Accounting Principles (US GAAP) (Street, 2008; 2012). However, it is important to note that the accounting standards used in the US are US GAAP not IFRS. It is also essential to understand that while US GAAP are accounting standards set by the US Financial Accounting Standards Board (Street, 2012), IFRS are accounting standards issued by the International Accounting Standards Board (IASB), and are a globally used set of accounting standards for the preparation of financial statements by business entities (Ball, 2006; Pacter, 2015).

Despite these remarkable achievements, the convergence of GAAP with IFRS has become an issue of discussion and debate among accounting professionals around the globe (Ali, Akbar, Ormrod & Shah, 2016; Ball, 2016; Shil, Das & Pramanik, 2009). Proponents of IFRS argue that using a single set of high-quality globally accepted accounting standards has the potential to increase comparability and transparency of financial reports and reduce financial statements preparation costs (Brown, 2011; George, Li & Shivakumar, 2016). Moreover, IFRS improve market efficiency, cross-border investment and the accuracy of analysts' forecasts (Ball, 2016; Tarca, 2012). These studies are consistent with the modernisation theory, which states that economic events, transactions and systems are universal in their application in accounting, and accounting is considered as the business language and should be internationalised to serve the international community (Othman & Kossentini, 2015).

On the other hand, the opponents of IFRS argue that a single set of global accounting standards may not be suitable for all countries due to differences in institutional factors, such as economic, political and legal systems and government policies among countries (Botzem, 2014; Holthausen, 2009; Kvaal & Nobes, 2010; Nobes, 2013). This argument is in line with the contingency and world system theories (refer section 2.6.2), which state that each country has a unique set of environmental factors that require the development of country-specific accounting practices (Othman & Kossentini, 2015). Given that the debate on IFRS as global financial reporting standards remains unsettled (Ball, 2006; 2016), it would be helpful to assess the appropriateness of IFRS in the context of each country that intends to adopt IFRS. The financial reporting and external auditing practices in Ethiopia were assessed by the World Bank and the International Monetary Fund (IMF) (World Bank, 2007), and the findings revealed the absence of national accounting standards as well as a lack of uniform accounting and financial reporting practices in the country. Consequent to these findings, the government of Ethiopia issued the Financial Reporting

Proclamation No. 847/2014 to adopt IFRS in the country (Ethiopian Government, 2014).

However, limited research have been conducted in Ethiopia to determine whether IFRS adoption is indeed suitable in the country as previous studies revealed that the success of adoption of IFRS depends on national factors (Ball, 2006; Brown, Preiato & Tarca, 2014). The current study, therefore, set out to examine the suitability of IFRS adoption in the context of Ethiopia considering the economic growth, external economic openness, capital market development, the level of accounting education as well as legal systems and government policies in the country. The study examined the environmental factors that would affect IFRS adoption in the context of Ethiopia based on theories, such as the contingency, world system and modernisation theories (refer sections 2.6); also refer (Othman & Kossentini, 2015). Moreover, the study identified the GAAP currently used in Ethiopia and evaluated their strengths and weaknesses in order to find evidence supporting the argument for or against IFRS adoption in the country.

This chapter consequently provides a brief overview of accounting and financial reporting practices in Ethiopia. Following this overview, the challenges relating to accounting and financial reporting practices, the rationale for the study, the research problem and objectives are discussed. This chapter also provides an explanation of the research design and method used in this study, the limitations and significance of the research, and an outline of the chapters in this dissertation.

1.2 BACKGROUND AND CONTEXTUALISATION OF THE STUDY

Kinfu (1990) provides an account of the development of accounting in Ethiopia and argues that the keeping of records and reporting might have existed in ancient Ethiopia as early as the third century A.D. during the Axumite Kingdom of the Nation (Mihret, James & Mula, 2009). The start of modern accounting and reporting in the country, nevertheless, is traced to the beginning of the 20th century (Mihret et al., 2009). According to Mihret et al. (2009), the keeping of formal records of government activities started in the 1900s when Emperor Menelik established the Finance Ministry to keep records of the king's treasury. Modern financial accounting in the private sector commenced in Ethiopia in 1905 when the Bank of Abyssinia was established (Kinfu, 1990). Accounting and financial reporting practices in Ethiopia exhibit distinct patterns over three eras (refer sections 1.2.1 to 1.2.3):

- capitalist-oriented ideology before 1974;
- communist ideology from 1974 to 1991; and
- capitalist-oriented ideology again since 1991 (Kidane, 2012; Mihret et al., 2009).

1.2.1 Accounting and financial reporting before 1974

During the capitalist-oriented period before 1974, Ethiopian accounting and financial reporting practice was characterised by different systems attributed to various foreign advisors and consultants to the kings of Ethiopia (Kidane, 2012; Mihret et al*.,* 2009). However, Ethiopian accounting was mainly influenced by the British accounting system due to the following reasons (Kidane, 2012):

- The Bank of Abyssinia was established in 1905 as a branch of the National Bank of Egypt, which itself was administered under the British financial system and influence. As a result, usage of British terminology and financial reporting requirements left their footprints in Ethiopian accounting (Kidane, 2012).
- British accounting firms, such as PriceWaterhouse Peat & Co established branches in Ethiopia in the 1940s and were offering advisory services in accounting and auditing which, in turn, led to British influence penetrating the accounting practice of many Ethiopian organisations (Kinfu, 1990; Mihret et al., 2009).

However, the revolution against Emperor Haile Selassie’s regime in 1974 ended this practice because of a shift in government ideology and the country’s economic system (Mihret et al*.,* 2009). This resulted in nationalisation of private companies and state control of financial activities.

1.2.2 Accounting and financial reporting from 1974 to 1991

Following the revolution in 1974, a military government with communist ideology took power in Ethiopia (Mihret et al*.,* 2009). Subsequently, private companies were nationalised and the number of state-owned enterprises (SOEs) in the country increased (Kidane, 2012). According to Kinfu (1990), the nationalisation of private firms led to state control of the financial activities of these enterprises by issuing financial regulations at the enterprise level.

As a result, of these changes, international accounting firms closed their Ethiopian branches (Kidane, 2012). This period is generally considered a time when accounting practice in Ethiopia was constrained, and emphasis was given to the audit function. This was evident when the government established the Audit Service Corporation to conduct external audit of SOEs (Mihret et al., 2009). Furthermore, internal audit as a separate function appeared during this era, and the Auditor General was mandated by proclamation number 13/1987 to monitor and regulate internal auditing in government departments and SOEs (Kidane, 2012; Mihret et al., 2009). Nevertheless, the shift in economic policy since 1991 increased private investment in the economy, which in turn, led to a change in the country's accounting practice (World Bank, 2007).

1.2.3 Accounting and financial reporting since 1991

After 1991, there was a period when Ethiopia shifted back to a free-market economic system after being structured as a "command economy" (Mihret et al., 2009:10) for 17 years (1974-1991). The shift led to a number of public enterprises being privatised (Kidane, 2012; Mihret et al*.,* 2009). According to the Ethiopian Investment Agency (EIA) (2014), on taking power in 1991, the new government progressively withdrew the state from the direct management and ownership of public enterprises and removed legal restrictions on private investment. These economic reforms implemented by the government resulted in the emergence of several private businesses in different sectors, such as banking and insurance, trade, real estate, construction, hotel and tourism, manufacturing and agriculture (EIA, 2014). Negatu (2009) concurs that the economic change attracted a number of foreign direct investments (FDIs) in infrastructure, agro-industry, manufacturing, hotel and tourism, mining, oil and gas, information and communication technology. The increase in the number of private firms resulted in the establishment of new corporate governance structures in Ethiopia, and this enhanced the importance of financial reporting and external auditing (World Bank, 2007). As part of its economic policy reforms, the government worked to improve the financial reporting infrastructure of the country to encourage private investment via enhanced platforms for risk assessment and reduced corporate failure (World Bank, 2007). Despite these efforts by the government, Ethiopian financial reporting practices still have several weaknesses and face various challenges (Mengistie, 2017).

1.3 CHALLENGES OF ACCOUNTING AND FINANCIAL REPORTING IN ETHIOPIA

The World Bank and the IMF conducted a joint initiative study, producing the *Reports on Observance of Standards and Codes* (World Bank, 2007), to assess the financial reporting and external auditing practices in Ethiopia. The study revealed several weaknesses, such as the absence of national accounting standards in the country, despite the economic policy reforms by the government (World Bank, 2007). Most businesses prepared their financial statements using accounting provisions according to the commercial code of 1960, public enterprise proclamation number 25/1992 and the income tax proclamation number 286/2000 (World Bank, 2007) . However, in none of these aforementioned regulations, the accounting standards applied were clearly stated (World Bank, 2007).This, in turn, led to different accounting and financial reporting practices among entities in the country. Some entities prepared their financial statements using IFRS, some use US GAAP and still others did not appropriately disclose the accounting standards they used (World Bank, 2007). As a result, the report (World Bank, 2007) made several policy recommendations namely:

- revision of the commercial code of 1960;
- enactment of financial reporting law;
- establishment of a national accountants and auditors board;
- setting accounting standards;
- establishment of a strong accountancy body with International Federation of Accountants (IFAC) membership; and
- establishment of a local professional and technician accountancy qualification.

Given the above recommendations, the next section discusses the rationale for the study, emphasising the suitability of IFRS adoption in Ethiopia.

1.4 RATIONALE FOR THE STUDY

In order to address the financial reporting problems in Ethiopia, the Ethiopian government issued a proclamation to adopt IFRS starting from 2017/2018 (Ethiopian Government, 2014) and to establish the Accounting and Auditing Board of Ethiopia

(AABE) that would oversee the accounting and financial reporting practices of the country. However, it appears that there is a knowledge gap regarding suitability of IFRS in Ethiopia, and only limited studies examining the underlying factors that would affect IFRS adoption in Ethiopia were conducted (e.g. Kidane, 2012; Mengistie, 2017). Studies (refer Ball, 2006; 2016; Brown et al., 2014) found that the success of adoption and implementation of IFRS depends on national factors for financial reporting practices. As a result, understanding a country's contextual factors, such as economic, legal, and political factors, would help standard setters make appropriate decisions (Shima & Yang, 2012; Stainbank, 2014; Zeghal & Mhedhbi, 2006). Consequently, the current study aimed to assess factors that influence IFRS adoption in Ethiopia to find evidence whether these underlying factors are conducive to adopting IFRS in the country (refer sections 2.4 and 2.5). This study, therefore, bridges the knowledge gap, and benefits various stakeholders, such as standard setters, practitioners and academia. The study also contributes to the existing body of knowledge on IFRS adoption by providing additional evidence in the context of a developing country where economic, legal and political systems are significantly different from developed countries that are leaders in the field of IFRS implementation.

Several international IFRS studies (refer Armstrong, Barth, Jagolinzer & Riedl, 2010; Ball, 2006; 2016; Brown, 2011; Ramanna & Sletten, 2009) have been conducted. However, most of them were conducted based on data from developed countries. The results of these studies, therefore, may not be equally applicable to developing countries due to a significant difference in the contextual factors. Studies investigating the effects of IFRS adoption have concluded that while there may be benefits for application of IFRS globally, their realisation depends on the quality of infrastructure to support IFRS at individual country level (Brown et al., 2014; Tarca, 2012). This implies the importance of evaluating the advantages and disadvantages of IFRS based on factors influencing financial reporting practices in each country. Having discussed the rationale for the study, the next section presents the problem statement and research questions.

1.5 PROBLEM STATEMENT AND RESEARCH QUESTIONS

Bearing in mind that Ethiopia started IFRS adoption in 2017/2018 and the government issued a proclamation to this effect, this study set out to assess the suitability of IFRS adoption in the country. Considering the contingency theory, the world system theory and the modernisation theory, the following research problem was set to be solved:

> Is IFRS adoption suitable for Ethiopia in relation to the country's economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies?

From the central research problem, the following research questions emerged:

- Which accounting standards and principles are currently used in Ethiopia?
- Which problems with the current reporting practices in Ethiopia initiated the shift to IFRS adoption?

1.6 RESEARCH DESIGN AND METHODS

The research methods adopted in this study comprised a survey (questionnaire) and content analysis (financial statement review), which were conducted concurrently in 2017. The most recent (either financial year 2015, 2016 or 2017 depending on availability) audited financial statements of selected share companies were used for the content analysis. While the survey (refer Annexure A) was the primary research method in this study, the content analysis was conducted to corroborate or refute the information obtained through the survey. The survey was used to obtain information about the current accounting and financial reporting practices in Ethiopia and to gather experts' perceptions (refer section 1.6.1) about key selected factors, namely –

- level of economic growth;
- extent of external economic openness;
- development of the capital market;
- level of accounting education; and
- legal systems and government policies used to assess the IFRS suitability in Ethiopia.

In addition, most recent (either financial year 2015, 2016 or 2017 depending on availability) audited financial statements of selected share companies at the time of this study (2017) were reviewed and compared with requirements of relevant standards as well as laws and regulations (refer section 3.4.2). The review of audited financial statements of the selected share companies and relevant provisions of laws and regulations issued by the Ethiopian government with regard to the country's accounting and financial reporting practices were used to corroborate or refute the information obtained through the survey, especially to substantiate information about the current accounting and financial reporting practices in Ethiopia.

1.6.1 Questionnaire

For the questionnaire, the unit of analysis was the main stakeholders who were involved in Ethiopian financial reporting at the time of this research, namely:

- the preparers of financial statements represented by finance managers of share companies;
- managers at the Ethiopian revenue and customs authority;
- financial analysts;
- authorised auditors who were in the public practice; and
- authorised accountants in Addis Ababa.

Given, the wide range of experience they possess, these groups of stakeholders are believed to be knowledgeable about IFRS adoption and the Ethiopian context and they were believed to be able to provide reliable information. The unit of analysis for the survey, as outlined in sub-section 3.4.1.1, was 883. A sample was drawn from this unit of analysis (refer section 3.4.1.2.2), and a questionnaire (refer Annexure A) was distributed to the selected sample. The next section discusses the financial statements review briefly.

1.6.2 Financial statements review

The unit of analysis for the financial statements review in this study was share companies in Ethiopia that were based in Addis Ababa at the time of this research. Share companies in Ethiopia are public interest entities established by at least five members with a minimum capital of 50,000 Ethiopian birr (Government of Ethiopia, 1960:59–60) but their shares are not available for trading due to the absence of a capital market in the country (IMF, 2018). According to the researcher's preliminary assessment, almost all share companies in the country have their headquarters in

Addis Ababa because this city is the economic hub of the country. Consequently, the share companies in Addis Ababa are considered to fairly present all share companies in Ethiopia. According to the Ethiopian Ministry of Trade (2017) and the National Bank of Ethiopia (NBE) (2018), there were 153 share companies in Addis Ababa in 2017, comprising 57 financial institutions and 96 companies in other sectors. Data from a sample of the population (refer 3.4.2.2.1) was collected through review of the most recent audited financial statements of the selected companies at the time of the study, and was used to support information obtained through the survey. The financial statements of the selected companies were obtained from the individual companies. Most of the financial statements were in the form of hard copies and were returned to the respective companies after review. Very few financial statements were obtained from company websites. The next section discusses the analysis of data obtained through the questionnaire and financial statements review.

1.6.3 Data analysis

The Statistical Package for the Social Sciences (SPSS) was used to analyse and interpret the data. SPSS is a software package for performing data analysis in social science researches. Although it is possible to conduct statistical analysis using other generalised spreadsheet programs, SPSS is often used due to its effective data management, wider range of options, and comprehensive output organisation features. Moreover, SPSS is easy to use, and many of the widely used data sets can easily be entered into it so that it reduces the preliminary work needed to explore the data (Kutner, Machtsheim, Neter & Wasserman, 1996). As a result, SPSS was used in this research to analyse and interpret the quantitative data.

The data is presented using pie charts and descriptive and inferential statistics to verify the data and to draw conclusions. Descriptive and inferential statistics were used to present the interpreted data related to factors that would affect IFRS adoption in Ethiopia. Pie charts were used to present the categorical and ranked data. While ‘categorical data’ refers to data classified into certain categories or groups, ‘rank data’ refers to data measuring order of importance or relevance (Saunders, Lewis & Thornhill, 2007). A pie chart is a diagram summarising categorical data by dividing a circle into proportional segments with each segment representing a particular category (Celsi, Hair, Money, Page & Samouel, 2011). Pie charts are generally considered the most illustrative method of presenting categorical data (Celsi et al., 2011), and were therefore used in this research.

Data gathered using the financial statements review was analysed qualitatively, which included comparison with acceptable principles, standards, and theoretical frameworks. The analysed data is presented in the form of percentages and frequencies in Chapter 4.

1.7 LIMITATIONS OF THE STUDY

The objective of the study was to assess suitability of IFRS adoption in Ethiopia limiting the scope of the study to examination of the contextual factors that influence IFRS adoption. However, other matters not considered in the study, such as including only managers of share companies (refer 3.4.1.1), exclusion of financial statements of other forms of businesses (refer below) and use of only IFRS as benchmark for the financial statements review (refer 4.3.2) were not believed to be important enough to affect the results; hence, despite this limitation, inference from the study remains valid. In addition, the results are supported by corroborative evidence obtained through financial statements review.

Another constraint was that financial statements of share companies only were considered for review because the other forms of businesses in Ethiopia were still in the infant stage and it was difficult to obtain their financial statements. However, given that other forms of businesses were in the infant stage, their role in financial reporting practice in the country was also assumed insignificant. As a result, the effect of the omission of the financial statements of other forms of businesses (private limited companies and sole proprietors) on the study was considered negligible. This is because sole proprietors and private limited companies in Ethiopia are small businesses mainly engaged in services, retail and entertainment activities. Private limited companies are required to have only two members and a starting capital of birr 15 000, which was equivalent to US$500 at the current (June 2019) exchange rate of 30 birr to US$1. Birr is the currency used in Ethiopia. In addition, private limited companies and sole proprietors are prohibited by law from conducting banking and insurance business.

1.8 EXPLANATION OF KEY TERMS

To ensure a common understanding and a frame of reference, working definitions for the following key concepts and terms are given below.

Convergence of financial reporting standards

In a financial reporting context, convergence is the process of harmonising accounting standards issued by different regulatory bodies (Chartered Institute of Management Accountants [CIMA], 2008). The objective of convergence of financial reporting standards is to produce a common set of high-quality accounting standards to enhance the consistency, comparability and efficiency of financial statements. In this study, the concept 'convergence of financial reporting standards' refers to the same ideas and definition as explained above.

International Financial Reporting Standards (IFRS)

IFRS are a globally recognised set of accounting standards for the preparation of financial statements by business entities (Pacter, 2015). These standards prescribe the items that should be recognised as assets, liabilities, income and expense, and ways to measure and present these items in a set of financial statements and related disclosure about those items. IFRS are also described as accounting rules issued by the IASB and the International Accounting Standards (IAS) issued by IASB's predecessor, the International Accounting Standards Committee (IASC) (Ball, 2006; IFRS Foundation, 2018b). In this study, the abbreviation 'IFRS' refers to the same concept and definition as explained above.

Accounting harmonisation

In the context of this study, 'accounting harmonisation' refers to the process of increasing the comparability of accounting practices by setting limits on how much they can vary (Heidhues & Patel, 2015). Harmonised accounting practices are free of logical conflicts, and should improve the comparability of financial information from different countries. This implies accounting comparability through standardisation of accounting practices (Shil et al*.,* 2009).

Earnings management

In this study, 'earnings management' refers to the act of management decision-making and reporting using the advantage to choose between different accounting methods in order to show company results in a better light (Barth, Landsman & Lang, 2008). The objective of earnings management by corporate insiders or management is to conceal information regarding company performance from outsiders in order to protect their interests (Lin, 2016).

IFRS adoption

IFRS adoption indicates that national accounting rules and standards are set aside and replaced by requirement or permission to use IASB standards (IFRS) directly (Judge, Li & Pinsker, 2010). This implies that, if a country adopts IFRS, it will abandon its GAAP and use the accounting standards issued by IASB.

Information asymmetry

In the context of this study, ‘information asymmetry’ refers to the situation that favours managers (insiders) regarding information about the performance, challenges and opportunities facing the company they run rather than the outsiders (shareholders). Consequently, the managers can use this information advantageous to maximise their interest at the expenses of the shareholders’ interest (Hail, Leuz & Wysocki, 2010a; Lee, Walker & Christensen, 2008).

Value relevance

‘Value relevance’ refers to the quality of accounting information being capable of making a difference in the decisions made by users (IASB, 2010a). Financial information has the potential to make a difference in a decision if it has predictive value, confirmative value or both. ‘Predictive value’ of financial information, in turn, refers to usefulness of financial information to predict future outcomes. ‘Confirmative value’ of financial information, on the other hand, refers to the quality of financial information to provide feedback on past performance or evaluation (IASB, 2010a).

Legal systems

In this study, ‘legal systems’ refers to the laws and regulations that govern accounting and financial reporting practices in a given country.

1.9 OUTLINE OF THE STUDY

The research has been organised into five chapters. The first chapter presents a general introduction to the study where background information is discussed. Chapter

2 presents the literature review regarding IFRS and Ethiopian financial reporting practices, and therefore reflects the theoretical foundation for the research. The third chapter outlines the research design and methods that explain the research approach, data collection methods and instruments. The research results were analysed, and the results are presented in Chapter 4. The last chapter summarises the research findings, draws conclusions, provides recommendations and highlights further research areas. The research outline is recapped in Figure 1.1.

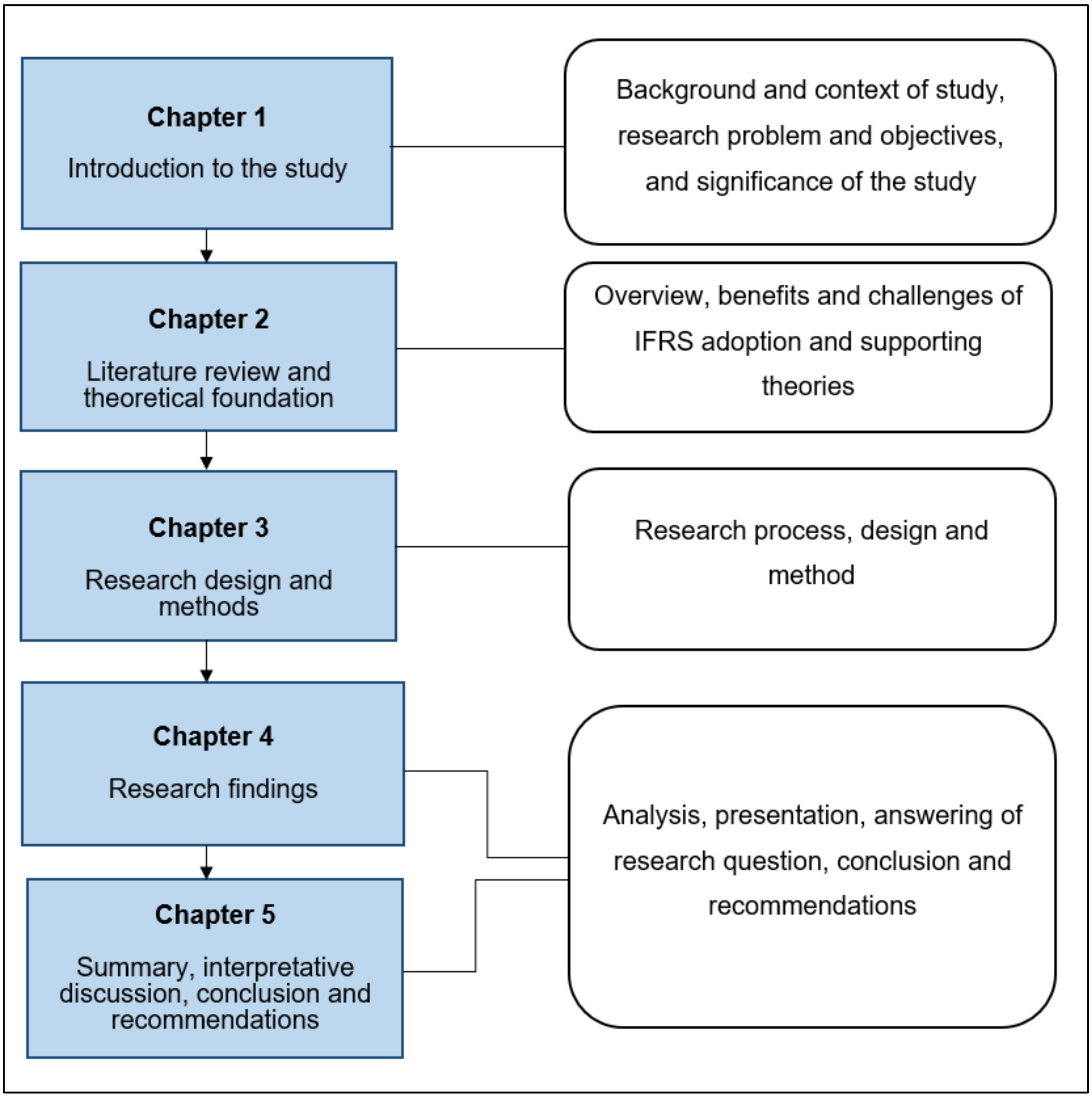

Figure 1.1: Outline of the study

Source: Author's own compilation.

As outlined in Figure 1.1, the next section summarises Chapter 1 briefly.

1.10 CHAPTER SUMMARY

This chapter discussed the general overview of financial reporting practices. In particular, the chapter reflected the trends for globalisation of financial reporting standards. Moreover, this chapter presented background information about Ethiopian accounting and highlighted the problems in Ethiopian financial reporting practices based on the preliminary literature review. However, the preliminary literature review revealed that limited research has been done on Ethiopian financial reporting practices, particularly on the suitability of IFRS adoption in Ethiopia in relation to the country's economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies. In order to fill this apparent knowledge gap, the present study set out to contribute to the understanding of the Ethiopian financial reporting practices and to provide evidence regarding the factors that would influence IFRS adoption in Ethiopia in relation to the country's economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies. Chapter 2 will discuss these factors in detail to lay the theoretical foundation for the study.

CHAPTER 2

LITERATURE REVIEW AND THEORETICAL FOUNDATION

2.1 INTRODUCTION

In Chapter 1, the general overview of accounting and financial reporting practices as well as background about Ethiopian accounting and financial reporting practices was discussed. This chapter presents the review of the literature on financial reporting practices, in particular literature on IFRS and IFRS adoption. The literature review begins with an overview of the development of IFRS and then discusses benefits and challenges of implementing IFRS. Thereafter, factors influencing IFRS adoption are discussed, followed by an explanation of issues regarding current Ethiopian financial reporting practices. Finally, accounting standard-setting strategies together with supporting theories are discussed.

2.2 OVERVIEW OF IFRS ADOPTION

As mentioned previously (refer section 1.1), IFRS are accounting rules (standards) issued by the IASB (Ball, 2006). Ball (2006:6) provides a detailed description and history of IFRS as follows.

IFRS are accounting rules ('standards') issued by the International Accounting Standards Board (IASB), an independent organisation based in London, UK. They purport to be a set of rules that ideally would apply equally to financial reporting practices by public companies worldwide. Between 1973 and 2000, international standards were issued by the IASB's predecessor organisation, the International Accounting Standards Committee (IASC), a body established in 1973 by the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States. During that period, the IASC's rules were described as 'International Accounting Standards' (IAS). Since April 2001, this rule-making function has been taken over by a newly re-constituted IASB. The IASB describes its rules under the new label 'International Financial Reporting Standards' (IFRS), though it continues to recognise (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC).

The IASB developed a conceptual framework for financial reporting (IASB conceptual framework) that serves as a guide for the formulation of future IFRS and for review of the existing ones (Association of Chartered Certified Accountants [ACCA], 2014; IASB, 2010a; IFRS Foundation, 2018c). The conceptual framework also sets out the concepts that underlie the preparation and presentation of financial statements for the external users. However, the IASB conceptual framework is not IFRS and hence it does not define standards for any particular measurement and disclosure issue (IASB, 2010a; IFRS Foundation, 2018).

Trends in the world indicate continuous movement towards IFRS adoption (Holthausen, 2009; IFRS Foundation, 2018a; PricewaterhouseCoopers [PwC], 2016; Ramanna, 2012). The IFRS Foundation published wide-ranging studies in this regard, and Danjou (2015:1–3), a member of the IASB, provided a summary of the results in April 2015 follow:

- The IFRS Foundation had been able to analyse 138 jurisdictions out of 197 recognised by the United Nations (UN), and the analysis revealed that the relevant authorities in all of these jurisdictions had taken a position in favour of IFRS as the sole global accounting standards for financial reporting practices. Hence, 126 jurisdictions had made a positive pronouncement, including all the countries represented at the G20 (the Group of Twenty, which comprised 19 countries plus the EU).
- In addition to the declaration of intent, 114 jurisdictions made IFRS compulsory for all or most of their publicly accountable companies, although there was a degree of diversity among these jurisdictions with regard to the timing of adoption, the IFRS version adopted, and modification to certain provisions of the IFRS.
- 12 countries did not make IFRS obligatory, but allowed their use. For instance, IFRS are not obligatory in Switzerland, but they are allowed and are widely used in the country. Hence, 84% of companies in Switzerland whose shares acquired by foreign investors applied IFRS.

According to the IFRS Foundation (2018a), the number of jurisdictions that had made a public commitment supporting IFRS as the sole global accounting standards for financial reporting practices, had increased to 156. In addition, the number of jurisdictions requiring IFRS standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital market increased to 144 (IFRS Foundation, 2018a).

Nevertheless, seven countries, including the United States and China, still use their national or regional standards instead of IFRS (IFRS Foundation 2018a). However, it could be argued that IFRS are still significantly applied in these countries, particularly in the United States (Danjou, 2015). The following reasons suggest use of IFRS in the United States. The US Securities and Exchange Commission removed the obligation to prepare and publish reconciliation between financial statements prepared using IFRS and the corresponding amounts that would have been under the US GAAP (Danjou, 2015; Street, 2012). As a result, publicly traded companies, which are foreign private issuers and non-US companies raising capital in the United States, publish financial statements using IFRS. Secondly, the efforts by the IASB and the Financial Accounting Standards Board (FASB) to converge IFRS with US GAAP and US GAAP with IFRS respectively reduce the difference between the two sets of standards (Barth, Landsman, Lang & Williams, 2012).

Street (2008; 2012) also provides a review of IFRS and US GAAP convergence efforts, which resulted in notable events that demonstrate dedication of the United States to promote and assist IASB in the development of one set of high-quality global accounting standards. According to Street (2008), some of the events indicating IFRS and US GAAP convergence efforts are:

- the agreement between FASB and IASB in April 2007 to conduct all future projects jointly;
- the signing of a transatlantic framework for economic integration between the United States and the EU to promote conditions for US GAAP and IFRS to be recognised in both jurisdictions without the need for reconciliation; and
- the removal of reconciliation of financial statements of foreign registered companies in the United States prepared under IFRS with US GAAP.

However, the lack of a firm decision by the US Securities and Exchange Commission with regard to IFRS adoption in the United States is a serious concern for IASB in promoting IFRS as sole global accounting standards (Street, 2012). The United States still have not adopted IFRS (2018a). If the United States, the world super power, fails to adopt IFRS, it would significantly limit the IFRS perspective in a global scene (Street, 2012).

With regard to China, Danjou (2015) indicated that, although IFRS are not permitted in China, they are significant standards there. He cited the following reasons to show the significance of IFRS in China:

- The leading market for the trading of Chinese companies is Hong Kong, where the use of IFRS is permitted. Hence, the largest Chinese companies traded in Hong Kong apply IFRS.
- Moreover, some of these companies are already applying the Hong Kong standards, which are exactly the same as IFRS.

In addition, Pacter (2015) and PwC (2016) indicate that China issued national accounting standards in 2006 that were significantly converged with IFRS. As a result, it could be argued that IFRS are important accounting standards in China as well.

In general, the accounting profession has witnessed an encouraging progress in recent years in the process of IFRS adoption. For instance, the EU adoption of IFRS since 2005 and the removal by the US Securities and Exchange Commission of the US GAAP reconciliation requirement for non-US registered companies reporting under IFRS, signify a major shift towards acceptance of IFRS as global accounting standards (Gray, Linthicum & Street, 2009). As a result, it can be argued that IFRS adoption has proceeded fairly rapidly, especially in Western countries (Stainbank, 2014). The motivation behind the growing of IFRS adoption globally is the perceived benefits of IFRS for financial reporting practices (Holthausen, 2009). However, IFRS adoption is not without challenges. In the next section, the benefits and challenges of adopting IFRS are discussed.

2.3 BENEFITS AND CHALLENGES OF IFRS ADOPTION

According to proponents of IFRS, the adoption of IFRS provides a wide range of advantages to countries and multinational companies by enhancing, cross-border investing, accounting and disclosure quality, comparability of financial statements, with a resultant reduction in cost of capital as well as improved market efficiency and liquidity (Armstrong et al., 2010; Ball, 2006; 2016; Barth et al., 2008; Brown, 2011; Ramanna & Sletten, 2009). Brown (2011) provides the extent of benefits of adopting

IFRS, specifically in developed countries (particularly Europe and Australia) where consolidated financial statements have been prepared according to IFRS. He argues that adopting IFRS eliminates barriers to cross-border investing and increases the reliability, transparency and comparability of financial reports. Moreover, Bae, Tan and Welker (2008) investigated the effect of accounting differences across countries on analysts' forecast accuracy, and found that accounting differences between countries negatively affect accuracy. This in turn implies that a single set of globally accepted accounting standards would help to enhance analysts' forecast accuracy and hence provide quality information to investors and other stakeholders (Bae et al., 2008). As a result, it can be argued that if IFRS are used globally, analysts' forecast accuracy would improve due to improved comparability of financial reports under IFRS. Brown (2011) reinforces this position as he provides evidence that IFRS adoption improved analysts' forecast accuracy. For instance, IFRS adoption resulted in forecasting of more accurate earnings in Australia due to the introduction of goodwill impairment testing in lieu of amortisation (Brown, 2011; Chalmers, Clinch, Godfrey & Wei, 2010).

Similarly, Barth et al. (2012) found that IFRS enhance comparability of financial reports of different companies. Barth et al. (2012) examined the extent of comparability of post-IFRS accounting numbers of non-US firms to the corresponding amounts under the US GAAP, and the results indicated that the amounts in the financial statements were more comparable when the companies applied IFRS than when they used national accounting standards. The study by Barth et al. (2012) reinforced prior research (Armstrong et al., 2010), which examined the European stock market reaction to IFRS adoption in 2010 and found that investors reacted positively, expecting that IFRS would result in higher-quality financial reporting practices due to comparability of financial statements, thereby lowering information asymmetry, information risk and the cost of capital. Similarly, the effect of adoption of IFRS in Australia was studied (Clarkson, Hanna, Richardson & Thompson, 2011) using stock price as a benchmark, and it was found that IFRS improved comparability of accounting information produced by different companies in Australia. Consequently, IFRS offers reduced information costs and reduced information risk to investors provided that the standards are implemented consistently (Ball, 2006; Ramanna & Sletten, 2009).

Additionally, international accounting literature provides evidence that IFRS adoption improves accounting quality and disclosure with regard to earnings management, timely loss recognition and value relevance of earnings (Ball, 2006; Barth et al., 2008; Brown, 2011; Farvaque, Refait-Alexandre & Sardine, 2011; Morais & Curto, 2009). For example, Barth et al. (2008:467) examined the effect of IFRS on accounting quality in 21 jurisdictions, and suggested that companies adopting IFRS have less earnings management, more timely loss recognition and more value relevance of earnings, all of which could be interpreted as evidence of higher accounting quality. Similarly, Morais and Curto (2009) investigated the effect of IFRS application on value relevance of financial information of European listed companies, and they reinforced the position of Barth et al. (2008) because they found that the value relevance of the accounting information of the European listed companies increased after the adoption of IFRS.

Despite the wide range of benefits of implementing IFRS, there are still concerns over IFRS as sole global accounting standards (Botzem, 2014; Botzem & Quack, 2009; Hail et al., 2010a; Kvaal & Nobes, 2010; Nobes, 2013). In their review of literature regarding the history of the IASB and its predecessor, the IASC, Botzem and Quack (2009) highlight that the IASB, the governing body of IFRS, is criticised due to dominance of the Anglo-American board members and influence of significant interest groups in its standard-setting process. Botzem (2014) further analysed the governance and accountability of IASB in light of the 2007–2010 global economic crisis and revealed that inadequate stakeholders' inclusion in the standard-setting process and inadequate accountability, for example, the lack of a legally backed oversight body, are sources of criticism with regard to the legitimacy of the IASB to govern global accounting standards which include IFRS. Similarly, Hail, Leuz and Wysocki (2010b) argue that the adoption of IFRS in the United States would grant monopoly status to the IASB, which in turn would be problematic for the following reasons:

- a monopoly standard setter has few incentives to react quickly to changes in the market place, to innovate or implement the best possible accounting standards for investors;
- the monopoly could impede experimentation with alternative accounting treatments, and that could lead to over-investment in existing standards;
- the monopoly status of the IASB prevents specialisation of standards geared

toward a particular subset of firms or geographic areas; and

- monopolistic standard setters are prone to pressure from political lobbying.

Another argument against IFRS is that the adoption of IFRS leads to a significant financial burden (for example, high initial adoption costs), especially if countries have well-developed accounting standards and need to abandon their national standards to adopt IFRS (Ramanna & Sletten, 2009). For instance, Hail et al. (2010a) analysed potential cost and benefits for IFRS adoption in the United States and suggest that adoption of IFRS would impose significant immediate adoption costs. They further suggest that a switch to IFRS could have additional recurring costs if there are incompatibilities with US institutional environments.

Furthermore, opponents of IFRS argue that a single set of standards may not be suitable for all countries and thus may not uniformly improve accounting quality globally, in particular comparability of financial reports given that international differences may still exist even after IFRS adoption (Hellman, Gray, Morris & Haller, 2015; Holthausen, 2009; Kvaal & Nobes, 2010; Nobes, 2013). For instance, Nobes (2013) examined the extent of differences in IFRS practices across countries and revealed that national or regional aspects of reporting still survive IFRS and affect comparability of global financial reports at least for the following reasons:

- Implementation differences: in some jurisdictions, the use of IFRS is restricted even if they are required. Moreover, many countries (for example, Australia and the EU), adopt and use the national or regional versions of IFRS, which do not necessarily comply with IFRS issued by IASB.
- Enforcement differences: the IASB sets accounting standards, but it leaves the enforcement of these to national regulatory bodies (the national laws) because the IASB is a private professional body not backed by any government and hence it is not mandated to monitor the application of IFRS by individual countries (Nobes & Parker, 2008). As a result, the enforcement of IFRS varies from country to country due to variation in modes of enforcement, such as clarity of the standards applied, timely interpretation and guidance, effectiveness of statutory audit, effectiveness of monitoring by oversight bodies and availability of effective sanction for non-compliance. In addition, variations in countries' financing systems, tax systems and legal systems (refer section 2.4) influence the level of IFRS enforcement. Countries with insider financing and code law

systems are characterised by financial reporting practices based on national laws and regulations, and the motivation for IFRS monitoring and enforcement is therefore low (Nobes & Parker, 2008). For example, both Germany and the United Kingdom adopted IFRS but the levels of monitoring and enforcing in these two counties are different (Nobes & Parker, 2008). The different levels of enforcement and monitoring among countries imply that IFRS statements from different countries are less comparable than expected (Nobes & Parker, 2008).

- Language differences: where non-English versions of IFRS are used some meanings will be lost in translation and this affects global comparability of financial reporting practices under IFRS. Hellman et al*.* (2015) reinforce Nobes (2013) position, and argue that international accounting differences still exist even after growing international convergences and widespread IFRS adoption. They attribute the international accounting differences to factors such as financing, culture and legal systems, which are discussed in section 2.4.

Additionally, Christensen, Lee, Walker and Zeng (2015) examined factors that determine accounting quality after IFRS adoption in Germany, and found that no accounting quality improvements exist for those companies that adopted IFRS involuntarily (mandatory IFRS adopters). This finding is contrary to those by prior research, for example, Ball (2006) and Barth et al. (2008) that found IFRS improved accounting quality.

In other words, the effect of IFRS adoption on accounting quality depends on country- or company-specific factors, including legal and political systems, financial reporting incentives, enforcement mechanisms, ownership and capital structure (financing systems) that vary across countries (Christensen et al., 2015; Hellman et al., 2015; Holthausen, 2009; Kvaal & Nobes, 2010; Nobes, 2013). For example, in common law countries such as the United Kingdom, accounting standards tend to protect shareholders’ interest, and therefore require extensive disclosures, which are similar to IFRS requirements (Hellman et al., 2015; Stainbank, 2014).

Similarly, in countries having strong capital markets, there will be several market incentives for companies, such as improved share price for high-quality financial reports, and IFRS adoption therefore improves accounting quality due to compliance by such companies because of the market incentives. As a result, accounting quality will continue to differ across countries even after IFRS adoption because other factors affecting accounting quality will continue to vary across countries (Hellman et al*.,* 2015; Kvaal & Nobes, 2010; Nobes, 2013). Christensen et al. (2015) examined the effect of IFRS adoption on accounting quality in Germany, and found that accounting quality improvements are limited to companies who voluntarily adopt IFRS. Based on this finding they argue that reporting incentives are dominant over standards with regard to improving accounting quality. The next section will discuss the underlying factors that may affect the decision to adopt IFRS in different countries.

2.4 FACTORS INFLUENCING IFRS ADOPTION

In the previous section, the benefits and challenges of adopting IFRS were discussed. In addition, the previous section highlighted the economic and political factors that may influence IFRS adoption. This section elaborates on these factors in detail. Several studies (Brown, 2011; Ramanna & Sletten, 2009; Shima & Yang, 2012; Stainbank, 2014; Zeghal & Mhedhbi, 2006) identified factors that influence IFRS adoption in a given country, and some of these factors are discussed here.

2.4.1 Economic growth

The relationship between economic growth and IFRS adoption relevant to countries, excluding Ethiopia, is discussed in this section. Factors relevant to economic growth in Ethiopia will be discussed in detail in section 2.5.1. In their analysis of factors, affecting IFRS adoption by countries, Stainbank (2014) and Zehgal and Mhedhbi (2006) found that economic conditions are major determinants in the accounting system development of a country since economic growth increases the complexity of business transactions, which in turn, requires sophisticated transaction processing and reporting systems. Although Zeghal and Mhedhbi (2006) argue that the level of economic growth in a country has a positive effect on the development of an accounting system and practice, they are unable to find the statistical significance of economic growth on the decision by a country to adopt IFRS. On the other hand, Stainbank (2014) studied the impact of economic growth in the adoption of IFRS by African countries, and found a positive relationship between economic growth and the adoption of IFRS.

In addition, most studies around IFRS adoption (refer Armstrong et al., 2010; Daske, Hail, Luez & Verdi, 2008; Tarca, 2012) found a direct or indirect relationship between economic growth and IFRS adoption. For instance, Daske et al. (2008:1085) studied the economic consequences of mandatory IFRS adoption in 26 countries and documented that IFRS adoption resulted in an increase in capital market liquidity and a decrease in companies' cost of capital. They further argue that IFRS adoption ends up with higher-quality financial reporting practices and better disclosure, which in turn reduce adverse selection in the capital market. A similar argument is that IFRS reporting reduces costs for investors to compare companies across markets and countries (Armstrong et al., 2010). These studies indicate the economic effect of IFRS adoption, and they also imply that the level of a country's economy influences the IFRS adoption decision because increased financial reporting qualities are attributes of developed or developing economies that are likely to adopt IFRS (Tarca, 2012).

2.4.2 External economic openness

'External economic openness' refers to economic interdependence among countries that can be reflected in cross-border trade and international financial flows by way of investment and loans (Dominte, 2006). In literature, external economic openness is measured widely using value of external trade (import and export) and FDI (Yanikkaya, 2003). For instance, in his empirical investigation of the relationship between trade openness and economic growth, Yanikkaya (2003) used the volume of international trade as a measure of economic openness.

Other studies (refer Driffield & Love, 2007; Mottaleb & Kalirajan, 2013) suggest that FDI indicates a country's level of economic openness because inward FDI is determined by factors that influence the host country's economic relationship with other countries. These factors include level of economic liberalisation and resource position, such as technology superiority and endowment of natural resources. For example, Driffield and Love (2007) empirically investigated factors motivating FDI inflows into the United Kingdom and found that the country gains inward FDI motivated by a strong technology-based ownership advantage. Similarly, Mottaleb and Kalirajan (2013) studied determinants of FDI in developing countries and found that countries with a high proportion of international trade and have business-friendly environments are successful in attracting FDI. These findings (Mottaleb & Kalirajan, 2013) clearly indicate the link between FDI and the economic openness of a country, and they imply that the more countries are able to attract FDI, the more they are open to other countries.

According to Judge et al. (2010), external economic openness exposes a country to international pressures, such as by international investors, multinational corporations and international financial institutions, for high-quality accounting standards and hence, external economic openness is one of the factors for IFRS adoption. Gordon, Loeb and Zhu (2012) reinforce this position by providing evidence for the positive effect of IFRS adoption on FDI, which is an important indicator of the economic openness of a country. Gordon et al. (2012:374) tested the argument that IFRS adoption by a country results in increased FDI inflow by analysing data sets of 1 300 observations covering 124 countries, and found evidence that supports the argument. According to Gordon et al. (2012), the IFRS adoption by a country leads to an increase in the transparency of financial reports; hence, businesses and individuals in other countries are more likely to invest in that country. Factors related to Ethiopian external economic openness are discussed in detail in section 2.5.2.

2.4.3 Capital market development

Nobes (1998) posits that the financial reporting systems (accounting practices) of countries are mainly influenced by the source of the financing system (equity or debt financing). If the main source of financing of a country is equity with a large number of outside shareholders, the accounting standards are set with the aim to meet capital market demand in respect of accounting quality (Ramanna & Sletten, 2009). As outside shareholders do not have personal access to company financial information other than published financial reports, the accounting practices for equity-financed companies are designed to provide a high level of disclosures and the extensiveness of the disclosure requirement implies that equity-based financing systems are in favour of IFRS adoption (Hellman et al., 2015; Shima & Yang, 2012). Stainbank (2014) also studied the case of African countries, and found that African countries having capital markets are more likely to adopt IFRS than other African countries that do not have capital markets. However, countries with well-established national accounting standards, such as the United States, are relatively reluctant to adopt IFRS regardless of having advanced capital markets (Clements, Neill & Stovall, 2010). This is mainly due to the high cost of IFRS adoption, as these countries need to abandon their established national accounting standards to adopt IFRS. Moreover, in their analysis of the effect of mandatory IFRS adoption on the cost of equity capital in Europe (EU member countries), Lee et al. (2008) found that in countries where equity financing is important, incentives for companies to prepare high-quality financial reports are likely to be high and therefore these countries are more likely to adopt IFRS than those countries which do not have equity financing.

The aforementioned arguments suggest that the existence of a capital market signifies the need for high-quality corporate reporting to promote investor confidence; hence, the capital market is one of the factors for IFRS adoption in a given country. Similarly, the link between IFRS and the capital market is implied by the first objective of financial reporting (IASB, 2010b; IFRS Foundation, 2018c), which is to provide financial information about the reporting entity that is useful to investors to make valuable economic decisions (IFRS Foundation, 2018c). The emphasis placed on investors in this objective of financial reporting also suggests the strong linkage between the capital market and the use of IFRS because IFRS standards provide a high quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world (IFRS Foundation, 2018c).

On the other hand, countries that mainly have debt financing systems are less concerned about extensive disclosure of financial information to stakeholders other than creditors and therefore they are less inclined to adopt IFRS (Hellman et al., 2015; Nobes, 1998). Christensen et al. (2015) suggest that companies that have close connections with banks and insider shareholders resist IFRS adoption due to a lower incentive for them to have more comprehensive accounting standards than companies that have equity financing systems. This implies that, for countries that have debt financing systems, such as Germany (refer Christensen et al., 2015), the purpose of financial reporting is mainly to address the information needs of lenders (banks), and company managers do not have the incentive for the costly adoption of IFRS. An earlier study (refer Ali & Hwang, 2000) revealed similar results for bank-oriented systems, namely that businesses generally have very close ties with their banks that supply their capital needs, and banks have direct access to company information, which reduces the demand for published financial statements and this, in turn, reduces the demand for comprehensive accounting standards such as IFRS. Factors related to capital market development in Ethiopia are discussed in detail in section 2.5.3.

2.4.4 Level of accounting education

According to Hegarty, Gielen and Barros (2004:11):

> "The application of international standards requires certain minimum levels of capacity (i.e., appropriately qualified individuals), which depends on the availability of opportunities for relevant and adequate education, training and experience. The greater the gap between existing national and international standards, and the shorter the period to complete the transition, the greater the capacity building challenge to overcome. The development and enhancement of capacity applies to educators, regulators and users as much as to prepares and auditors, and places demands on both institutions and individuals. Systems, methodologies, application guidance, curricula, teaching and training materials, examination and certification procedures, and much else must be adapted to support the new obligations."

From the aforementioned, it is clear that the adoption of IFRS requires a high level of technical competence and capacity, which apply to various parties, such as financial statement preparers, educators (higher education), auditors and regulators. Hodgdon, Hughes and Street (2011) reinforce this position, and argue that the principles-based nature of IFRS requires accounting practitioners to exercise considerable judgement in the development of accounting practices and the presentation of financial reports. For example, judgement is required in determining the presentation and disclosure, classification, recognition and measurement of transactions and accounts within the financial statements (Hodgdon et al., 2011). Consequently, to implement IFRS best, countries need to have accounting professionals and educators who are aware of the pervasiveness and importance of judgements in the application of IFRS (Hodgdon et al., 2011). Similarly, Brown (2011) suggests that practitioners, regulators, auditors and university graduates considering a career in accounting need to be equipped with professional development and universities and professional bodies therefore have a significant role to play to achieve these. This also signifies the importance of advanced levels of education to adopt and implement IFRS.

Jackling, Howieson and Natoli (2012) examined the implication of IFRS adoption on accounting education, and found that the potential effect of IFRS adoption on accounting education varied considerably across countries in their study because of differences in factors such as the presence and maturity of the national accounting profession and the existence or non-existence of prior arrangements for the national accounting standard setting. Jackling et al. (2012) further point out that in those countries where accounting educators have designed their financial accounting curricula around IFRS and have well-established prior national accounting standards (for example Australia), IFRS adoption will have little effect on the accounting education of the country, but the accounting education system of the country will foster the IFRS adoption process. On the other hand, in those countries where the accounting profession is not well developed (for example most emerging economies), there is a lack of skills and abilities to exercise professional judgement and this is therefore a barrier to the adoption and implementation of IFRS (Tyrrall, Woodward & Rakhimbekova, 2007). For example, Albu and Albu (2012) analysed the implementation of IFRS in Romania and found a significant IFRS compliance gap that was broadly due to a lack of professional accounting skills to prepare financial statements in accordance with IFRS and a lack of IFRS expertise by users of financial information and regulators.

Consequently, countries with advanced educational levels are more likely to adopt IFRS because IFRS are fairly complex, and a higher level of education and training is therefore required to understand, interpret and apply these standards (Judge et al., 2010). This further suggests that countries with less sophisticated educational systems may find the transition to IFRS costly to implement, and education should therefore positively relate to IFRS adoption. The level of accounting education specifically referring to Ethiopia is discussed in detail in section 2.5.4.

2.4.5 Legal systems and government policies

Gary’s (1988) model suggests that institutional factors, such as legal systems, will have an influence on the development of accounting practices, such as standards, practices and disclosure. Jaggi and Low (2000) also examined the effect of legal systems on financial disclosure by companies from different countries, and found that companies from common law countries (countries that have a system of law that is based on a judge’s decision and on custom rather than written laws (Williams, 2017)) are associated with higher financial disclosure compared to companies from code law countries (countries that have a systematic list of written laws (Williams, 2017)). Prior studies (refer Adhikari & Tondkar, 1992; Holthausen, 2009; Zarzeski, 1996) also found that financial disclosures are affected by factors such as capital structure, ownership structure and capital market which, in turn, are strongly influenced by the legal system of the relevant country.

Owing to a strong relationship between legal systems and accounting disclosures, more recent studies (Ball, 2006; Brown, 2011; Shima & Yang, 2012) also suggest that legal systems have a significant effect on the adoption and implementation of IFRS in a given country. In particular, IFRS adoption benefits are materialised where the legal systems promote disclosure and investors' protection. Similarly, Ayuba and Gugong (2014) argue that government policies play an important role in the adoption and implementation of IFRS in developing countries. Legal systems and government policies relevant to IFRS adoption in Ethiopia are discussed in detail in section 2.5.5.

2.4.6 Political and economic ties

Nobes' (1998) model indicates that variation in countries' financing systems and cultures are the main factors for the accounting differences across countries. He further claims that some countries are affected by very strong external cultural influences due to their small size, their underdeveloped status (economic dependence on other countries) or former colonial status. As a result, the political and economic systems of such culturally dominated countries are also affected, and these countries are therefore likely to be using the accounting practices of the influential countries, even if these seem inappropriate to their current needs (Ramanna & Sletten, 2009).

Ramanna and Sletten (2009) reinforce Nobes' (1998) position and indicate that many countries outside Europe may have inherited their accounting practices from their colonisers. This implies that colonial inheritance is also one of the factors influencing the general systems of financial reporting practices in developing countries, and consequently the decision to adopt IFRS. For instance, the former colonies of the United Kingdom may have developed similar accounting standards as the UK GAAP, which had a strong influence on IFRS development (Shima & Yang, 2012). Furthermore, the decision by a country to adopt IFRS is affected by the economic relations of such country with other countries that adopted IFRS due to the perceived benefits, such as lower transaction costs to foreign financial statement users resulting from the comparability of financial statements (Ramanna & Sletten, 2013).

Kaya and Koch (2014) point out that developing countries are dependent on receiving loans and aids from lending institutions, particularly from the World Bank and the IMF, and they find it beneficial to adopt IFRS in order to comply with the requirements of these lending institutions. Kaya and Koch (2014) further explain that the decision by developing countries to adopt IFRS sends creditable signals to the lending institutions that the countries are committed to disclosing information to market participants. Hegarty et al. (2004) suggest that international organisations, for example the World Bank and the IMF, benchmark existing financial reporting standards of countries against acceptable international standards, and this influences the decision of such countries to adopt IFRS.

Although the country was never colonised, the Ethiopian accounting system is mainly influenced by the British and American accounting practices due to its strong political and economic ties with these countries, particularly before 1974 (Mihret et al., 2009). This is evident as British public accounting firms (i.e. PricewaterhouseCoopers and Peat & Co) were the first accounting firms to open public practice in Ethiopia, and their influence over the country's accounting practice was significant (Kinfu,1990). Moreover, Ethiopia has a long-standing partnership with multilateral financial institutions, particularly the IMF and the World Bank group, and the country receives significant development aid and loans from these financial institutions (Ethiopian Ministry of Finance and Economic Development, 2015).

According to the NBE (2016:78–81), which is the country's central bank, Ethiopia trades with various countries in Europe, Asia and America. For instance, in 2014/2015, 38% of Ethiopia's export proceeds were derived from Asian markets; 34% of the country's export went to Europe, and 7% went to America (NBE, 2016). During the same period, the country imported 70% of its merchandise from Asia, 19% from Europe, and 5% from America. In light of this, it could be argued that Ethiopia has wide economic ties with several countries in the world. This appears to be a favourable factor to adopt IFRS in the country in order to maintain its trade partnership with these countries and to maintain its relationship with international institutions, such as the World Bank and the IMF. Furthermore, most of the countries trading with Ethiopia either adopted IFRS or have plans to converge their national standards with IFRS (IFRS Foundation, 2018a). For instance, Ethiopia trades with most EU member countries, China, India as well as Saudi Arabia and these countries either adopted IFRS at least for listed companies or set national accounting standards (NBE, 2016; PwC, 2016) that are substantially converged with the IFRS (IFRS Foundation, 2018a;

PwC, 2016). Moreover, studies, such as by Street (2008; 2012), found that the world's two biggest standard setters – the IASB and the FASB (the US accounting standard-setting body) – engaged in a convergence conceptual framework project in order to create future accounting standards that are internationally converged due to growth of global markets and the desire of multinational companies for one set of financial statements. This may influence more countries to adopt IFRS. However, as the political and economic ties have been significantly reflected under another related and more comprehensive factor namely economic openness, they were not considered for further examination in the current study because it was believed that the omission of these factors would not affect the study results.

2.4.7 Culture

Empirical studies (Gray, 1988; Hellman et al., 2015; Nobes, 1998; Stainbank, 2014; Zeghal & Mhedhbi, 2006) found that culture is one of the background factors influencing the accounting practices in a country. Gray (1988) identified four dimensions of culture (individualism, power distances, masculinity and uncertainty avoidance), and linked them to the accounting values (professionalism, uniformity, conservatism and secrecy) in order to assess the extent of cultural influence on the development of accounting practices. Based on this analysis, Gray (1988) grouped countries into cultural areas on the basis of authority and enforcement characteristics on the one hand, and measurement and disclosure characteristics on the other. Nobes (1998) developed Gray's (1988) work further and provides that, for culturally self-sufficient countries (countries whose culture is not influenced by other countries), the accounting system is dependent on the strength of the equity market (market where shares of companies are traded (refer Nobes, 1998)) and for culturally dominated countries, the accounting system is determined by the cultural influence of the dominant country or countries. As a result, developing countries dominated by the Anglo-American culture would adopt IFRS easily because the IASB is significantly influenced by the Anglo-American culture (Stainbank, 2014; Zeghal & Mhedhbi, 2006). Borker (2015) proposes IFRS-favourable value profiles based on Gray's (1988) accounting dimensions, and he suggests that countries characterised by a low degree of conservatism, uniformity and secrecy, and a high degree of optimism, flexibility, professionalism and transparency are likely to adopt IFRS. Moreover, Ramanna and Sletten (2009) examined the influences of culture on IFRS adoption, and argue that, if the IASB is perceived as a European institution, countries that are culturally distant from Europe are likely to be less accepting of IFRS adoption, while countries that are culturally close to Europe are also likely to accept IFRS.

Given that, Ethiopia has strong economic ties (Kidane, 2012) with other countries that are prominent in the development of IFRS; these countries influence its culture (Mihret et al., 2009). As a result, it is assumed that culture is not a barrier to adopt IFRS in Ethiopia and thus, this factor was not considered for further discussion in section 2.5.

2.4.8 Taxation

Ali and Hwang (2000) examined country-specific factors affecting financial reporting practices, and argue that financial and tax conformity has been associated with a decrease in value relevance of financial reporting, which is not in line with the IASB conceptual framework (refer IFRS Foundation, 2018c) and therefore also not in line with the IFRS requirements. Hail et al. (2010) also suggest that the adoption of IFRS could increase cost to modify current tax systems. As a result, it could be argued that taxation is a barrier to adopt IFRS especially in countries where corporate taxation is important for government financing.

On the other hand, Lisa (2016) examined the relationship between adoption of IFRS by individual affiliates of multinational companies and tax-motivated income-shifting behaviour of managers of multinational companies and found significant tax-motivated changes in reported pre-tax profits following IFRS adoption by affiliates. This finding suggests that multinational companies tend to adopt IFRS in order to take the advantage of the tax incentive by shifting income from a high-tax country to a low-tax country by strategically valuing intercompany transactions. These argument suggests that taxation is a favourable factor to adopt IFRS.

In Ethiopia, however, the tax system follows a schedule approach, which is calculation of tax by applying different rules for different types of income (Ethiopian Government, 2016; KPMG, 2014). As a result, income from different sources is taxed separately. Accordingly, the income tax proclamation number 979/2016 (refer Ethiopian Government, 2016), introduced three kinds of schedules, namely Schedule A (refer Table 2.1), Schedule B (refer Table 2.2) and Schedule C (refer Table 2.3).

All income from employment is taxed based on the relevant rates indicated in Schedule A (refer Table 2.1). According to proclamation 979/2016, 'employment income' refers to salaries, wages, allowances, commissions, bonuses, fringe benefits and other remuneration received by an employee in respect of past, current or future employment (Ethiopian Government, 2016).

Table 2.1: Schedule A – Employment income tax rate

Taxable employment income per month (Ethiopian birr)	Rate of income taxation
0–600	0%
601–1 650	10%
1 651–3 250	15%
3 251–5 250	20%
5 251–7 800	25%
7 801–10 900	30%
Above 10 900	35%

Source: Ethiopian Government (2016)

Schedule B (refer Table 2.2) is applied for taxation of income from rental of buildings and houses by individuals.

Table 2.2: Schedule B – Rental income tax rate

Taxable income received from rental per year (Ethiopian birr)	Rate of income taxation
0–7 200	0%
7 201–19 800	10%
19 801–38 400	15%
38 401–63 000	20%
63 001–93 600	25%
93 601–130 800	30%
Above 130 800	35%

Source: Ethiopian Government (2016)

Schedule C (refer Table 2.3) is used for taxation of income from business. The rate of business income tax applicable to a corporate business is 30%. The rates of business income tax applicable to an individual are as indicated.

Table 2.3: Schedule C – Rate of business income tax applicable to individual

Taxable business income per year (Ethiopian birr)	Rate of income taxation
0–7 200	0%
7 201–19 800	10%
19 801–38 400	15%
38 401–63 000	20%
63 001–93 600	25%
93 601–130 800	30%
Above 130 800	35%

Source: Ethiopian Government (2016)

The income tax law in Ethiopia has a significant influence on the country's accounting and financial reporting practice because most companies prepare their financial statements mainly to comply with this law (Mengistie, 2017). For example, several companies align their accounting policies, such as depreciation and inventory valuation policies, with relevant provisions of the income tax proclamation in force. Owing to the pervasive effect of the income tax law in Ethiopia's accounting system (World Bank, 2007), it could be argued that the move to IFRS adoption would impose significant cost and challenges to companies due to the incompatibility of the country's tax law with IFRS (Mengistie, 2017). Nevertheless, as this factor is sufficiently reflected under the legal systems related to Ethiopia in section 2.5.5, it is not considered further in section 2.5 because it was believed that this would not affect the study.

2.4.9 Inflation

Shima and Yang (2012) argue that inflation presents challenges to standard setters, especially in countries with high or hyperinflationary economies, and inflation is a barrier to adopt IFRS. The International Accounting Standard 29 (IAS 29) *Financial reporting in hyperinflationary economies* requires restatement of non-monetary items based on changes in the general price level index on the balance sheet (IFRS Foundation, 2018b). However, standard setters in high inflationary economies prefer applying more flexible rules and regulations (local GAAP) for the preparation of financial statements and therefore they are reluctant to adopt IFRS (Shima & Yang, 2012).

As a result of coordinated fiscal and monetary policies, inflation in Ethiopia was contained to single digit in 2013 and 2014 (African Development Bank [AfDB], 2018; IMF, 2018; Wondifraw, Kibret & Wakaiga*,* 2015). Accordingly, the rate of inflation dropped to 7.1% in December 2014 from 39.2% in November 2011 (Wondifraw et al., 2015:2). However, the IMF 2014/2015 report indicates that the rising food prices due to below-average rainfall pushed inflation to 11.8% in July 2015 (IMF, 2015:19) while non-food price inflation also increased, nearing 10% (IMF, 2015:1). In May 2018, the overall inflation rate in Ethiopia was 13.7% (Ethiopian Central Statistical Agency, 2018:8). Despite the recent increase in food and non-food prices, the Ethiopian government and international partners – including the AfDB – are still optimistic that the rate of inflation in Ethiopia can gradually be contained to a single-digit number (AfDB, 2018). However, due to its effect on the economy, inflation was incorporated and analysed under economic growth (refer section 5.4.1).

2.4.10 Summary

In summary, a country's decision to adopt or not to adopt IFRS is influenced by several factors, including economic growth, external economic openness, capital market development, political and economic ties, culture, level of accounting education, legal systems and government policies, taxation and inflation. These factors vary across countries, and provide a basis to argue for or against IFRS adoption in a given country based on the context of that specific country. The next section discusses some of these factors that are comprehensive and specifically relevant to the Ethiopian context in detail.

2.5 FACTORS INFLUENCING IFRS ADOPTION IN ETHIOPIA

There are arguments for and against IFRS adoption in Ethiopia based on the country's economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies. These factors are discussed and considered in the subsequent sections of this study in detail.

2.5.1 Economic growth

In section 2.4.1, the relationship between economic growth and IFRS adoption in various international studies was explained. The current section looks at the Ethiopia's economic situation related to IFRS adoption in the country.

According to the World Bank report (2017:8), Ethiopia's real gross domestic product (GDP) growth averaged 10.5% between 2003/2004 and 2015/2016. This growth was the result of large public investment through SOEs, which played a dominant role in the Ethiopian economy (World Bank, 2017). This approach worked well to accelerate growth, as the SOEs were used as vehicles for public investment to close the infrastructure gap in the country (World Bank, 2017). The World Bank report (2017), however, noted that the dominance of SOEs in the Ethiopian economy left (and continues to leave) little space for private sector by crowding out access to capital and foreign exchange. Moreover, the role of the private sector in Ethiopia is limited due to entry barriers, a lack of access to reliable energy and of efficient trade logistics, and other competitiveness factors (World Bank, 2017). This is visible, for instance, when the role of the private sector is measured in terms of sector credit to GDP, where Ethiopia lags behind its peers. Private sector credit is only about 9% of GDP in Ethiopia compared to more than 20% in sub-Saharan Africa (World Bank, 2017:10).

The IMF (2018) report reinforces the fact that Ethiopia has maintained high economic growth for more than a decade. However, the report indicated that Ethiopia's real GDP growth dropped to 7.7% in 2017/2018 (IMF 2018:1) from 10.5% in 2015/216 (World Bank, 2017:8). This decrease in Ethiopia's real GDP growth leads to question about sustainability of the country's economic growth although the real GDP growth is projected to recover from 7.7% in 2017/18 to 8.2% in 2018/19 and 2019/20, supported by industry and service sector expansion and agricultural sector recovery (AfDB, 2019:1). The achievement of the projected economic recovery in 2018/2019 and 2019/2020 is also questionable due to various challenges the country currently faces following the recent political reforms particularly challenges the private sector faces such as limited financial access, foreign currency shortages, and a costly and weak business regulatory environment as well as political uncertainty (AfDB, 2019).

Given that, Ethiopia achieved remarkable economic growth for more than a decade (IMF, 2018; World Bank, 2017), it could be argued that the economic growth in Ethiopia is conducive to adopting IFRS in the country. However, it could also be argued that, as the economic growth Ethiopian achieved was mainly attributed to government investment in infrastructure projects and as the role of the private sector in the economy was limited (AfDB, 2019; World Bank, 2018), the economic growth registered for Ethiopia may not be sustainable. Therefore, the suitability of the country's economic growth to adopt IFRS is questionable. In light of these conflicting views, the level of Ethiopian economic growth has been examined in the current study to find evidence, which either supports or refutes these arguments (refer section 4.2.4.2).

2.5.2 External economic openness

In section 2.4.2, the relationship between economic openness and IFRS adoption in various international studies was explained. The current section looks at the contribution of Ethiopia's economic openness to IFRS adoption in the country in detail.

Ethiopia is trading with several other countries in the world, mainly importing manufactured and semi-manufactured goods, such as machinery, textile and fuel, and exporting of agricultural products, particularly coffee, flowers, chat and oil seeds as well as gold (NBE, 2016). According to Wondifraw et al. (2015:7), Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA) and the Intergovernmental Authority on Development (IGAD) (refer Addis Chamber, 2017). The country has signed all regional integration protocols, including the COMESA Free Trade Area Protocol, and in 2014, it submitted its accession instruments to the COMESA Free Trade Area (refer Wondifraw et al., 2015). It also continues to negotiate an economic partnership agreement (EPA) with the EU and negotiations to join the World Trade Organization (WTO) are ongoing (refer Wondifraw et al., 2015; WTO, 2019). Furthermore, Ethiopia is seeking to attract foreign capital in the form of FDI, loans and aid, and therefore is taking several policy measures to achieve these (IMF, 2018, World Bank, 2018). For example, the Ethiopian government has approved a national logistics strategy defining policy direction for greater competition and foreign participation in the trade logistics sector with the aim to reduce costs and improve efficiency and therefore, to attract FDI (World Bank, 2018). The Ethiopian government also has the intention to privatise major SOEs such as Ethio-Telecom, Ethiopian Electric Corporation and Ethiopian Air Lines so that both Ethiopians and foreigners would invest in these SOEs (World Bank, 2018).

In this regard, it could be argued that Ethiopia is fairly open to the rest of the world and favourable for investment (AfDB, 2019; IMF, 2018). On the other hand, the global competitiveness report of 2018 of the World Economic Forum (WEF) ranked Ethiopia 122 out of 140 countries in global business competitiveness (WEF, 2018). In view of these contradicting situations, the extent of Ethiopia's external economic openness was examined in the current study to find evidence whether the country's openness to external economy is still a factor that is conducive to IFRS adoption (refer section 4.2.4.2).

2.5.3 Capital market development

In section 2.4.3, the contribution of the capital market for IFRS adoption in various international studies was explained. The current section looks at the situation for capital market development in Ethiopia in the light of IFRS adoption in the country.

In Ethiopia, there is no capital market (Bekele, 2018) and the majority of companies are owned by a small number of owners who are also highly involved in the management of the companies (Negash, 2013; Wondifraw et al, 2015; World Bank, 2018). Hence, the main sources of finance for the companies are limited bank loans and contributions by owners (World Bank, 2014; 2018). In view of this, it could be argued that the absence of a capital market coupled with the small number of owners raises questions about the need to adopt IFRS in the country. On the other hand, Ethiopia is in the process of establishing a capital market (Bekele, 2018; World Bank, 2018). For example, the NBE intends to prepare a framework for the introduction of market-based priced government securities and take steps towards the development of the bond market (World Bank, 2018). Moreover, the Ethiopian government is planning to establish the country's first stock market by 2020 (Bekele, 2018). Given the aforementioned contrasting views, capital market development has been examined in the current study to find evidence either in favour of or against these arguments (refer section 4.2.4.2).

2.5.4 Level of accounting education

In section 2.4.4, the relationship between the level of accounting education and IFRS adoption in various international studies were explained. The current section looks at the level of accounting education in Ethiopia, and its contribution for IFRS adoption in the country in detail.

Ethiopia's education system expanded rapidly in the decades after the overthrow of the Derg in 1991 (Trines, 2018). For example, the number of higher institutions teaching at undergraduate and graduate level increased from 2 to 29 between 2000 and 2015 (The Guardian, 2015). According to the Ethiopian Ministry of Education

(2011:61), the annual growth rates of graduate and undergraduate enrolments were also 24% and 23% respectively between 2006 and 2011 although the recent percentages are not available to refer in the current study. While the rate for postgraduate enrolments doubled, the rate for undergraduate enrolments increased by 39% in 2015 (Ethiopian Ministry of Education, 2015:151–157). Despite the fact that these figures indicate trends of significant increase in Ethiopian higher-level education, the quality of the country's education system in general is questionable (Saint, 2004; Trines, 2018).

Focusing on the quality of Ethiopian accounting education, the accountancy degree has a good reputation in the Ethiopian market and holders of the bachelor's degree in accounting are exempt from four subjects in the ACCA professional programme (ACCA, 2018; World Bank, 2007). According to The Reporter (2016), however, there is a shortcoming in the accounting courses offered by both public and private universities and colleges in the country with regard to the international accounting standards. Moreover, Ethiopia does not have a professional accounting body with legal backing in the country's laws and with IFAC membership (Bobe, 2014; World Bank, 2007).

IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies (IFAC, 2019). IFAC has 175 members and associates in 130 countries and jurisdictions, representing 3 million accountants in public practice, education, government service, industry and commerce (IFAC, 2019).

The overall low quality of education coupled with the absence of a strong professional accounting body with IFAC membership in Ethiopia raises the concern that Ethiopia may lack the skills and expertise required to adopt and implement IFRS (Mengistie, 2017). On the other hand, the introduction of ACCA qualification studies in Ethiopia may help to fill the gap in IFRS skills. According to ACCA (2018), the global body has a membership of 200 000 professional accountants and 486 000 students in 181 countries, including Ethiopia. ACCA courses are designed based on the international accounting standards, and hence provide a high level of skills and knowledge to its students and members to understand and apply IFRS properly in their professional careers (researcher's experience as an ACCA student). Moreover, there is an initiative by the Ethiopian Civil Service University (ECSU) through its Institute for Certification of Accountants and Auditors (ICAA) to certify accountants and auditors in Ethiopia (ECSU, 2018; World Bank, 2007) and this will also help to upgrade the skills and competence of accountants and auditors to a level required for IFRS implementation in the country. In 1995, the Ethiopian government established the ECSU in order to address the special needs of the civil service, and it offers specialised programmes that have never been addressed by other institutions (ECSU, 2018).

In light of the above contradicting views, it is not clear whether the level of accounting education in Ethiopia is conducive to the adoption of IFRS or not, and this factor has been examined in the current study to find evidence that supports or refutes the arguments (refer section 4.2.4.2).

2.5.5 Legal systems and government policies

In section 2.4.5, the relationship between legal systems and government policies and IFRS adoption in various international studies was explained. The current section looks at the tendency of Ethiopia's legal systems and government policies for IFRS adoption in the country in detail.

In the case of Ethiopia, the Commercial Code of 1960 (Government of Ethiopia, 1960) was a statutory framework for accounting and financial reporting practices up to 2014 when Financial Reporting Proclamation No. 847/2014 was issued to adopt IFRS (Ethiopian Government, 2014). The Commercial Code of 1960 required businesses to keep accounts and prepare financial statements at the end of each financial year (Government of Ethiopia, 1960). However, the Code did not define the accounting standards to be followed and has never been revised since it was issued in 1960 (Justice For All -Prison Fellowship Ethiopia, 2018; World Bank, 2007). Furthermore, the Public Enterprises Proclamation 25/1992 (refer Ethiopian Government, 1992) and the Income Tax proclamation 286/2002 (refer Government of Ethiopia, 2002) were serving as additional statutory frameworks for accounting and financial reporting practices in Ethiopia (World Bank, 2007). The former was applied by public enterprises while the latter was used for income tax calculation. Similar to the Commercial Code of 1960, these proclamations required financial statements to be prepared in accordance with GAAP, but they failed to define which GAAP were followed. As a result, there was no comprehensive statutory framework and uniform accounting practice in the country (World Bank, 2017). For example, the World Bank and the IMF

Joint Initiative Study (World Bank, 2007) was conducted to assess Ethiopian financial reporting practice, and the study found several weaknesses, including the absence of a uniform national accounting standard in the country. As a result, it could be argued that the Ethiopian accounting practices compromised quality of the financial information at least for the following reasons:

- According to the World Bank (2007:13), in a sample of 35 audited financial statements, 17 indicated that they applied IFRS, 10 applied GAAP (did not defined which GAAP used) and eight did not indicate applying any accounting standards. These different accounting practices among entities made comparison between various financial statements of companies difficult.
- Absence of penalties for non-compliance with the Commercial Code of 1960's provisions about financial statements (World Bank, 2007) encouraged management to delay publication of the financial statements, and this in turn reduced usefulness of the financial information to users.
- Contemporary accounting practices require disclosure of all material information about the reporting entity, including accounting policies adopted, basis of management judgements, assumptions, models, alternative measurement bases and sources of estimation uncertainty, in order to address information needs of users and ensure transparency, which is a key requirement of good corporate governance (IAASB, 2011). The World Bank (2007) study also found that, at the time, financial reports in Ethiopia did not provide adequate disclosures. For instance, disclosures about events after the balance sheet date, related party transactions, deferred tax, employees' benefits and compensation to key management personnel were missing in the majority of financial statements reviewed by the World Bank (2007) study.

Owing to the deficiencies in the previous financial reporting framework, and hence weaknesses in the country's accounting practices, the government of Ethiopia issued Financial Reporting Proclamation No. 847/2014 to determine the country's accounting and auditing standards (Ethiopian Government, 2014) and established Accounting and Auditing Board of Ethiopia to oversee the country's accounting practices (Mengistie, 2017). According to Proclamation No. 847/2014, the Accounting and Auditing Board of Ethiopia has the power to set accounting and auditing standards for the country by adopting, adapting or amending the IASB's IFRS and the IAASB's international auditing standards respectively. The financial reporting standards used are –

- IFRS (for public interest entities);
- IFRS for small and medium entities (for non-public interest entities other than charities); and
- international public sectors accounting standards applicable to charities and societies (Ethiopian Government, 2014).

The power to set criteria for classifying entities as public interest entities or small and medium entities is also vested in the Accountants and Auditors Board of Ethiopia (Ethiopian Government, 2014). With regard to policies, the government has significantly reduced the cost of doing business by simplifying regulations and improving the quality and effectiveness of the institutions supporting businesses (Wondifraw et al*.,* 2015). For example, in 2013–2014, the Ethiopian government introduced new legislation on investments and a new procedure to register companies owned by shares efficiently (Wondifraw et al., 2015).

Although, the country's decision to issue the Financial Reporting Proclamation and establishing the Accountants and Auditors Board of Ethiopia signalled favourable legal ground to adopt IFRS, it could be argued that the inconsistency between the IFRS requirements and the laws that were used for preparation of financial statements is a significant challenges to adopt and implement IFRS (Mengistie, 2017). Moreover, it is believed that there are limitations in enforcing laws in Ethiopia in general (WEF, 2018). According to the 2018 global competitiveness report (WEF, 2018) Ethiopia was ranked low in legal and institutional capacity indicators. Out of 140 countries, Ethiopia was ranked:

- 115th in property rights;
- 76th in judicial independence;
- 162nd in efficiency of legal framework;
- 110th in strength of audit and reporting standards; and
- 123rd in strength of investors' protection (WEF, 2015:179).

As a result, the Ethiopian legal factor has been examined in this study to find evidence either in favour of or against the argument that the country's legal systems are conducive to adopting IFRS (refer section 4.2.4).

Considering the contrasting views regarding IFRS as a global set of accounting standards, it was helpful to look at different accounting standard-setting strategies for countries and supporting theories. These strategies together with the relevant theories are discussed in the next section.

2.6 ACCOUNTING STANDARD-SETTING STRATEGIES AND SUPPORTING THEORIES

The three accounting standard-setting strategies (the strategy of harmonisation, the naturalistic accounting standard-setting strategy and the particularistic accounting standard-setting strategy) commonly found in academic and professional literature (Larson & Kenny, 1996; Othman & Kossentini, 2015) are explained in detail in the sections below.

2.6.1 The harmonisation accounting standard-setting strategy and modernisation theory

The first strategy is that of harmonisation where the relationship among the transactions, events and systems is assumed to be universal (Larson & Kenny, 1996). This strategy is based on the modernisation theory, which, in turn, is consistent with the structuralist view (Othman & Kossentini, 2015). Modernisation theory states that structural changes are necessary conditions for economic growth, and they often involve skill-specific infrastructures, which may include financial reporting systems (Larson & Kenny, 1996).

The strict form of modernisation theory, harmonisation accounting standard-setting strategy, operationalised through IFRS adoption, is based on two assumptions. The first assumption is that harmonisation implies that economic events, transactions and systems are universal in their application in accounting (Larson & Kenny, 1996). The second assumption is that accounting, which is considered the language of business, should be internationalised to serve the international community (Othman & Kossentini, 2015). The harmonisation theory therefore supports the harmonisation of accounting standards globally, and links to the argument in favour of IFRS adoption in this study.

2.6.2 The naturalistic accounting standard-setting strategy and contingency theory

The second strategy is the naturalistic accounting standard-setting strategy where many transactions may be universal but there are a number of environment-based differences that should be considered in the accounting standard-setting process (Larson & Kenny, 1996; Othman & Kossentini, 2015). The naturalistic accounting standard-setting strategy is therefore based on the contingency theory. Larson and Kenny (1996) suggest that the contingency theory originated in psychology, and is widely used in the international business field. They further suggest that the contingency theory recognises the importance and influence of environmental factors in accounting standard setting. Given that each country has a unique set of environmental factors, the contingency theory assumes that such environmental factors are relevant, and that they interact with the development and requirements of the accounting system of the specific country (Larson & Kenny, 1996).

For example, Nobes (1998), Ramanna and Sletten (2009), Stainbank (2014) and Zeghal and Mhedhbi (2006) provide detailed descriptions of the environmental factors influencing the development of accounting objectives, standards and practices in developing countries. Moreover, Adhikari and Tondkar (1992) outline the influence of environmental factors on accounting practices. In this regard, the contingency theory supports the naturalistic accounting standard-setting strategy, suggesting the adoption of IFRS with modifications. Indeed, a naturalistic accounting standard-setting strategy allows countries to adopt an existing accounting system, such as IFRS, but it requires that changes be made to the accounting system in order to consider environmental needs (Othman & Kossentini 2015). Therefore, the contingency theory links to partial IFRS adoption, for example setting accounting standards by converging with IFRS.

2.6.3 The particularistic accounting standard-setting strategy and world system theory

The third standard-setting strategy is the particularistic accounting standard-setting strategy where accounting is inherently affected by a specific environment and, therefore, unique accounting practices are needed in each country (Belkaoui, 1988; Larson & Kenny, 1996; Othman & Kossentini, 2015). According to Tyrrall et al. (2007), each strategy selected will depend on the relative advantages and disadvantages of IFRS versus national accounting standards.

The world system theory, which is based on the notions of social conflict and transfer of wealth, states that developing countries should isolate themselves and create a system that is more appropriate for them (Larson & Kenny, 1996). The particularistic accounting standard-setting strategy is therefore based on the world system theory because of their shared focuses on internal development. As stated by Larson and Kenny (1996), just as the world system theory advocates internally generated solutions to various economic challenges, the particularistic accounting standard-setting strategy advocates internally generated accounting practices to meet the information needs of each country. Belkaoui (1988) argues that accounting practices should be developed based on the particular context of a country independently from the influence of the international community. The result is a unique accounting system that meets the needs of a particular country (Tyrrall et al., 2007). As a consequence, developing countries opting for a harmonisation standard-setting strategy, which is represented by IFRS adoption, particularly full IFRS adoption, could not develop accounting standards that are suitable for their countries' context (Ball, 2006; Nobes, 1998; Othman & Kossentini, 2015). From the perspective of the world system theory, it is suggested that countries (particularly developing countries) should develop their own accounting standards instead of adopting IFRS (Nobes, 1998; 2013). The linkage between the aforementioned accounting standard-setting strategies and the supporting theories is summarised in Figure 2.1.

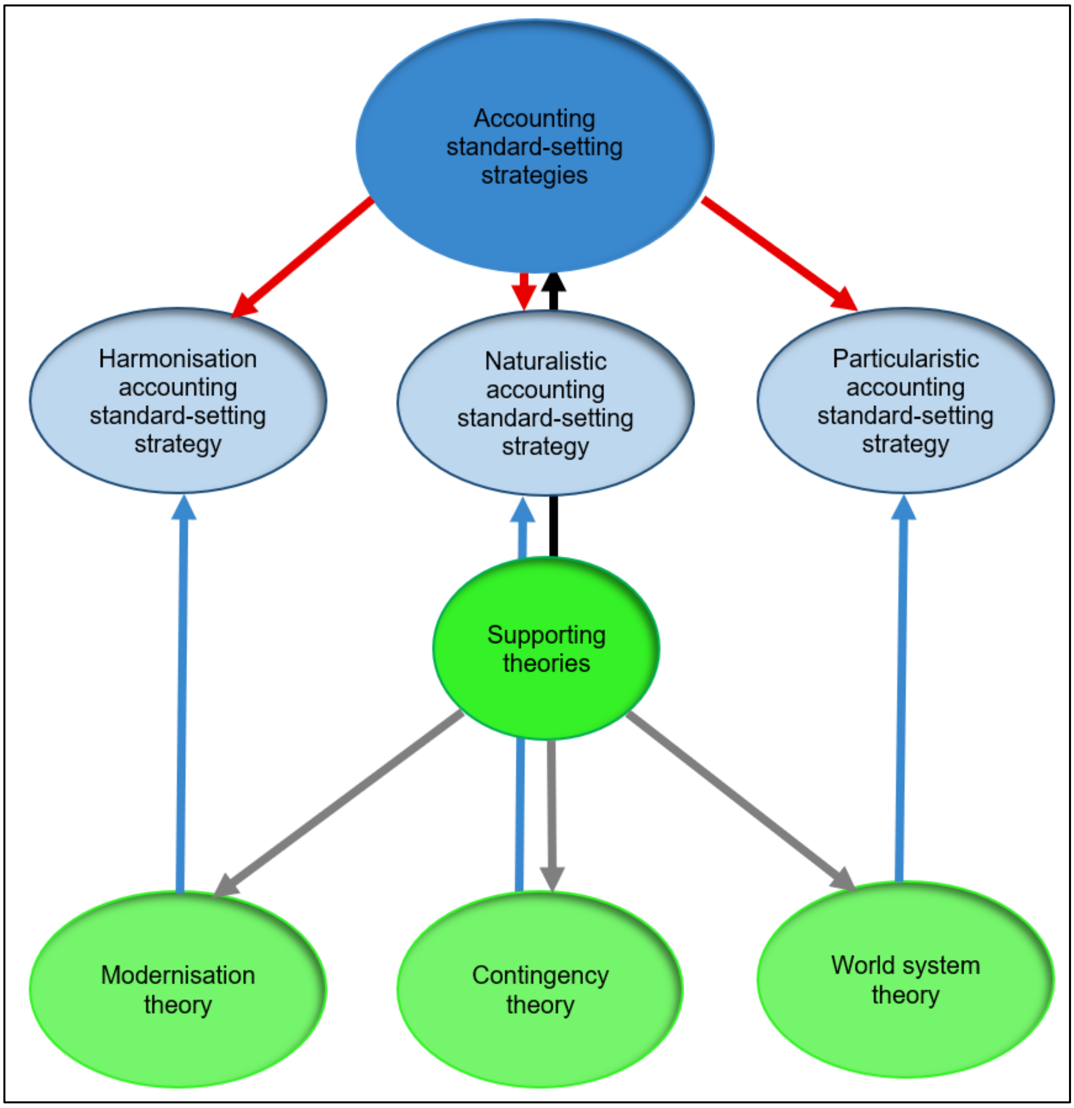

Figure 2.1: Summary of accounting standard-setting strategies and supporting theories

Source: Author's own compilation

Figure 2.1 shows the accounting standard-setting strategies and the corresponding supporting theories. The accounting standard-setting strategies are the strategy of harmonisation, the naturalistic accounting standard-setting strategy and the particularistic accounting standard-setting strategy. The supporting theories are the modernisation theory, the contingency theory and the world system theory respectively. The modernisation theory emphasises the need to harmonise accounting standards globally through IFRS adoption, and it is therefore supported by the harmonisation standard-setting strategy. The contingency theory also supports accounting standards harmonisation but it emphasises the need to consider country-specific environmental factors in the standard-setting processes (strategy). On the other hand, the world system theory emphasises the unique environmental factors each country has, and it supports the need for each country to develop its own country-specific accounting standards. In this regard, the world system theory, which is contrary to the harmonisation theory, supports the particularistic accounting standard-setting strategy. The current study examined the suitability of IFRS in Ethiopia considering these three theories and related accounting standard-setting strategies (refer section 5.4.6).

2.7 CHAPTER SUMMARY

This chapter dealt with the literature pertaining to financial reporting practices and, more specifically, on IFRS and IFRS adoption. The discussion focused on the benefits and challenges of IFRS implementation suggested by various international studies and linked these to relating issues in Ethiopia. Thereafter the three accounting standard-setting strategies – the harmonisation strategy, the naturalistic accounting standard-setting strategy and the particularistic accounting standard-setting strategy – were discussed in relation to the modernisation, contingency and world system theories.

The need for a scholarly examination of IFRS adoption in Ethiopia in relation to the country's economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies, was substantiated in the literature review. There is a gap between the results of the existing studies and the research problem outlined in this study (refer section 1.5) because almost all of the studies in the literature review were conducted based on data from developed countries. Thus, the results of the existing studies have not addressed the effect of the aforementioned factors on IFRS adoption in the context of developing countries, particularly in the context of Ethiopia.

The contingency and world system theories (refer sections 2.6.2 and 2.6.3 respectively) recognise the importance and influence of environmental factors in accounting standard setting. As a result, these theories require that the environmental factors be considered in setting accounting standards (Larson & Kenny, 1996). This, in turn, suggests the need to assess the underlying factors for IFRS adoption in the context of each country and thus the gap in the literature review was identified based on these theories as well.

CHAPTER 3

RESEARCH DESIGN AND METHODS

3.1 INTRODUCTION

Chapter 2 presented a discussion of literature focusing on an overview as well as the benefits, challenges and factors affecting IFRS adoption. It presented the arguments for and against IFRS adoption in Ethiopia, and discussed factors to be examined in order to find evidence that supports these arguments. This third chapter describes the research paradigm (section 3.2), the research design (section 3.3) and the methods used to conduct the study (section 3.4). The chapter also discusses the ethical considerations (section 3.5).

3.2 RESEARCH PARADIGM

A paradigm is a general organising framework for theory and research that includes basic assumptions, key issues, the model of quality research and methods for seeking answers (Neuman, 2011). In simple terms, a research paradigm is an approach to thinking about and doing research (Antwi & Hamza, 2015). There are mainly two paradigms, namely positivism and interpretivism (Aliyu, Bello, Kasim & Martin, 2014; Neuman, 2011).

For more than a century, the advocates of the positivism (quantitative) and interpretivism (qualitative) research paradigms have engaged in quantitative versus qualitative research paradigm debates (Johnson & Onwuegbuzie, 2004). Advocates of the positivism paradigm argue that social science research should be objective. That is, time- and context-free generalisations are desirable and possible, and real causes of social scientific outcomes can be determined reliably and validly (Tashakkori & Teddlie, 1998). On the other hand, advocates of the interpretivism paradigm argue for the superiority of constructivism, idealism, relativism, humanism, hermeneutics and, sometimes, postmodernism, as time- and context-free generalisations are neither desirable nor possible (Guba & Lincoln, 1989). Both sets of advocates view their paradigms as the ideal for research. However, Johnson and Onwuegbuzie (2004) argue that there is a third paradigm, which is the mixed research paradigm, which draws from strengths and minimises weaknesses of the positivism and interpretivism research paradigms in single research studies. Accordingly, the research paradigm used for the current study was a mixed research paradigm because the research had both positivist and interpretivist aspects.

3.3 RESEARCH DESIGN

In general, there are three designs that are used in conducting a given research (Creswell, 2009; Leedy & Ormrod, 2015). These are quantitative, qualitative and mixed-method research designs (Leedy & Ormrod, 2015). Quantitative research refers a research design that predominantly generates and uses numerical data. On the other hand, qualitative research refers to a research design that predominantly focuses on non-numerical data collection and analysis methods (Creswell, 2009). Mixed-method research is described as a research design in which the researcher collects and analyses data, integrates the findings, and draws inferences using both quantitative and qualitative designs in a single study (Creswell & Plano Clark, 2008). Creswell and Plano Clark (2008) further suggest that researchers use the mixed-method research design for a variety of reasons, including seeking corroboration between quantitative and qualitative data and seeking complementarity of the results from one method with the results from the other. The research method adopted in this study was a concurrent mixed-method design, which comprised a survey and content analysis. This method was used to corroborate and cross-validate results obtained through one technique with the results from another. However, the survey was the main research method used in this study, and therefore more emphasis was put on it. The following sections discuss these two research methods used in detail.

3.4 RESEARCH METHODS

As discussed in section 3.3, the research methods adopted in this study were the survey and content analysis. These methods are discussed in detail in sections 3.4.1 and 3.4.2 respectively.

3.4.1 Survey method

A survey most often provides a quantitative and numeric description of trends, attitudes, or opinions of the population by studying the sample of the population or unit of analysis (Creswell, 2009). Neuman (2007) suggests that a survey is an appropriate research method to address research questions about beliefs, opinion or attitudes. He also suggests that a survey provides researchers with the opportunity to ask many things and measure many variables at the same time in a single study. Neuman (2007), however, warns that a survey method has a limitation in that it provides data only of what the participants say, and this may differ from what the participants actually do.

A survey was used in this study because the nature of the research questions was especially suitable for this method. In addition, the use of a survey is relatively cost-effective and suitable to gather data from a large number of participants in a highly economical manner (Fry, 2014). In the current study, the survey was the primary research method, and it was conducted to obtain information about the current accounting and financial reporting practices in Ethiopia and to gather experts' perceptions about key selected factors that would affect IFRS adoption in Ethiopia. These factors were economic growth, external economic openness, capital market development, the level of accounting education as well as legal systems and government policies. Data collected through the survey was analysed using SPSS as outlined in section 3.4.4.

3.4.1.1 Unit of analysis

According to Neuman (2007), the unit of analysis refers to a large set of items being studied, and it is also termed a 'universe'. As such, a unit of analysis comprises the entire group of individuals, objects, cases, articles or things with common attributes. The unit of analysis for conducting the survey in this study comprised different stakeholders that were involved in financial reporting practices in Ethiopia at the time of the study. These included:

- Managers who were in charge of accounting or finance departments of share companies in Addis Ababa, namely chief finance officers (CFOs), chief accountants, financial controllers or finance directors depending on the designation of the position in each company. According to the Commercial Code of 1960 of Ethiopia, company managers are responsible for preparing financial statements for their companies. As a result, managers who are in charge of accounting or finance departments of companies are highly involved in preparing financial statements of their companies. Consequently, the aforementioned managers are highly knowledgeable about Ethiopian financial reporting practice, and it was believed that they would provide reliable information to address the research questions. Moreover, managers of share companies only based in Addis Ababa were considered because to the knowledge of the researcher, Addis Ababa is the economic hub of Ethiopia and almost all share companies of the country base their headquarters in Addis Ababa. Consequently, it was believed that finance managers of the share companies based in Addis Ababa would fairly represent finance managers of all share companies in Ethiopia. According to unpublished databases of the Ethiopian Ministry of Trade (2017) and the NBE (2018), there were 153 share companies in 2018 based in Addis Ababa, which included financial institutions and share companies in other (non-financial) sectors. Therefore, a manager who was in charge of preparing financial statements for each share company was included in this unit of analysis. In addition to share companies, there were also other forms of companies at the time, mainly private limited companies in Ethiopia. However, according to the researcher's own experience, the majority of private limited companies in Ethiopia are small sized and do not hire professional finance managers. Instead, they use the services of authorised accountants (external independent accountants) or the services of their auditors to prepare their financial statements. Therefore, they were not included in this target population. However, the authorised accountants and authorised auditors were part of this target population, and they are discussed separately in this section.

- Managers or senior-level accountants who were in charge of financial statements of corporate tax payers at the Ethiopian Customs and Revenue Authority headquarters. According to the Ethiopian Income Tax Proclamation numbers 286/2002 and 979/2016, companies are required to submit their annual financial statements to the Ethiopian Revenue and Customs Authority in support of their annual tax return (Ethiopian Government, 2016). Designated accountants at the Ethiopian Revenue and Customs Authority review companies' financial reports as part of their tax assessment, and they are considered by the researcher to be knowledgeable about Ethiopian financial reporting practice. As a result, this group of stakeholders was also included in this unit of analysis for this study. According to information from the Ethiopian

Revenue and Customs Authority's officials, there were 20 senior-level accountants who were in charge of financial statements of corporate tax payers at Ethiopian Revenue and Customs Authority at the time, and all of them were included in this population.

- Authorised auditors in public practice who were members of recognised professional accountancy bodies and who were licenced by the Ethiopian regulatory bodies to carry out audits of companies' financial statements independently. Auditors also play a significant role in the process of preparing financial reports in Ethiopia. For example, they provided advice to their clients regarding the accounting standards to be used to prepare financial statements (World Bank, 2007). In some cases, they prepare financial statements for their clients. Owing to their significant involvement in Ethiopian financial reporting practice, auditors are also believed to be knowledgeable about Ethiopian financial reporting practices (Kidane, 2012; World Bank, 2007) and hence they were included in this target population. According to the AABE (2017), there are 108 authorised auditors in the country and all of them were considered in this unit of analysis.
- Authorised accountants – this group of stakeholders are entities or individuals licenced by the Ethiopian accounting regulatory body to provide accounting services, such as preparing financial statements, establishing accounting practices for their clients, providing advice to their clients in the areas of taxation, corporate finance and accounting in general. According to the AABE (2017), there are 810 authorised accountants in Ethiopia. Out of these, 579 are based in Addis Ababa, and 231 are based in other parts of the country (AABE, 2017). Owing to resource constraints, such as time and poor communication systems, for example poor internet services in Ethiopia, considering authorised accountants based outside Addis Ababa did not appear feasible in this study. Consequently, only authorised accounts that were based in Addis Ababa at the time of the study were included in this unit of analysis.
- Senior-level accountants working for networks of the four big accounting firms in Ethiopia. Two of the four big accounting firms, namely Deloitte as well as Ernst and Young, had networks in Ethiopia at the time of this study. They provided a range of accounting services to their clients, such as preparing

financial statements, doing financial analyses, asset valuation and providing management advisory services through their networks. Given their expertise in a wide range of areas, accountants working for these firms have been considered in this study. According to information obtained from the officials of the Deloitte and Ernst and Young networks in Ethiopia, there are 23 accountants working for these accounting firms in the country and all these accountants were included in this unit of analysis.

In conclusion, the aforementioned groups of stakeholders are highly involved in the Ethiopian financial reporting processes and it was believed that they would provide reliable information to address the research questions. The unit of analysis (population) therefore comprised 883 individuals. A survey was used to gather data from a sample of this unit of analysis. The sampling method and data collection instrument used to gather information from the sample of this unit of analysis are discussed below. The group of stakeholders that comprised the unit of analysis for conducting the survey in this study is summarised in Table 3.1.

Table 3.1: Summary of group of stakeholders comprising the unit of analysis for the survey

Category of stakeholders	Number
Managers in charge of accounting or finance departments of share companies in Addis Ababa	153
Managers or senior-level accountants in charge of financial statements of corporate tax payers at Ethiopian Customs and Revenue Authority	20
Authorised auditors in public practice	108
Authorised accountants	579
Senior-level accountants working for networks of the four big accounting firms in Ethiopia	23
Total	**883**

Source: Author's own compilation

Table 3.1 shows various groups of stakeholders, which comprised the unit of analysis for the survey.

3.4.1.2 Sampling

A sample is a subset of the unit of analysis (Neuman, 2007). In many situations, it will be difficult or impossible to collect and analyse data from an entire unit of analysis owing to restrictions of time, money and access (Saunders et al., 2007). As a result, it will be more practical and economical to collect and analyse data from the sample and generalise about the unit of analysis, provided that the sample is representative. Henry (1990) argues that using sampling makes higher overall accuracy possible than a census because time can be spent in designing, collecting and analysing data from the sample than from the unit of analysis and hence the information obtained would be more detailed, which, in turn, enhances validity of the research findings. Consequently, sampling was used in this study, and the sampling method used for the survey is discussed below.

3.4.1.2.1 Sampling method for the survey

The sampling methods used broadly depend on the characteristics of the unit of analysis from which a sample is drawn and the nature of the study. In this study, proportionate stratified sampling was used to draw a sample from the unit of analysis for the survey. According to Weathington, Cunningham and Pittenger (2012), stratified sampling is a modification of random sampling in which the unit of analysis is divided into different sub-groups or strata based on one or more attributes. Given that the unit of analysis for the survey in this study consisted of different groups that were also different in size (refer Table 3.1), it was believed that using the proportionate stratified sampling method would ensure appropriate representation of each group in the sample. Proportionate stratified sampling is appropriate when the various strata or groups of the unit of analysis are different in size (Leedy & Ormrod, 2015). As a result, proportionate stratified sampling overcomes the problem that some members of the unit of analysis are significantly under- or over-represented in the sample (Collis & Hussey, 2014). In addition, stratified sampling shares many of the advantages of simple random sampling, such as ease of use, accurate representation of the larger unit of analysis, and overcoming bias in sample selection. However, it is only possible to use stratified sampling if the researcher is aware of and can easily distinguish the existence of significant strata in the unit of analysis. Moreover, the extra stage in the stratified sampling procedure means that it is likely to take longer and to be more expensive than simple random sampling.

3.4.1.2.2 Sample size for the survey

Sample size determines the level of accuracy in generalising about the unit of analysis based on data collected from the sample (Neuman, 2007). The larger the sample size, the lower the likely error in generalising to the unit of analysis. Determining the sample size is therefore a compromise between the accuracy of a research finding and the amount of time and money invested in collecting, checking and analysing data (Celsi et al., 2011; Neuman, 2007). Accordingly, the choice of sample size can be determined by the following factors (Newby, 2010):

- the level of confidence sought;
- the variability of elements in the unit of analysis;
- the type of study and analysis being undertaken; and
- the size of the population from which sample is being taken.

Gay, Mills and Airasian (2012:139) also provide the following guidance for determining a sample size.

- for smaller populations, for example for a population equal to 100 or fewer, there is little point in sampling, and the entire population should be surveyed;
- if the population size is around 500, 50% should be sampled;
- if the population size is around 1 500, 20% should be sampled; and
- beyond a certain point, for example if the population is around 5 000, the population size is almost irrelevant, and a sample size of 400 will be adequate.

Accordingly, in the current study, the sample size was set at 50%. Consequently, 442 (883 x 50%) stakeholders were selected from the unit of analysis to conduct the survey. As the unit of analysis for this sample comprised different groups that were also different in size, the sample size from each group was determined proportionately as shown in Table 3.2 below.

Table 3.2: Summary of sample for the survey

Category of stakeholders	Unit of analysis	Sample size (50%)
Managers in charge of accounting or finance departments of their respective companies	153	77
Managers or senior-level accountants in charge of financial statements of corporate tax payers at the Ethiopian Customs and Revenue Authority	20	10
Authorised auditors in public practice	108	54
Authorised accountants	579	289
Senior-level accountants working for the networks of the four big accounting firms in Ethiopia	23	12
	883	**442**

Source: Author's own compilation

Table 3.2 reflects a summary of the sample drown from various groups of stakeholders comprising the unit of analysis for the survey.

3.4.1.3 Data collection method for the survey

To collect data through a survey, a questionnaire designed by the researcher was used as using a questionnaire is relatively cost-effective and suitable to gather data from a large number of participants in a highly economical manner (Fry, 2014). Considering the sample size of 442 for the survey in this study, the use of a questionnaire was believed to be more practical than other methods, such as using an interview. Making use of a questionnaire also has the following advantages (Babin, Carr, Griffin & Zikmund, 2009; Leedy & Ormrod, 2015):

- Geographic flexibility – questionnaires can reach a geographically dispersed sample simultaneously because interviewers are not required. Participants who are located in isolated areas or those who are otherwise difficult to reach can easily be contacted by mail or email.
- Participant convenience – self-administered questionnaires can be filled out when the participants have time; therefore, participants are more likely to take time to think about their replies. Many hard to reach participants place a high value on convenience and thus are best contacted, for example, by mail or email. In some situations, particularly in business-to-business (B2B) research, questionnaires allow participants to collect facts, such as employment statistics,

that they may not be able to recall without checking. Being able to check information by verifying records or, in household surveys, by consulting with other family members should provide more valid, factual information than either personal or telephone interviews would allow.

- Anonymity of participants – in the cover letter that accompanies a self-administered questionnaire, researchers almost always state that the participants' answers will be confidential. Participants are more likely to provide sensitive or embarrassing information when they can remain anonymous. Results often suggest that, for research on personal and sensitive financial issues, mail surveys are more confidential than personal interviews. Anonymity can also reduce social desirability bias. People are more likely to agree with controversial issues, such as extreme political candidates, when completing self-administered questionnaires than when speaking to interviewers on the phone or face to face.
- Absence of interviewer – the absence of an interviewer can induce participants to reveal sensitive or socially undesirable information. However, the lack of a researcher's personal contact can also be a disadvantage. Once the participant receives the questionnaire, the questioning process is beyond the researcher's control. Although the printed stimulus is the same, each participant will attach a different personal meaning to each question. The participant does not have the opportunity to question the interviewer. Problems that might be clarified in a personal or telephone interview could remain misunderstood in a questionnaire. There is no interviewer to probe for additional information or clarification of an answer and the recorded answers must be assumed to be complete. Participants have the opportunity to read the entire questionnaire before they answer individual questions. Often, the text of a later question will provide information that affects responses to earlier questions.
- Standardised questions – questionnaires typically are highly standardised, and the questions are quite structured. When questions and instructions are clear-cut and straightforward this would increase the rate of response. However, a questionnaire does not allow the researcher to get feedback regarding the participant's comprehension of the questionnaire. As a result, once the questionnaire is distributed, it is difficult to change the format or the questions.

The next section discusses questionnaire design in detail.

3.4.1.3.1 Questionnaire design

Questionnaire design is an important stage of any research that uses a questionnaire to gather data because the information collected is only as good as the questions asked (Newby, 2010). As a result, a good questionnaire design should consider the basic criteria of relevance and accuracy in developing each question as follows (Leedy & Ormrod, 2015; Neuman, 2007; Newby, 2010):

- questions should be designed in a way that the information collected addresses the research question;
- questions should be simple, understandable, unbiased and unambiguous;
- each issue should be addressed separately in order to avoid ambiguity;
- alternatives should be clear – the options should be distinctly different from one another and should cover all possibilities;
- questions should be mutually exclusive and exhaustive; and
- questions should be in a logical order and there should be a clear layout of the questionnaire form.

The questionnaire for this study was developed based on the principles discussed above and is included in Annexure A of this dissertation. It consisted of five sections.

- The first section aimed to capture demographic background about the participants.
- The second section was aimed at obtaining information about the organisations of the participants.
- The third section sought to establish background information regarding current accounting practices in Ethiopia.
- The fourth section intended to collect information about the key factors that would affect adoption of IFRS in Ethiopia.
- The last section was for comments in case participants wanted to add more ideas that had not been reflected in the questionnaire.

The study used close-ended questions in the light of accuracy and standard responses, which, in turn, would help to get more relevant information. Furthermore, close-ended questions have the following advantages (Neuman, 2007):

- close-ended questions are easy and quick for the participants to answer;
- the answers of different participants are easy to compare;
- answers are easy to code and analyse statistically;
- the response choices can clarify meaning of question for the participants;
- participants are likely to answer questions about sensitive topics; and
- there are fewer irrelevant or confused answers to questions.

However, it is recognised that close-ended questions also have limitations. For example, certain important issues might be omitted in the list of responses for a close-ended question. To overcome the limitations, each question was designed carefully. For instance, the questions were made simple and understandable to participants. In addition, efforts were made to ensure that all response categories were exhaustive, and all the answer categories were exclusive. The questionnaire was also reviewed by some experts in the field, and their feedback was incorporated.

3.4.1.3.2 Administering the questionnaire

Babbie (2010) provides three main methods of administering a questionnaire to a sample of participants, namely –

- a self-administered questionnaire (participants complete the questionnaire themselves);
- a survey administered by interviewer in a face-to- face encounter; and
- a survey conducted by telephone.

Owing to the costs and time constraints related to use of an interviewer and potentially unreliable responses of the telephone survey, a self-administered questionnaire method was used in this research. Accordingly, the questionnaire was distributed to the participants of this study by a combination of hand delivery by the researcher as well as an assistant, and by email with the participants completing the questionnaire themselves. The decision to send the questionnaire either by hand delivery or by email was made based on the participants' preferences. Consequently, for those participants who preferred to receive by email the questionnaire was sent as an email attachment and their responses were also received by email. For the rest of the participants, the questionnaire was hand-delivered by the researcher and an assistant who was provided with clear instructions about how to conduct the delivery and collection of the completed questionnaire from the participants. The researcher and the assistant later collected the completed questionnaire from those participants who received the questionnaire hand-delivered. Having discussed the survey, the next section will explain the content analysis.

3.4.2 Content analysis

In section 3.4.1, the survey method adopted in this study was discussed in detail. In this section, the content analysis method used in this study is discussed. According to Silverman (2014), 'content analysis' refers to the review of written texts, such as documents produced by organisations, emails and blogs. Silverman (2014) argues that content analysis has the following advantages:

- richness – content analysis provides the opportunity for close analysis of the content, and hence enhances richness of the information obtained;
- naturally occurring – documents reveal information as it has naturally occurred without being distorted; and
- availability – documents are usually readily accessible and not always dependent on access constraints.

Consequently, content analysis was conducted in this study to analyse the content of the most recent (either financial year 2015, 2016 or 2017 depending on availability) audited financial statements of selected share companies and relevant provisions of laws and regulations issued by the Ethiopian government with regard to the country's accounting and financial reporting practices. The methodology adopted to conduct this analysis was identifying the accounting standards used and comparing how items on the financial statements were presented and disclosed with the requirements of the relevant IFRS standards (refer sections 4.3.1 to 4.3.3). The results of data collected through the analysis were presented descriptively, for example, using tabulation of the frequency of issues identified. The unit of analysis for the content analysis is discussed in the next section.

3.4.2.1 Unit of analysis

The unit of analysis for the content analysis in this study was share companies in Ethiopia that were based in Addis Ababa (refer section 3.4.1.1). Data from a sample of this unit of analysis was collected through analysis of the most recent audited financial statements of the selected companies and was used to support information obtained through the survey. The financial statements of the selected companies were obtained from each individual company, mainly in the form of hard copies, and returned after review (refer, section 4.3). The next section explains the sampling method adopted for the content analysis.

3.4.2.2 Sampling

The sample for the content analysis of the financial statements was drawn from the unit of analysis discussed above using the simple random sampling method. In a simple random sampling technique, each element of the unit of analysis has an equal chance of being selected and this, in turn, ensures that the sample selection is free from bias and hence the sample is representative (Collis & Hussey, 2014). It is also an appropriate method for selecting a sample from a homogeneous target population. Given that all share companies in Ethiopia are supposed to apply the same accounting practices, the target population for the content analysis through financial statement review (sample of companies their audited financial statements to be reviewed) was considered to be homogenous and a random sampling method was consequently used. Having discussed about the sampling method in this section, the next section explains about the sample size.

3.4.2.2.1 Sample size

Principles and guidance for determining sample size were discussed in section 3.4.1.2. However, for practical reasons, such as budget and time constraints, alternative methods, such as rule of thumb, previous similar studies and the researcher’s own experience and judgement were also used to determine sample size (Celsi et al., 2011; Neuman, 2007). Irrespective of how the sample size is determined, it is essential that the sample size be sufficient and of good quality to yield results that are seen to be credible in terms of their accuracy and consistency. For example, where a population is homogeneous, a small sample can produce accurate estimations about the population, but where a population is heterogeneous, a large sample is required to generalise about the population more accurately (Leedy & Ormrod, 2015).

Consequently, judgement was used by the researcher to determine the sample size for the content analysis, and was set at a 20%. Given that the population was homogenous and there were limited resources for the study, a 20% sample size for review of financial statements was believed to be representative (Leedy & Ormrod, 2015) in order to generalise about financial reporting practices in Ethiopia and to corroborate the information obtained through the survey discussed in section 3.4.1. Accordingly, a sample of 30 (153 – refer Table 3.1 – x 20%) companies were drawn randomly from the target unit of analysis, and the contents of their most recent audited financial statements were reviewed to identify the accounting standards used and to assess how the principles and standards had been applied. Having discussed the sample size, data collection from the sample is explained in next section.

3.4.2.2 Data collection

Document review was conducted in order to collect data through the content analysis. This involves identifying the accounting standards and regulations used and examining how these principles and regulations had been applied when the financial statements were prepared. The review principally focused on issues of presentation and disclosure of items in the financial statements, as issues of measurement and recognition cannot be examined using financial statements' analysis only. The information obtained through the review of the financial statements was analysed and used to support the information obtained through the survey. Therefore, the analysis of the financial statements was conducted in order to obtain details regarding the current financial reporting practices, particularly on issues of presentation and disclosure, which might not have been fully addressed by the questionnaire. This included information regarding classification of items in the financial statements, the level of disclosure, and gaining a good understanding of how rules and principles had been applied when the financial statements were being prepared (refer section 4.3 and sub-sections 4.3.1-4.3.3). Moreover, the financial statement review was conducted to crosscheck the overall reasonableness of information obtained through the survey, and hence to enhance validity of the evidence obtained to support the research results. The next section discusses the reliability and validity of data in more detail.

3.4.3 Reliability and validity of data

Factor analysis was conducted in this study to examine the relationship between variables and to ensure construct validity of the study. 'Factor analysis' refers to a number of statistical procedures used to determine characteristics that relate to each other, and it is useful for examining the relationships between large numbers of variables, distinguishing them and identifying clusters of variables that are closely linked together (Roberts, Priest & Traynor, 2006). In order to ensure that factor analysis is a suitable method to conduct for a given research, the following acceptable criteria should be met (Hooper, 2012):

- a large sample size (150 or above);
- the Kaiser–Meyer–Olkin (KMO) measure of sample adequacy should be 0.5 or above;
- the Bartlett's test of sphericity should be statistically significant ($p < .000$); and
- the acceptable total variance explained by the factors should be a minimum of 60% of the cumulative variance.

Furthermore, in order to ensure internal consistency (validity) of the data, Cronbach's alpha coefficient values should be at least 0.6 (Hooper, 2012). As indicated in Table 3.2 and section 4.2.4.1, all the aforementioned criteria were met in the current study, which, in turn, suggests the reliability and validity of the data.

Moreover, as mentioned in section 3.1, the research method adopted in this study was the concurrent mixed-method design, which comprises quantitative and a qualitative data analysis. This method was used to corroborate and cross-validate results obtained through one technique with the results from another. Corroboration is one way of enhancing validity of research, as it assists with consistency, comprehensiveness and robustness of a study (Roberts et al., 2006). The reliability of the study was also improved by the researcher being unbiased, methodical and maintaining transparency throughout the study so that readers can trace the decision processes relating to personal orientation and context, theory, methodology and analysis throughout the research. The next section discusses data analysis in detail.

3.4.4 Data analysis

In this study, SPSS, a package for performing data analysis in social science research, was used to analyse and interpret quantitative data. Although it was possible to conduct statistical analysis using other generalised spreadsheet programs, SPSS is widely used due to its effective data management, wide range of options and very good output organisation features. Moreover, SPSS is easy to use and many of the widely used data sets can easily be translated into it so that it reduces the preliminary work needed to explore the data (Kutner et al., 1996).

In Chapter 4, the analysed data is presented using pie charts, descriptive and inferential statistics to verify the data and to draw conclusions. Descriptive and inferential statistics were used to present the interpreted data related to factors that would affect IFRS adoption in Ethiopia. Pie charts were used to present the categorical and ranked data. While the categorical data refers to data classified into certain categories or groups, rank data refers to data measuring order of importance or relevance. A pie chart is a diagram summarising categorical data by dividing a circle into proportional segments with each segment representing a particular category (Celsi et al., 2011). Pie charts are generally considered the most illustrative method of presenting categorical data; hence, its use in this research.

Data gathered using the content analysis was analysed qualitatively, such as comparison with acceptable principles, standards and theoretical frameworks. The analysed data is presented in the form of percentages and frequencies in Chapter 4.

As discussed in section 1.7, the objective of the study was to assess the suitability of IFRS adoption in Ethiopia limiting the scope of the study to examination of the contextual factors that influence IFRS adoption. However, other matters not considered in the study, such as including only managers of share companies (ref 3.4.1.1), exclusion of financial statements of other forms of businesses (refer below) and use of only IFRS as benchmark for the financial statements review (ref 4.3.2) were not believed to be important enough to affect the results; hence, despite this limitation, inference from the study remains valid. In addition, the results are supported by corroborative evidence obtained through financial statements review. Another constraint was that financial statements of share companies only were considered for review because the other forms of businesses in Ethiopia were still in the infant stage and it was difficult to obtain their financial statements. However, given that other forms of businesses were in the infant stage, their role in financial reporting practice in the country was also assumed insignificant. As a result, the effect of the omission of the financial statements of other forms of businesses (private limited companies and sole proprietors) on the study was considered negligible. This is because sole proprietors and private limited companies in Ethiopia are small businesses mainly engaged in services, retail and entertainment activities. Private limited companies are required to have only two members and a starting capital of birr 15 000, which was equivalent to US$500 at the current (June 2019) exchange rate of 30 birr to US$1. Birr is the currency used in Ethiopia. In addition, private limited companies and sole proprietors are prohibited by law from conducting banking and insurance business. Throughout this study, ethical matters were considered carefully, and the next section discusses this in detail.

3.5 ETHICAL CONSIDERATIONS

As human beings were the objects of this study, mutual trust, acceptance and cooperation between all parties involved were extremely important, as it is of the utmost importance that research should bring no harm to its participants (Babbie, 2010). As a result, participation in this study was voluntary and no one was forced to participate in the study. The participants were informed about the objectives of the research, expected duration of their involvement and the fact that participation was voluntary and they could withdraw from participation at any time. In addition, all the participants were informed with regard to their confidentiality before any data collection process was begun. A consent letter (refer Annexure A) was also provided together with the questionnaire, and the participants had to agree to participate in the study before they could commence answering the questions. The researcher endeavoured to adhere to accepted ethical considerations for social science research, such as voluntary participation, informed consent, anonymity, trust and withdrawal of participants at any stage of the research project. In addition, ethical clearance for this research project was formally obtained from the University of South Africa (Unisa) (refer Annexure B).

3.6 CHAPTER SUMMARY

This chapter dealt with the research design and methods adopted in this study. The chapter therefore focused on discussion of the research paradigm, the research design and the research methods, which were followed by the discussion of the survey method, the units of analysis, the sampling technique, data collection methods, content analysis, data validity, data analysis and ethical consideration.

In this study, a positivism paradigm was used. The research methods adopted in this study were survey and content analysis. The survey was the primary research method, and it was conducted to obtain information with regard to the current accounting and financial reporting practices in Ethiopia and to gather experts' perceptions about key selected factors that would affect IFRS adoption in Ethiopia. In addition, content analysis was conducted to obtain additional information to corroborate the information obtained through the survey. The content analysis involved a review of audited financial statements of selected share companies and of relevant provisions of laws and regulations issued by the Ethiopian government with regard to the accounting and financial reporting practices in the country. Chapter 4 deals with data analysis and presentation of research findings, whilst Chapter 5 explains the limitations of the study, provides a summary of the various chapters of the dissertation, and presents the conclusion as well as recommendations for further research.

CHAPTER 4

RESEARCH FINDINGS

4.1 INTRODUCTION

Chapter 3 discussed the research paradigm, research design and research methods adopted for the current study in detail. It was important to analyse the results of the study in order either to support or refute the arguments outlined in Chapter 2 (refer sections 2.4 and 2.5). This chapter, therefore, focuses on analysing the results of the survey responses and content analysis of the financial statements. As discussed in sections 3.4.1.3 and 3.4.2.2, data for this study was collected through a questionnaire and the analysis of the contents of selected financial statements respectively. Consequently, the analysis of the survey responses and the content analysis of the financial statements are presented and discussed in sections 4.2 and 4.3 below.

4.2 ANALYSIS OF THE SURVEY RESPONSES

In this study, a self-administered questionnaire was used to gather data, and was distributed to 442 participants. Out of the 442 participants, 400 (90.5%) completed and returned the questionnaires. Given that Ethiopia was in state of emergency when the survey was conducted, a 90.5% response rate was believed to be very high. This high rate of response is also attributed mainly to the desire and willingness by most of the participants to participate in the research because IFRS is a current issue in Ethiopia and most accountants, auditors and business managers were interested to know whether IFRS will work for country. However, it is important to note that the survey was conducted when there was political unrest in Ethiopia and this may have influenced the participants' answers, particularly answers related to questions with regard to the economic and political factors that would affect IFRS adoption. The responses to sections 1–4 of the questionnaire (refer Annexure A) are analysed in sections 4.2.1–4.2.4.

4.2.1 Section 1 – Demographic profile

Section one of the questionnaire focused on the demographic profile of the participants, such as gender, age, educational background, work experience and current occupation. The objective of this section was to establish whether the majority of the participants had a reasonable level of academic background and relevant experience in the area of the study.

Section 1 Question 1 – Gender

Participants were asked to tick a box corresponding to their gender, which was either male or female. The objective of this question was to establish the gender composition of the participants and the results are shown in Figure 4.1.

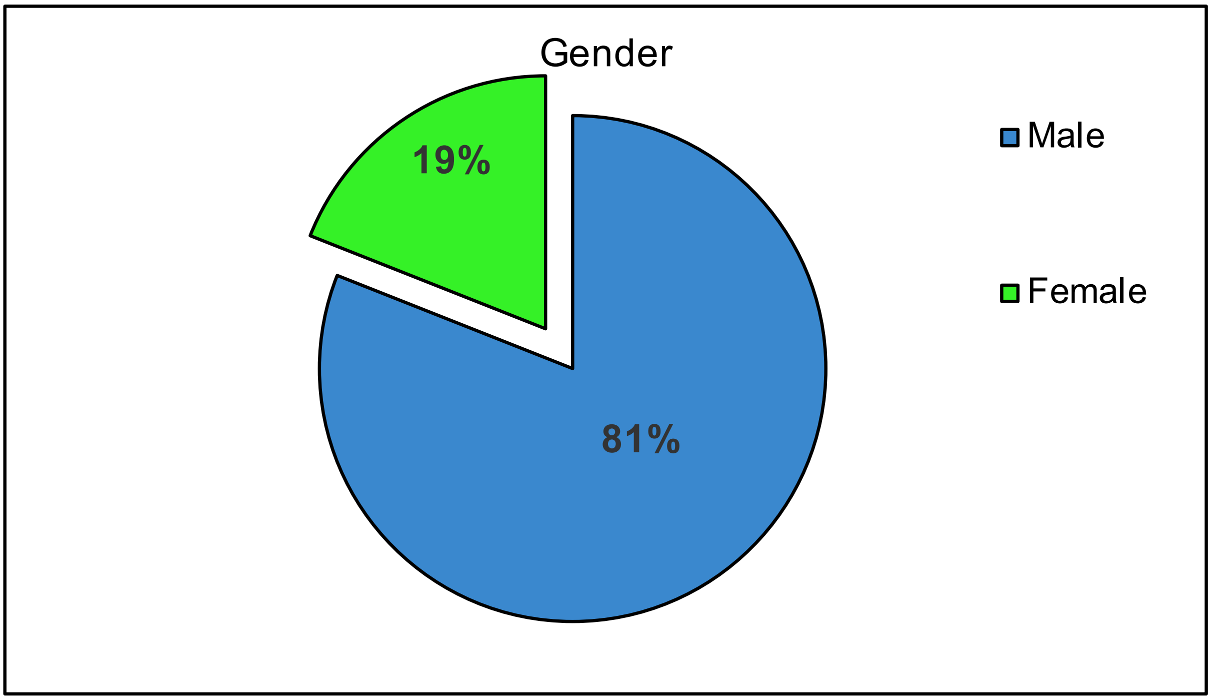

Figure 4.1: Gender

Source: Author's own compilation

As Figure 4.1 indicates, 324 (81%) of the participants were male and 76 (19%) were female. This implies that, at the time of this study, females were less engaged in accounting as a career in Ethiopia than males. Although the unbalanced gender composition of the participants did not have a direct effect on the research results, it indicated a lack of balance when compared to the population of the country. For example, females made up 49.74% of the Ethiopian population in 2014, which was estimated to be more than 86 million (UN Women Ethiopia Country Office, 2014:27).

Section 1 Question 2 – Age

The participants were asked to indicate their age in order to determine their suitability to participate in the study. This question had to provide reasonable knowledge about the participants by gauging duration of their experience in the profession. Based on the answers from the participants, ages were categorised into four groups, and the results of the responses are summarised in Figure 4.2.

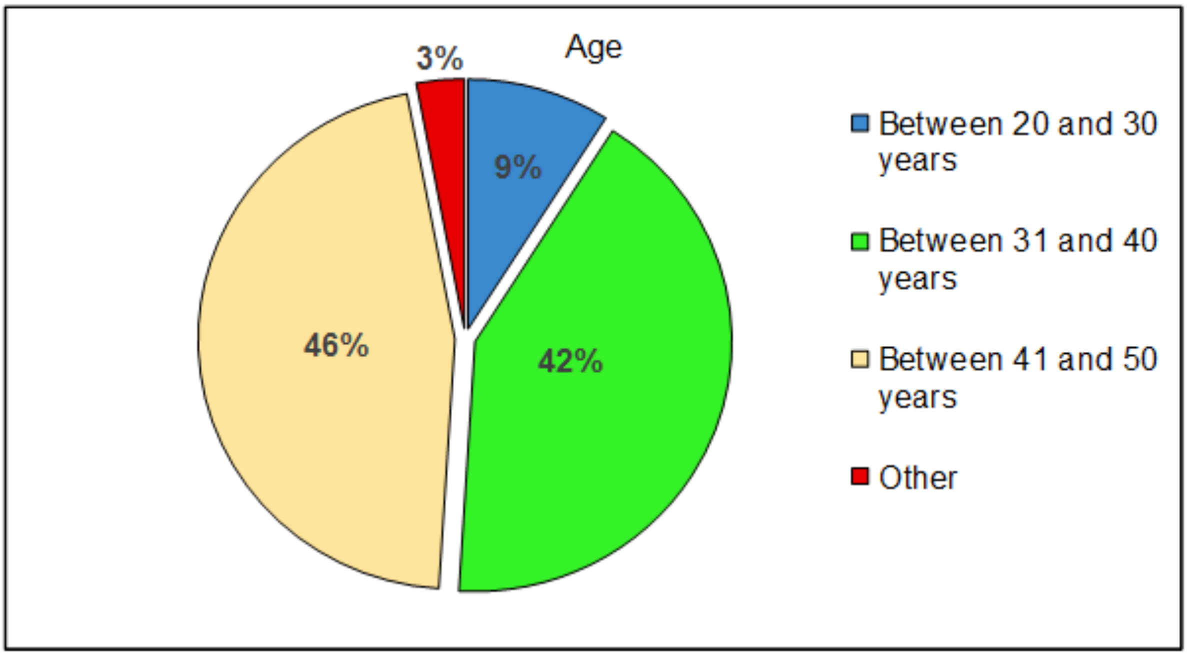

Figure 4.2: Age

Source: Author's own compilation

As Figure 4.2 indicates, a large majority (88%) of participants were between the ages of 31 and 40 (42%) and 41 and 50 (46%). Only 9% of the participants were in the age group between 20 and 30 years and 3% were others such as those did not disclose their age. This implies that a large proportion of participants had many years of relevant experience, which, in turn, highlighted the reliability of the information obtained.

Section 1 Question 3 – Highest educational level including professional membership

The participants were asked about their highest educational level in order to assess their skills and expertise in the area of the study. The responses to this question were summarised and are presented in Figure 4.3.

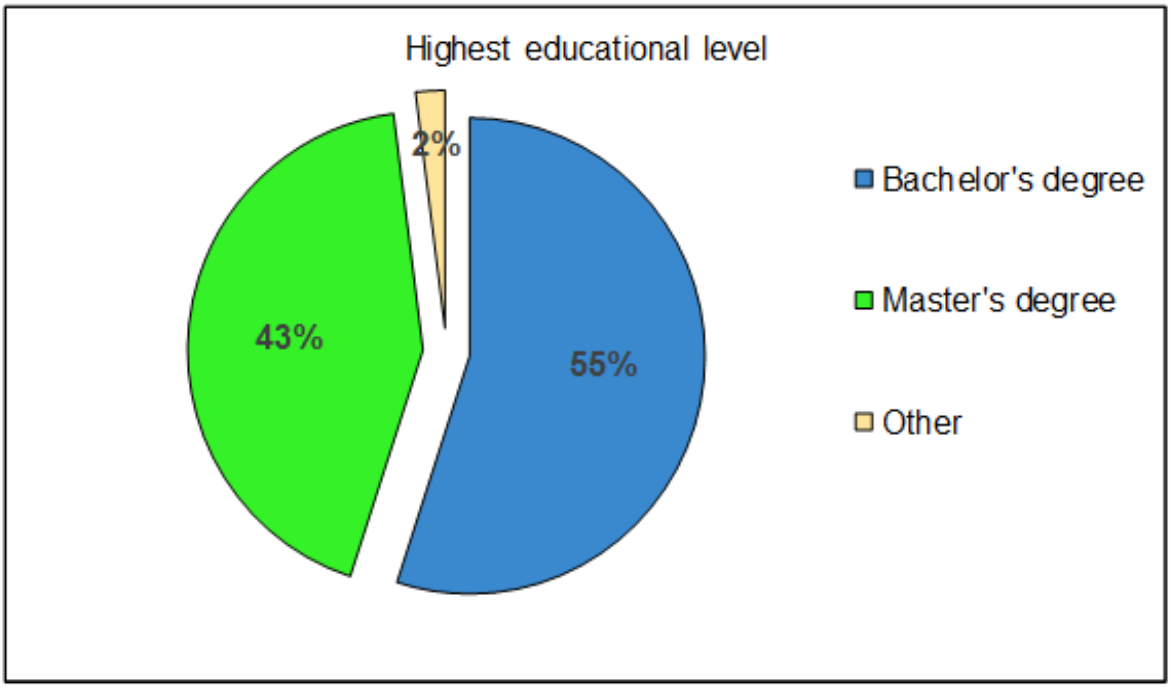

Figure 4.3:   Highest educational level

Source: Author's own compilation

As Figure 4.3 indicates, 55% of the participants held a first degree followed by master's degree (43%). The remainder of the participants (2%) either held above master's degree level or professional membership. This suggests that the participants included in the study had tertiary educational background and were able to provide reliable information about Ethiopian financial reporting practices and about the factors that would affect IFRS adoption in the country.

Section 1 Question 4 – Current occupation

Participants were asked to indicate their current occupation. This question aimed at establishing the diversity of occupations of the participants, and indicated that each group of the target population was fairly represented in the sample. The results of this question are shown in the Figure 4.4.

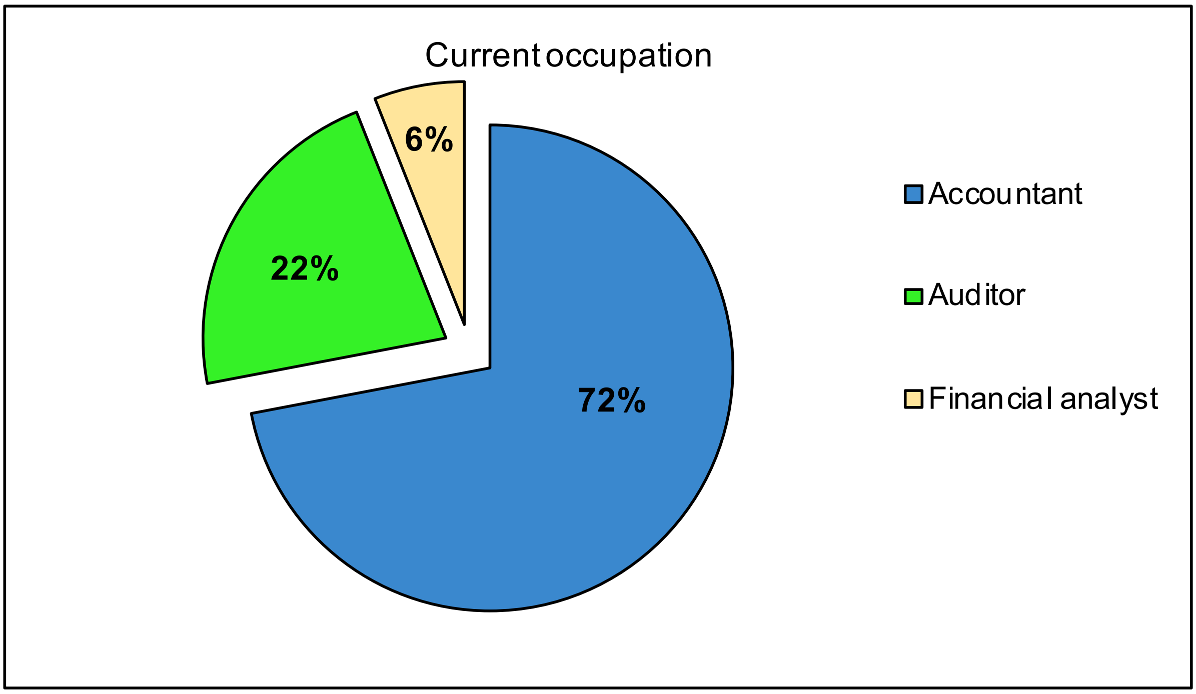

Figure 4.4: Participants' occupations

Source: Author's own compilation

As Figure 4.4 indicates, the majority (72%) of participants included in the study were accountants followed by auditors (22%) and financial analysts (6%). However, it is important to note that the accountants comprised finance mangers of the sampled companies, independent authorised accountants who provided a range of services to their clients, including preparing financial statements, tax advisory, corporate financing and others. This implies that participants considered in this study had relevant expertise and the information they provided was believed to be reliable.

Section 1 Question 5 – Work experience

Participants were asked which work experience they had in order to establish whether they had the relevant experience and skills to understand and answer the questions in the questionnaire. Answers to this question are presented in the Figure 4.5.

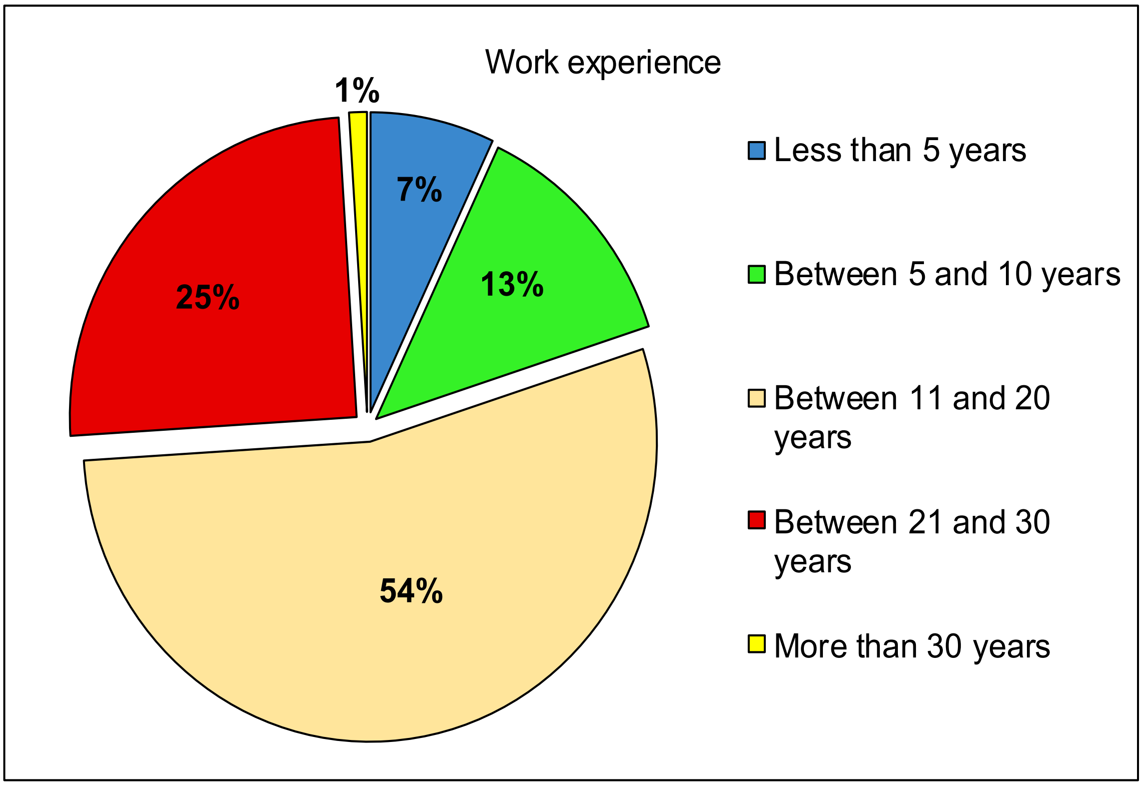

Figure 4.5: Participants' work experience

Source: Author's own compilation

As Figure 4.5 indicates, more than half (54%) of the participants had work experience of between 11 and 20 years, followed by 25% of the participants who had between 21 and 30 years' work experience. This indicates that most (79%) of the participants were experienced and had the skills and expertise to provide reliable information.

4.2.2 Section 2 – Information regarding accounting practices of the company or clients of the participants

Section two of the questionnaire focused on information regarding accounting practices of companies or clients of the participants. These referred to the number of years the participants had been preparing corporate annual reports, the accounting standards used by the participants' companies or clients, the degree of compliance with applicable accounting rules and laws, information whether the companies or clients of the participants adopted IFRS, and the challenges encountered if companies or clients of the participants adopted IFRS. Results of these questions are presented in Figures 4.6–4.9 and Table 4.1 below.

Section 2 Question 6 – How long have you been preparing corporate annual reports for the business (either for your company or client)?

The participants were asked this question to assess whether they had sufficient experience in preparing annual corporate reports, such as preparing financial statements, and to establish whether they had the skills and expertise to answer the questions. The responses to this question are summarised in Figure 4.6 as follows.

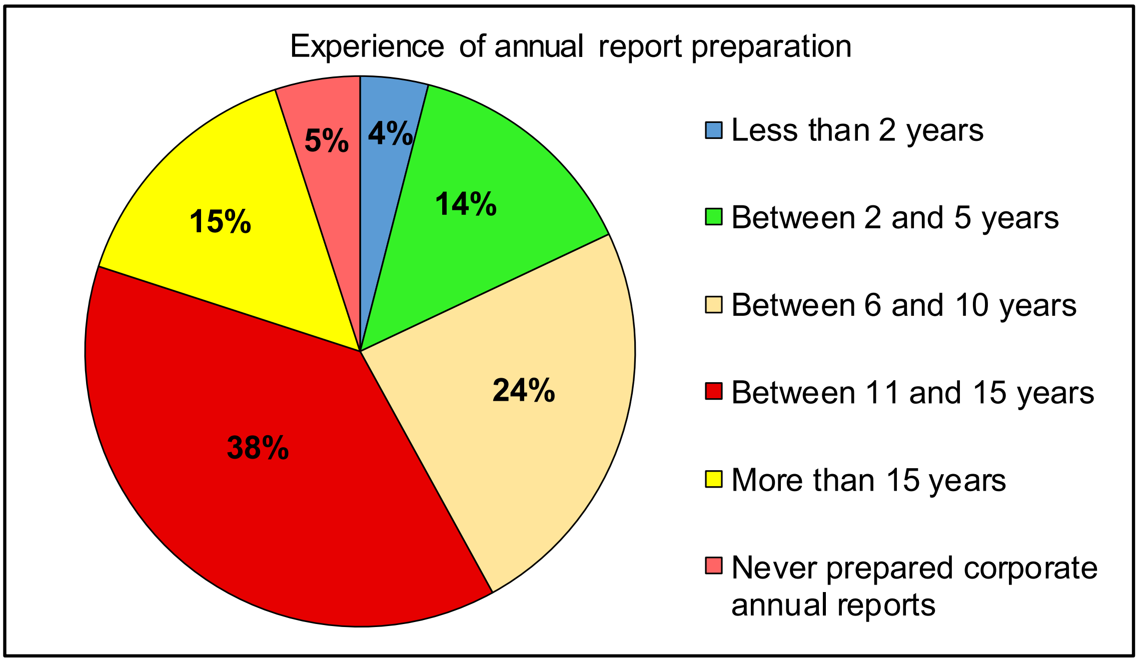

Figure 4.6: Participants' experience of annual report preparation

Source: Author's own compilation

As Figure 4.6 indicates, a total of 77% of the participants (24% + 38% + 15%) had been preparing corporate annual reports for their respective companies or clients for more than six years. Only 9% of the participants had either been preparing financial statements for less than two years (4%) or had not prepared financial reports at all (5%). This implies that a significant number of the participants had sufficient experience about Ethiopian financial reporting practices, and the information they provided was believed to be reliable.

Section 2 Question 7 – Accounting standards that have been used to prepare financial statements for the company

Participants were asked to answer this question in order to obtain information regarding the accounting standards with which they were familiar and to supplement their answers for question 11 in section three of the questionnaire. Moreover, this question was aimed to establish whether there was a single set of accounting standards used by different companies in Ethiopia. The participants' answers to this question are presented in Figure 4.7.

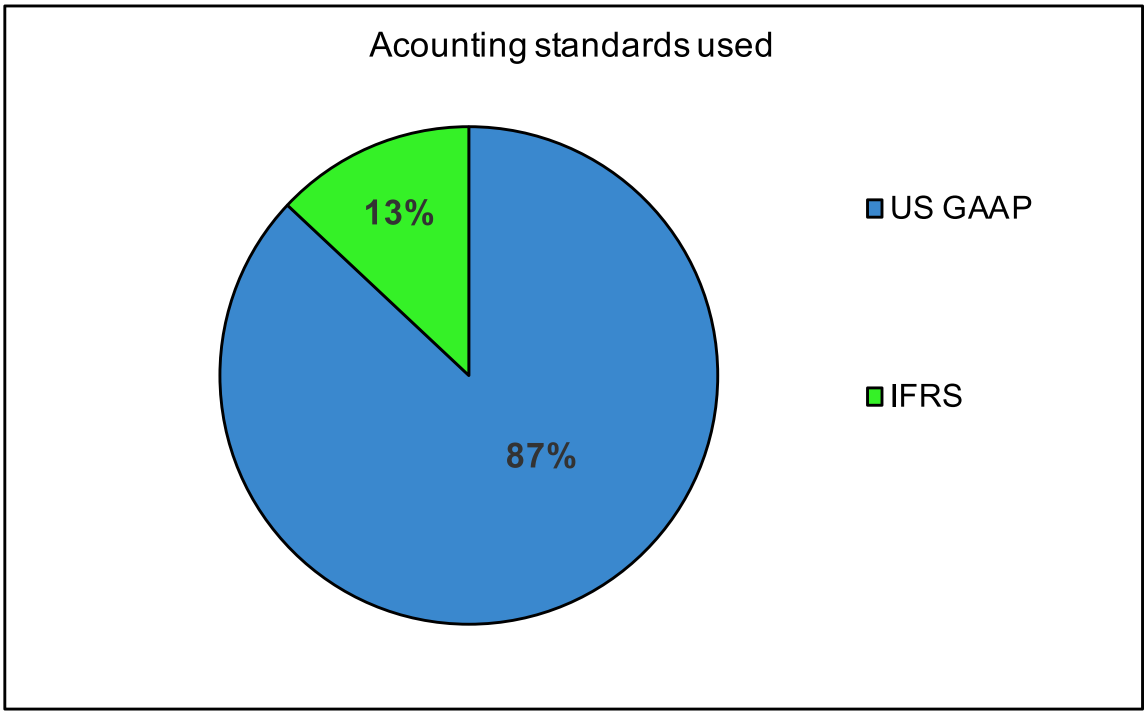

Figure 4.7: Accounting standards used by companies or clients of the participants

Source: Author's own compilation

As Figure 4.7 indicates, 87% of the participants answered that their companies or clients used US GAAP to prepare financial statements. Only 13% of the participants answered that their companies or clients used IFRS to prepare financial statements. None of the participants answered 'other' on the questionnaire. This clearly indicates that, at the time of this study, there was no single set of accounting standards used by companies in Ethiopia regardless of the issuance of Financial Reporting Proclamation No. 847/2014 (Ethiopian Government, 2014) to harmonise the accounting practices in the country. According to Financial Reporting Proclamation No. 847/2014, the accounting standards in Ethiopia are IFRS and IFRS for small and medium enterprises for public and non-public entities respectively. Nevertheless, as 87% of participants in this study indicated their companies were still using the US GAAP at the time of this research, the implication was that the adoption of IFRS in Ethiopia was very slow.

Consequently, this finding is in line with the argument under section 2.4.6 of Chapter 2 that the influence of the previous accounting rules is a challenge to adopt IFRS in Ethiopia. Moreover, this result leads to the question whether US GAAP are suitable accounting standards for Ethiopia. However, the suitability of US GAAP in Ethiopia was beyond the scope of this study, and it is therefore an area for future research.

Section 2 Question 8 – Degree of compliance with the applicable accounting and financial reporting requirements, including laws and regulations in the participants' companies or clients

Participants were asked to rate the degree of compliance with accounting rules and laws in their companies as full compliance, moderate compliance, limited compliance or non-compliance. The objective of this question was to establish whether the accounting rules and laws used to prepare financial statements were properly implemented by the companies of the participants and to supplement the answer to question 13 in section three of the questionnaire. The participants' responses to this question are presented in Figure 4.8.

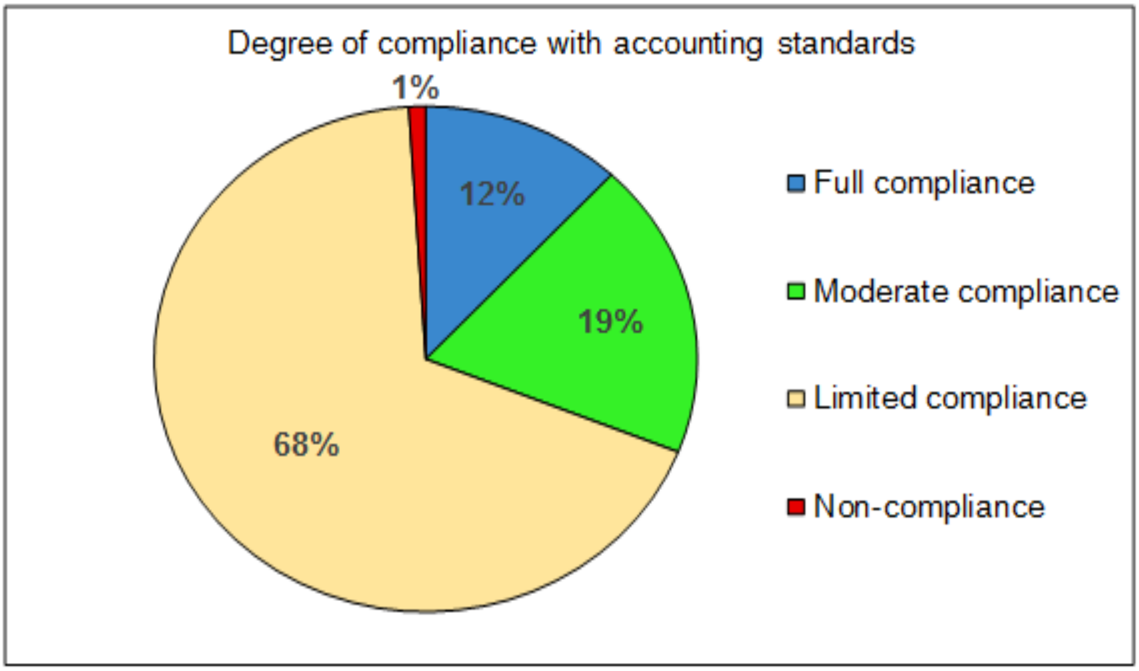

Figure 4.8: Degree of compliance with accounting standards

Source: Author's own compilation

As Figure 4.8 shows, 87% of the participants (68% + 19%) perceived that, at the time of this research, their companies or clients did not sufficiently comply with the accounting standards they were using to prepare their financial statements. There might have been several reasons for the partial non-compliance with the accounting standards but the most important reason seems to be the regulatory bodies' lack of capacity to enforce the accounting rules and laws. As outlined in 2.4.6, Ethiopia established Accountants and Auditors of Ethiopia to oversee the country's accounting practices. However, the lack of compliance with accounting standards even after the establishment of the board indicates the board is not in a position to regulate the country's accounting practices properly, which is broadly due to capacity limitation of board (Mengistie, 2017).

Section 2 Question 9 – Adoption of IFRS

Participants were asked this question to understand the progress of IFRS adoption in Ethiopia. Answers from the participants are presented in Figure 4.9.

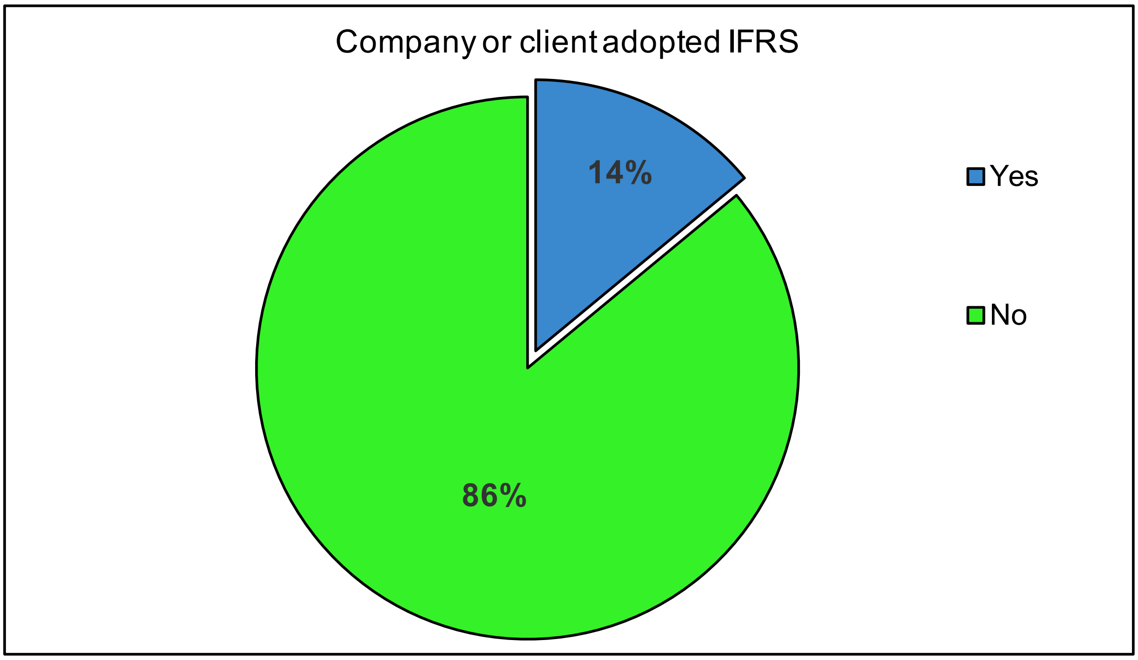

Figure 4.9: Adoption of IFRS or not by companies

Source: Author's own compilation

As indicated in Figure 4.9, 86% of the participants answered that their companies or clients had not adopted IFRS. This result again highlights the slow progress of IFRS adoption in Ethiopia and reinforces the findings and conclusions in Figures 4.7 and 4.8 above. However, as 14% of the participants answered that their companies or clients had adopted IFRS, in the subsequent question in the questionnaire, they were also asked the challenges they faced in the IFRS adoption and implementation processes, and this result is discussed and presented in Table 4.1. None of the participants gave an indication when they adopted IFRS.

Section 2 Question 10 – Challenges to adopt IFRS

This question aimed to establish factors that were challenging to those companies in Ethiopia who had adopted IFRS. As a result, the participants were required to rate selected factors, such as obtaining competent professionals with IFRS skills, availability of market process for valuation purposes as per IFRS requirements, costs to adopt and implement IFRS, relevance of the IFRS-prepared reports for users and adjustment to legal requirements. A five-point Likert scale - 5 (extremely challenging), 4 (highly challenging), 3 (moderately challenging), 2 (somewhat challenging) and 1 (not challenging) was used.

The participants' answers were analysed using SPSS and the results of the analysis are presented in Table 4.1.

Table 4.1: Challenges to adopt IFRS

	N	Minimum	Maximum	Mean	Std. deviation (SD)
Obtaining competent professionals with IFRS skills	56	1	5	4.2	0.884
Availability of market processes for valuation purposes as per IFRS requirements	56	1	5	3.35	1.11
Costs to adopt and implement IFRS	56	1	5	3.18	0.944
Relevance of the IFRS-prepared reports to users	56	1	5	3.14	0.916
Adjustment to legal requirements	56	1	5	3.61	1.099

Source: Author's own compilation

In Table 4.1, the extremely challenging factor (maximum) is represented by 5 while the non-challenging factor (minimum) is represented by 1. The statistical analysis of the responses, which is also presented in Table 4.1, indicates that most of the participants were in agreement that obtaining competent professionals with IFRS skills was highly challenging, with a highest mean score of 4.2 and a standard deviation (SD) of 0.884. This finding is in line with the argument in section 2.4 that there is a shortcoming in the accounting courses delivered by universities and colleges in Ethiopia with regard to the international accounting standards, and also reflects the implication of the absence of a professional accounting body with legal backing in the country's laws and with IFAC membership (World Bank, 2007) to guide IFRS adoption in Ethiopia. Similarly, a significant number of participants were in agreement that adjustment with legal requirements was also highly challenging, with the second highest mean score of 3.61 and an SD of 1.099. With regard to the rest of the factors (availability of market processes for valuation, cost to adopt and implement IFRS, and the relevance of reports prepared under IFRS for users), the participants were in agreement that these factors were moderately challenging.

In summary, this finding indicates that companies or clients of the participants who had adopted IFRS, encountered vast challenges in finding competent professionals with IFRS skills and adjusting to the legal requirements. Moreover, participants experienced finding market processes for valuation, costs to adopt IFRS and relevance of the reports prepared under IFRS for users as moderately challenging. This, in turn, supported the arguments in Chapter 2 that the accounting education in Ethiopia is not at a level that supports IFRS adoption, and the existing tax law-driven accounting system is a challenge to adopt IFRS in the country.

4.2.3 Section 3 – Perceptions about current accounting practices in Ethiopia

Section three of the questionnaire focused on the participants' perceptions about the accounting practices in Ethiopia at the time of the research. These were –

- the participants' perceptions about accounting standards used in the country at the time;
- the accounting standards that would be most appropriate for Ethiopia;
- the level of compliance with accounting standards and laws;
- the importance of publishing financial statements in Ethiopia; and
- the benefits of IFRS in the context of the country.

Results of these questions were analysed and the results are presented in Figures 4.10–4.12 and Tables 4.2–4.3.

Section 3 Question 11 – Accounting standards used in Ethiopia at the time of the research

The participants were required to tick a box or boxes that corresponded with the accounting standards that they perceived used in Ethiopia at the time of this research. The objective of this question was to establish which accounting standards Ethiopia was using and to find evidence whether IFRS were used in the country in accordance with Financial Reporting Proclamation No. 847/2014 issued by the Ethiopian government to adopt IFRS (Ethiopian Government, 2014). Responses of this question were analysed and the results are presented in Figure 4.10.

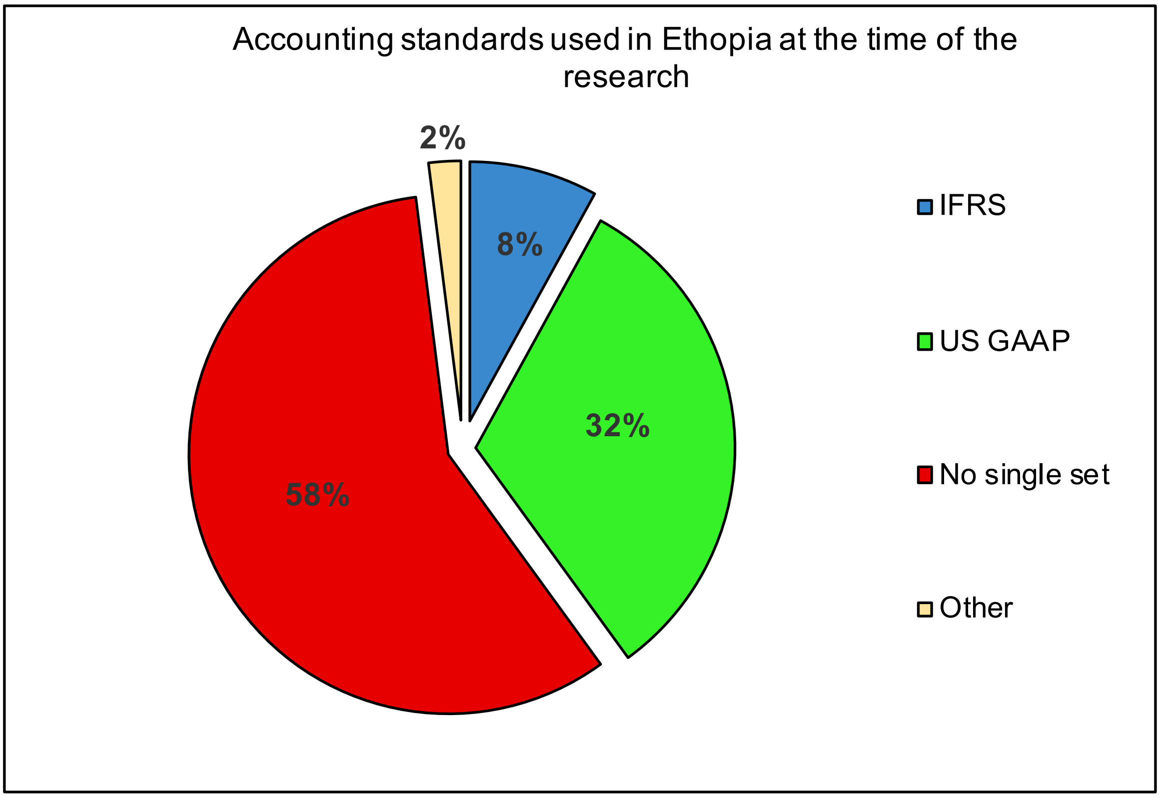

Figure 4.10: Accounting standards used in Ethiopia at the time of this research

Source: Author's own compilation

As Figure 4.10 shows, slightly more than half (58%) of the participants perceived that there was no single set of accounting standards being used in Ethiopia at the time of this research. However, close to a third (32%) of participants perceived that the accounting standards used in Ethiopia were US GAAP and 8% of the participants perceived the accounting standards used in Ethiopia to be IFRS. The fact that the participants had different perceptions about the accounting standards used supports the view of the majority of participants who believed that there was no a single set of accounting standards in Ethiopia. Moreover, this finding is consistent with the finding in terms of question 7 in section 2 of the questionnaire, and supports the conclusion that the progress to adopt IFRS in Ethiopia was very slow, regardless of the issuance of Financial Reporting Proclamation No. 847/2014 to adopt IFRS in the country. The remaining (2%) of the participants classified under the 'other' category were those who were not sure about the accounting standards used in Ethiopia and those who believed that Ethiopia used its own national accounting standards. However, none of the participants selected standards not mentioned in the questionnaire.

Section 3 Question 12 – Accounting standards most appropriate in Ethiopia

In this question, the participants were asked to tick a box that corresponded with the accounting standards that they perceived to be the most appropriate for Ethiopia. Results of the responses were analysed and the findings are presented in Figure 4.11.

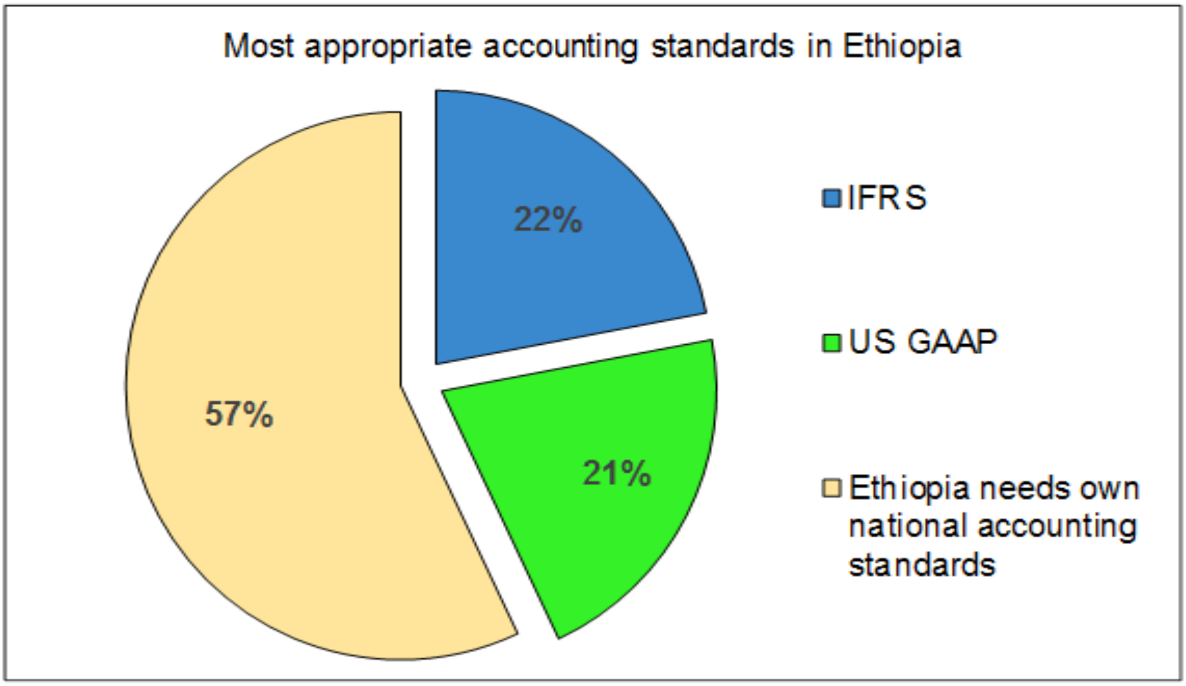

Figure 4.11: Most appropriate accounting standards in Ethiopia

Source: Author's own compilation

As Figure 4.11 indicates, the majority (57%) of participants suggested that Ethiopia needed to have its own national accounting standards, 22% suggested that IFRS were the most appropriate and 21% were in favour of US GAAP. Owing to the various capacity limitations in Ethiopia as outlined in Table 4.1, such as a lack of sufficient competent professionals, inadequate market processes for valuation, limited desire for IFRS-based financial reports and the need for adjustment with the current tax-based systems, the view of the majority of the participants in favour of setting national accounting standards sounded like reasonable judgement. However, it should also be noted that, if Ethiopia sets its own national accounting standards from zero, it will be costly because the country would have to abandon the opportunity to use standards already set by others, such as the IFRS set by IASB. Consequently, it would be more sensible if Ethiopia sets its own national accounting standards converged with IFRS.

Section 3 Question 13 – Degree of compliance with applicable accounting and financial reporting requirements, including laws and regulations in Ethiopia

The participants were asked to tick a box that corresponded with their perceived level of compliance with applicable accounting and financial reporting requirements, including laws and regulations in Ethiopia. The aim of this question was to establish whether the accounting rules and laws used to prepare financial statements were properly implemented by companies in Ethiopia. The responses of the participants were analysed and the results are presented in Figure 4.12.

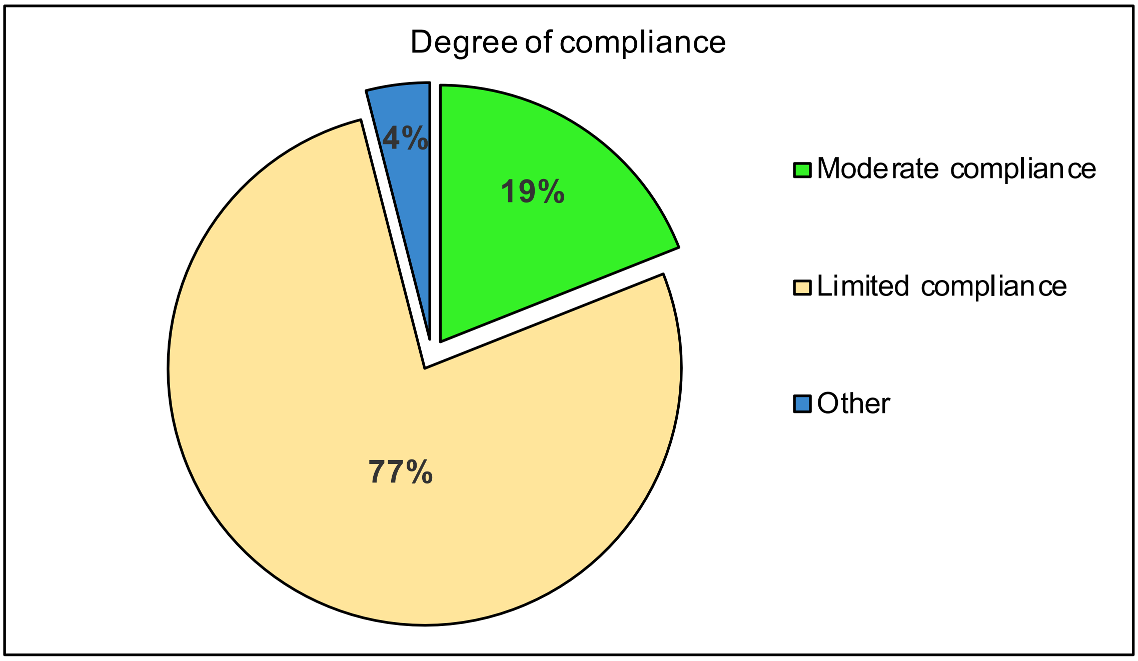

Figure 4.12: Degree of compliance with accounting and financial reporting requirements in Ethiopia

Source: Author's own compilation

As Figure 4.12 shows, a significant majority (77%) of the participants perceived that there was only limited compliance with the accounting and financial reporting requirements, such as the requirements of accounting standards used to prepare financial statements and provisions of laws and regulations as reflected by a 19% response for moderate compliance. Very few (4%) of the participants perceived that they were either full or noncompliance. This finding was in line with the responses of the participants regarding the degree of compliance with applicable accounting and financial reporting requirements including laws and regulations in their respective companies (refer section 2 question 8), and once again supported the argument that, at the time, the lack of capacity to enforce the accounting standards was a serious challenge in Ethiopia as outlined in section 2.5.5.

Section 3 Question 14 – Reasons why Ethiopia prepares published financial statements

This question aimed at establishing the importance of financial statements in Ethiopia. The participants were asked to rate the importance of publishing financial statements in Ethiopia with regard to the requirement of compliance with accounting standards, providing information to shareholders, management decision-making, the requirement to comply with tax and loan requirements. A five-point Likert-type scale – ranging from 5 (extremely important) to 4 (very important), 3 (of moderate importance, 2 (of little importance and 1 (not important at all) – was again utilised. The participants' answers were analysed using SPSS, and the results of the analysis are presented in Table 4.2.

Table 4.2: Reasons for preparing financial statements in Ethiopia

	N	Minimum	Maximum	Mean	SD
Compliance with accounting standards	400	2	3	2.35	.478
To provide information to shareholders	400	1	5	2.42	.679
For management decision-making information	400	1	4	2.59	.508
For tax compliance	400	3	5	3.92	.777
To comply with loan requirements	400	1	5	4.10	.934

Source: Author's own compilation

As Table 4.2 indicates, most of the participants were in agreement that preparing financial statements in Ethiopia was very important for loan and tax compliance only, with the highest mean score of 4.10 for loan compliance followed by a mean score of 3.92 for tax compliance. The participants also believed that, at the time, preparing financial statements in Ethiopia tended to be moderately important for management decision-making and of less importance for providing information to shareholders and complying with the accounting standards. This result is in line with the theoretical findings in section 2.4.3 that, in countries, which do not have an equity financing system and where companies are owned by a small number of owners, the purpose of financial reporting is mainly to address the information need of lenders (banks). This, in turn, supports the argument in section 2.5.3 that in Ethiopia, the absence of a capital market coupled with a small number of owners limits the need to adopt IFRS.

Section 3 Question 15 – Benefits of IFRS in the context of Ethiopia

In this question, the participants were asked to rate the expected benefits of IFRS with regard to improving earnings management, timely loss recognition, improved disclosure, comparability of financial statements and providing quality information to the stock market in the context of Ethiopia. A five-point Likert-type scale ranging from 5 (extremely relevant) to 4 (very relevant), 3 (of moderate relevance), 2 (of little relevance) and 1 (not relevant at all) was used. The results of the responses were analysed and the findings are presented in Table 4.3.

Table 4.3: Benefits of IFRS in the context of Ethiopia

	N	Minimum	Maximum	Mean	SD
Improved earnings management	400	2	4	2.60	.853
Timely loss recognition	400	1	4	2.59	.658
Improved disclosures	400	1	4	2.51	.579
Improved comparability of financial statements	400	1	4	2.60	.617
Quality information to stock market	400	1	3	2.10	.323

Source: Author's own compilation

As Table 4.3 shows, the participants were in agreement that IFRS are only slightly beneficial in terms of providing quality information for stock markets in Ethiopia, with a mean score of 2.10. This result is in line with the expectation because Ethiopia does not have a capital market and the benefit of IFRS is limited in this regard (Bekele, 2018). Moreover, this finding is in agreement with the theoretical findings in section 2.4.3 that the existence of a capital market signifies the need for high-quality corporate reporting to promote investor confidence, and hence, a capital market is one of the favourable factors for IFRS adoption in a given country. These findings also support the argument that IFRS are less desirable for Ethiopia due to the absence of a capital market in the country. On the other hand, the participants viewed that IFRS benefits are of moderate relevance in terms of improved earnings management, timely loss recognition, improved comparability of financial statements, and improved disclosure in Ethiopia. However, these expected benefits of IFRS in Ethiopia are still questionable due to limited enforcement capacity and a lack of incentive for companies and managers to adopt and implement IFRS, which is also due to the absence of a capital market and limited private investment in the country. Nevertheless, it is too early to provide a meaningful conclusion about the effect of IFRS on the accounting quality in Ethiopia because IFRS are at adoption stage in Ethiopia. Therefore, this is a potential future research area.

4.2.4 Factors affecting IFRS adoption in Ethiopia

In section four of the questionnaire, the participants' perceptions towards factors that would affect IFRS adoption in Ethiopia were sought. Accordingly, the participants were asked to indicate their agreement or disagreement with the different assertions provided regarding economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies in Ethiopia. Again a five-point Likert-type scale ranging from 5 (strongly agree) to 4 (agree), 3 (neutral), 2 (disagree) and 1 (strongly disagree) was used. The objective of this section was to find evidence that supported or refuted the arguments in section 2.5 about each of these factors conducive to IFRS adoption in Ethiopia. This section was subjected to exploratory factor analysis to determine whether these factors formed logical groupings, on which subsequent analysis could be performed.

4.2.4.1 Factor analysis

Exploratory factor analyses were conducted on each of the sets of items that represented the factors (economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies) that contribute to suitability of IFRS adoption in Ethiopia to determine the underlying factor structure of each of these. Principal axis factoring was used as extraction method and promax as rotation method (Hooper, 2012). A summary of the exploratory factor analysis is provided in Tables 4.4–4.8. In order to perform the analysis, it was necessary to code each of the items that represent the suitability factors for IFRS adoption and the coding is shown under each table.

As discussed in section 3.4.3, the KMO measure of sampling adequacy ranged between 0.547 and 0.797, and these were all above the recommended threshold of 0.5. The Bartlett's test of sphericity was statistically significant ($p < .000$) for all the suitability factors; the data thus indicated that it was appropriate to conduct factor analysis. The total variance explained by the identified factors ranged between 28% (very low) and 43.6% (still low). The final factor loadings are shown in Tables 4.4–4.8.

Unidimensionality (the suitability area is represented by one factor (Hooper, 2012) was confirmed for capital market development and level of accounting education as indicated by the eigenvalue criterion (greater than 1). In the instances of economic growth, economic openness, legal systems and government policies two, three and two factors were identified respectively using the eigenvalue criterion (greater than 1). The final factor loadings are shown in Table 4.4–4.8. Items with loading less than 0.3 were not considered for inclusion in the factors.

Table 4.4: Summary of factor analysis for economic growth

Construct	Item description	KMO and Bartlett's test	Variance explained	Factor 1	Factor 2	Cronbach's alpha
Economic growth		0.642 ($p < 0.001$)	28%			.631 (factor 1)
	Government investment				.467	
	Private sector			.537		
	Financial sector			.709		
	Inflation			.574		
	Potential of being conducive to adopting IFRS					

Source: Author's own compilation

Code:

- Government investment – at the time of this research, the Ethiopian economic growth was mainly attributed to government investment in infrastructure projects.
- Private sector – at the time of this research, the role of the private sector in the Ethiopian economy was limited, and hence, the country's decision to adopt IFRS at this stage was premature.
- Financial sector – at the time of this research, Ethiopian financial sector was closed to foreign investors, and this could have affected the country’s effort to sustain its economic growth.
- Inflation – owing to coordinated fiscal and monetary policies in Ethiopia, inflation had been well controlled since 2013, and at the time of this research, it could therefore have not been a significant barrier to adopt IFRS.
- Potential of being conducive to adopting IFRS – given that the Ethiopian economy had experienced strong and broad-based growth between 2003/4 and 2015/16, averaging 10.8% per year (World Bank, 2017:8), it was potentially conducive to adopting IFRS.

As Table 4.4 indicates, only one item was loaded on factor 2, which was government investment, and thus only factor 1 comprising three of the statements (private sector, financial sector and inflation) was considered for further analysis. The values .537, .709 and .574 for private sector, financial sector and inflation respectively under factor 1 were coefficients that measured interaction of these items and the higher values suggest strong interaction (relationships) between the items (the variables). The Cronbach’s alpha coefficient value, which is a measure of internal consistency (reliability), was .631 for factor 1, which is above the recommended threshold of 0.6 for exploratory research (refer section 3.4.3).

Table 4.5: Summary of factor analysis for external economic openness

Construct	Item description	KMO and Bartlett's test	Variance explained	Factor 1	Factor 2	Factor 3	Cronbach's alpha
Economic openness		0.547 ($p < 0.001$)	55.5%				
	Economic measures			.647			0.689 (factor 1)
	Political stability				.342		0.501 (factor 2)
	Infrastructure development			.830			
	Access to capital				.736		
	Restrictions for foreigners					.770	.409
	Crime and theft					.350	

Source: Author's own compilation

Code:

- Economic measures – in Ethiopia, adequate measures have been taken to liberalise the economy of the country and to improve the business environment for foreign investors.
- Political stability – Ethiopia has been politically stable since the change of government in 1991 and this has been attracting FDI.
- Infrastructure development – there is an adequate level of infrastructure development in Ethiopia to attract foreign investors.
- Access to capital – limited access to capital is a barrier to attract foreign investment to Ethiopia as required.
- Restriction for foreigners – restriction for foreigners to invest in the financial sector is a barrier to attract foreign investment to Ethiopia as required.
- Crime and theft – in Ethiopia, the rate of crime and theft is low, and hence it is not a problem to do business in the country.

As Table 4.5 indicates, three factors were identified for economic openness. However, the Cronbach's alpha coefficient values for factor 2 and factor 3 were below the recommended threshold of 0.6 for exploratory research. Consequently, only factor 1 was used for further analysis. The loading values (coefficients of items loading on factor 1) were .647 and .830, which suggest the items were interrelated. Moreover, the 55.5% variance is omitted as it is below the 60% threshold.

Table 4.6: Summary of factor analysis for capital market development

Construct	Item description	KMO and Bartlett's test	Variance explained	Factor 1	Cronbach's alpha
Capital market development		0.797 ($p < 0.001$)	42.8%		.810
	Income			.671	
	Market infrastructure			.625	
	Investors education and awareness			.795	
	Financial sector contribution			.786	

Source: Author's own compilation

Code:

- The role of private sector – in Ethiopia, the role of private companies in the economy currently is not at a level that leads to capital market development.
- Income – in Ethiopia, income is low, and this could affect capital market development in the country.
- Market infrastructure – market infrastructure in Ethiopia, particularly communication infrastructure (for example telephone and internet services), is not adequately developed to support the capital market in the country.
- Investors' education and awareness – in Ethiopia, investors' education and awareness about capital markets, such as awareness about equity trading, are relatively low compared to other developing countries, and this could be considered as a barrier to capital market development.
- Financial sector contribution – in Ethiopia, although the number of financial institutions is growing fairly, the range of services is very limited. As a result, the contribution of the financial sector to capital market development is minimal.

As Figure 4.6 shows, unidimensionality (the suitability area is represented by one factor) was confirmed for capital market development, as all the items loaded on one factor as indicated by the eigenvalue criterion (greater than 1). The loading coefficient for all the items further suggest that the items are related to each other. The Cronbach's alpha coefficient is .810, which is well above the recommended threshold of .6, and this indicates the internal consistency of the date for this suitability area.

Table 4.7: Summary of factor analysis for level of accounting education

Construct	Item description	KMO and Bartlett's test	Variance explained	Factor 1	Cronbach's alpha
Level of accounting education		0.723 ($p < 0.001$)	36.7%		.719
	Quality of accounting education			.565	
	Professional accounting body			.591	
	Introduction of ACCA			.715	
	Certification of accountants and auditors			.733	
	Awareness about IFRS			.346	

Source: Author's own compilation

Code:

- Quality of accounting education – the quality of accounting education in Ethiopia is not at the level that would significantly support the IFRS adoption and implementation.
- Professional accounting body – given the absence of a strong professional accounting body with IFAC membership in Ethiopia, it will be difficult to have proper guidance on IFRS adoption and implementation.
- Introduction of ACCA – the introduction of studies resulting in an ACCA qualification in Ethiopia could help to fill the gap in IFRS skills.
- Certification of accountants and auditors – the ICAA, under the Ethiopian Civil Services University, will gradually upgrade the skills and competence of accountants and auditors to a level required for IFRS implementation in the country.
- Awareness about IFRS – poor understanding of and a lack of awareness about IFRS by the Ethiopian business community may lead to resistance by stakeholders, such as managers, government agencies and other in the

process of IFRS adoption and implementation.

Similarly, as Table 4.7 shows, unidimensionality (the suitability area is represented by one factor) was confirmed for level of accounting education as all the items are loaded on factor 1. In addition, the loading coefficient for all the items suggests that the items are interrelated with each other. The Cronbach's alpha coefficient is .719, which is also well above the recommended threshold of .6, and this indicates the internal consistency of the date for this suitability area.

Table 4.8: Summary of factor analysis for legal systems and government policies

Construct	Item description	KMO and Bartlett's test	Variance explained	Factor 1	Factor 2	Cronbach's alpha
Legal systems and government policies	Laws	0.643 ($p < 0.001$)	33.7%	.749		.672
	Cost of doing business				.516	
	Capacity to enforce laws					
	Influence of current tax law			.478		
	Nature of the law			.684		

Source: Author's own compilation

Code:

- Laws – the appropriate laws are in place to adopt IFRS in Ethiopia.
- Cost of doing business – adequate policy measures have been taken by the Ethiopian government to reduce the cost of doing business in the country.
- Capacity to enforce laws – the lack of capacity to enforce laws and regulations is a serious challenge to adopt IFRS in Ethiopia.
- Influence of current tax law – the influence of the current tax law-driven accounting practices in Ethiopia is a barrier to adopt IFRS in the country.
- Nature of the law – given that Ethiopia is not a common law country, the country's legal systems are not conducive to adopt IFRS.

As Figure 4.8 shows, only one item loaded on factor 2, and thus only factor 1 was considered for further analysis. The values (coefficients) of the items loading on factor 1 are above the acceptable threshold of .3, which suggests that the items are interrelated. Moreover, the Cronbach's alpha coefficient (.672) is above the recommended threshold of .6 and suggests reliability of the data for this factor.

4.2.4.2 Analysis of factors identified

In section 4.2.4.1, the underlying variables for each factor that affects suitability of IFRS adoption in Ethiopia were identified. These variables have been analysed further and the results are shown in Tables 4.9 and 4.10.

Table 4.9: Descriptive statistics of the identified factors

Statistics						
		Economic growth	External economic openness	Capital market development	Accounting education	Legal systems and government policies
N	Valid	400	400	400	400	400
	Missing	0	0	0	0	0
Mean		3.5742	3.5250	3.7050	3.6395	3.6458
Median		4.0000	4.0000	4.0000	3.8000	4.0000
SD		.69573	.77435	.58174	.59836	.65219
Skewness		-1.044	-1.333	-1.493	-.721	-1.161
Kurtosis		.561	.875	2.226	.685	.701
Minimum		1.00	1.00	2.00	2.00	2.00
Maximum		5.00	5.00	5.00	5.00	5.00

Source: Author's own compilation

As Table 4.9 shows, the mean values for each of the factors were above 3.5, which suggested that the participants were in agreement with the statements that explained all the factors. The statements explaining the economic growth were phrased negatively and thus the participants' agreement with these statements and the higher mean value meant that, at the time, the level of Ethiopia's economic growth was not suitable to adopt IFRS. The mean value for economic growth was 3.5742, which is an average score of the three statements that explain whether economic growth is suitable or not to adopt IFRS in Ethiopia. According to this result, economic growth was not suitable to adopt IFRS in Ethiopia at the time because of the limited role of the private sector and the financial sector restriction to national investors only. This finding therefore refutes the argument in section 2.5.1 that Ethiopia's economic growth was conducive to IFRS adoption. In the case of external economic openness, the mean value indicates that the participants were in agreement with the statements about the business environment being conducive to attracting foreign investors to Ethiopia, such as measures taken by the government to liberalise the economy, political stability and infrastructure development. According to this result, the external economic openness at the time was suitable to adopt IFRS in Ethiopia despite concern with regard to limited access to capital. Consequently, these findings support the argument in section 2.5.2 that, at the time of this study, Ethiopia was fairly open to the rest of the world and the country's external economic openness was a factor conducive to adopting IFRS.

The mean values indicated a tendency to agree with the statements representing capital market development and level of accounting education. However, it is important to note that, as the statements were negatively phrased, the mean values above 3.5 suggest that these factors were also not conducive to adopting IFRS in Ethiopia. Accordingly, the results for capital market development indicated that, at the time, capital market development in Ethiopia was constrained by low income level, inadequate market infrastructure, poor investor awareness of and understanding about capital market and limited contribution by the financial sector. This result therefore supports the argument against IFRS adoption in section 2.5.3 that, at the time, IFRS was not suitable for Ethiopia due to the absence of a capital market and it also suggests that the factors for capital marked development that are outlined in section 2.5.3 were not conducive to adopt IFRS. Similarly, the results for level of accounting education indicate that the relative poor quality of accounting education, the absence of a strong accountancy body and a lack of awareness about IFRS by the Ethiopian business community are factors limiting the contribution of accounting education to adopt IFRS in Ethiopia despite the apparent positive contributions as a result of the introduction of ACCA studies and the establishment of an institute in order to certify accountants and auditors locally. The results for legal systems and government policies suggest that this factor is also not conducive to adopting IFRS in Ethiopia due to the impact of the current tax law-driven accounting practices and the fact that Ethiopia is not a common law country. This implies that a lack of proximity between IFRS and the Ethiopian laws would make IFRS adoption in Ethiopia rather difficult.

Inferential statistics were done to determine the statistical significance and strength of the relationship between the factors that affect IFRS adoption in Ethiopia. As recommended by Hooper (2012), Pearson correlation coefficients were used to evaluate the strength and statistical significance of the relationships between these factors, and the results are summarised in Table 4.10.

Table 4.10: Correlations

		Econ growth	**External economic openness**	**Capital market development**	**Accounting education**	**Legal systems and government policies**
EconGrowth[1]	Pearson correlation	1	.300**	.609**	.395**	.493**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	400	400	400	400	400
EconOpeness[2]	Pearson correlation	.300**	1	.311**	.159**	.346**
	Sig. (2-tailed)	.000		.000	.001	.000
	N	400	400	400	400	400
MarketDev[3]	Pearson correlation	.609**	.311**	1	.605**	.712**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	400	400	400	400	400
AccEdu[4]	Pearson correlation	.395**	.159**	.605**	1	.503**
	Sig. (2-tailed)	.000	.001	.000		.000
	N	400	400	400	400	400
LegalGov[5]	Pearson correlation	.493**	.346**	.712**	.503**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	400	400	400	400	400

1 EconGrowth = economic growth
2 EconOpeness = external economic openness
3 MarketDev = capital market development
4 AccEdu = level of accounting education
5 LegalGov = legal systems and government policies
** Correlation is significant at 0.01 level (2-tailed)

Source: Authors own compilation

The results indicate that statistical significant relationships existed at the 1% level of significance between all the factors that contributed to IFRS adoption in Ethiopia. The value of the correlation coefficient varying between 0.300 and 0.712 indicates a moderate to strong positive relationship between these factors except the correlation coefficient between external economic openness and accounting education, which was 0.159 and indicated a weak positive relationship between these two factors. These results suggest that the factors were aligned with IFRS adoption, and explained whether IFRS was suitable or not in Ethiopia.

4.2.4.3 A one-way analysis of variance

A one-way analysis of variance test (ANOVA) was conducted to determine whether there existed statistical significant differences between the work experience groups with regard to the factors that affected IFRS adoption in Ethiopia (economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies) and the results are provided in Tables 4.12 and 4.13. In the last group, with more than 30 years work experience, there were only five participants, and this was therefore omitted in the analysis.

Table 4.11: Adjusted work experience descriptives

		N	Mean	SD
EconGrowth	1.00	27	3.5926	.56488
	2.00	55	3.6121	.63752
	3.00	214	3.6277	.68217
	4.00	99	3.4478	.77979
	Total	395	3.5781	.69668
EconOpeness	1.00	27	3.4259	1.01625
	2.00	55	3.5091	.74219
	3.00	214	3.5257	.78456
	4.00	99	3.5606	.70809
	Total	395	3.5253	.77598
MarketDev	1.00	27	3.8815	.52990
	2.00	55	3.8145	.51762
	3.00	214	3.6785	.59213
	4.00	99	3.6687	.60553
	Total	395	3.7089	.58353
AccEdu	1.00	27	4.1778	.62839
	2.00	55	3.7200	.53417
	3.00	214	3.5290	.59623
	4.00	99	3.6848	.54667
	Total	395	3.6390	.59966
LegalGov	1.00	27	3.7654	.59063
	2.00	55	3.7455	.62842
	3.00	214	3.6090	.67776
	4.00	99	3.6364	.63369
	Total	395	3.6456	.65459

Source: Author's own compilation

Table 4.12: ANOVA

		Sum of squares	df	Mean square	F	Sig.
EconGrowth	Between groups	2.277	3	.759	1.571	.196
	Within groups	188.955	391	.483		
	Total	191.232	394			
EconOpeness	Between groups	.405	3	.135	.223	.881
	Within groups	236.842	391	.606		
	Total	237.247	394			
MarketDev	Between groups	1.776	3	.592	1.748	.157
	Within groups	132.383	391	.339		
	Total	134.159	394			
AccEdu	Between groups	10.997	3	3.666	10.968	.000
	Within groups	130.682	391	.334		
	Total	141.680	394			
LegalGov	Between groups	1.231	3	.410	.957	.413
	Within groups	167.594	391	.429		
	Total	168.824	394			

Source: Author's own compilation

As Table 4.12 indicates, there were no differences between the groups with less than five years work experience with regard to all the factors that affect IFRS adoption in Ethiopia except for the level of accounting education. The mean difference between the work experience groups with regard to the level of accounting education was significant at .000 level. In order to determine which specific work experience groups differed from each other with regard to this factor, post hoc tests were conducted (refer Table 4.13).

Table 4.13: Post hoc test (multiple comparisons)

Dependent variable	(I) Work experience less than five years	(J) Work experience other years	Mean difference (I–J)	Std. error	Sig.	95% confidence interval	
						Lower bound	Upper bound
AccEdu	1.00	2.00	.45778*	.13585	.005	.1073	.8083
		3.00	.64881*	.11807	.000	.3442	.9534
		4.00	.49293*	.12552	.001	.1691	.8168
	2.00	1.00	-.45778*	.13585	.005	-.8083	-.1073
		3.00	.19103	.08740	.129	-.0345	.4165
		4.00	.03515	.09723	.984	-.2157	.2860
	3.00	1.00	-.64881*	.11807	.000	-.9534	-.3442
		2.00	-.19103	.08740	.129	-.4165	.0345
		4.00	-.15588	.07027	.120	-.3372	.0254
	4.00	1.00	-.49293*	.12552	.001	-.8168	-.1691
		2.00	-.03515	.09723	.984	-.2860	.2157
		3.00	.15588	.07027	.120	-.0254	.3372

* The mean difference was significant at the 0.05 level.

The results in Table 4.13 indicate that the mean difference between the group with less than five years work experience and the other three groups was statistically significant at the .005, .000 and .001 levels respectively. This suggests that the perception of the group with less than five years work experience was significantly different from the perception of all the other groups with regard to the level of accounting education.

4.3 ANALYSIS OF THE RESULTS OF FINANCIAL STATEMENT REVIEW

As discussed in section 3.4.2.2, a sample of 30 companies was drawn to review their most recent audited financial statements. Financial statements of 27 companies were obtained and reviewed. The financial statements of three companies were not available for the review as management of two of the companies was not willing to provide their financial statements for the review, and the financial statements of the third company were unavailable because the company had merged with another company.

The objective of the review of the financial statements was to obtain additional evidence that would corroborate the information obtained through the survey. As a result, the financial statement review focused on issues of presentation and disclosures only because it was difficult to assess matters of measurement and recognition from the review of financial statements only. The major issues focused on during the review were:

- to identify the accounting standards and principles used;
- to verify whether the classification and presentation of items in the financial statements were compliant or non-compliant with the requirements of the standards and principles used to prepare the financial statements; and
- to assess the adequacy of the disclosures in line with requirements of the accounting standards applied.

Accordingly, the results of the financial statement review are presented and discussed in the sections below.

4.3.1 The accounting standards used

The first issue considered in the analysis of the contents of the financial statements was identifying the accounting standards used by the companies to prepare their financial statements. The objective of this was to establish whether there was a single set of accounting standards used by companies in Ethiopia at the time to prepare their financial statements. The results of the analysis of the financial statements in terms of the accounting standards used are summarised in Table 4.14.

Table 4.14: Accounting standards used

Accounting standards used	Number (N = 27)	Percentage
IFRS	12	44%
GAAP (not defined)	10	37%
Accounting standards not disclosed	5	19%

Source: Author's own compilation

Table 4.14 shows that 12 companies, whose financial statements had been reviewed, indicated that they used IFRS; 10 companies indicated that they used GAAP but they did not define which GAAP they used; and five companies did not indicate the accounting standards they used. This result suggests that, at the time, different companies in Ethiopia were still using different accounting standards, which reinforced the result reflected in Figure 4.10 that there was no single set of accounting standards being used in Ethiopia at the time. As outlined in section 2.3, having a single set of accounting standards would have enhanced comparability of financial statements of different companies and hence would have helped to reduce information costs to investors.

4.3.2 Issues of presentation and classification

Following the identification of the accounting standards used, an analysis of the financial statements was carried out to establish whether items in the financial statements were classified and presented as required by the accounting standards used. As discussed in section 4.3.1, some of the companies did not define the GAAP they were using at the time and some other did not at all indicate the accounting standards they were using. As a result, it was difficult to compare the financial statements of these companies with accounting standards they were using. Consequently, IFRS were used as a benchmark to review the financial statements of these companies as well. Table 4.15 presents a summary of the results of the financial statement review with regard to issues of presentation and classification.

Table 4.15: Summary of issues regarding presentation of financial statements

Companies	Number (N = 27)	Percentage
Prepared all the financial statements required as per IAS 1, *Presentation of financial statements*	16	59%
Presented items in the financial statements as per IAS 1, *Presentation of financial statements*	17	63%

Source: Authors own compilation

As Table 4.15 indicates, out of the 27 companies who had their financial statements reviewed, only 16 (59%) included all the financial statements (statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows) as required by IAS 1, *Presentation of financial statements*. The rest of the companies did not include statement of changes in equity. Moreover, the review revealed that 17 (63%) of the 27 companies did not classify items in their statement of financial positions properly as required by the IFRS standards. For example, contrary to IFRS 5, *Non-current assets held for sale and discontinued operations*, four companies combined assets held for sale with property, plant and equipment instead of presenting these items separately in their statement of financial position as required by IFRS 5, *Non-current assets held for sale and discontinued operations*.

4.3.3 Issues of disclosure

The financial statements were also analysed to confirm whether the companies complied with the requirements of the accounting standards they used with regard to disclosures. Once again, the statements were compared with the IFRS disclosure requirements only because some of the companies did not define the GAAP they were using at the time and some of them did not at all indicate the accounting standards they were using. To this end, the following items were tested for disclosure by comparing them with the IFRS requirement as they were relevant to the financial statements reviewed and some of them were basic requirements:

- Disclosure about date of authorisation and events after the balance sheet date: IAS 10 requires that a reporting entity should disclose the date when the financial statements are authorised for issue and material non-adjusting events occurring after the reporting period (IFRS Foundation, 2018b).
- Disclosure about financial instruments: according to the IFRS Foundation (2018b), IFRS 7 (*Financial instruments: Disclosures*) requires entities to provide disclosure in their financial statements that enable users to evaluate:
  - the significance of financial instruments for the entity's financial position and performance;
  - the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period,

and how the entity manages those risks. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

- Disclosure about the summary of significant accounting policies:
  - IAS 1 sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. It requires an entity to present a complete set of financial statements at least annually, with comparative amounts for the preceding year (including comparative amounts in the notes). A complete set of financial statements comprises (IFRS Foundation, 2018b):
    - a statement of financial position as at the end of the period;
    - a statement of profit and loss and other comprehensive income for the period.
    - a statement of changes in equity for the period;
    - a statement of cash flows for the period;
    - notes, comprising a summary of significant accounting policies and other explanatory information; and
    - a statement of financial position as at the beginning of the preceding comparative period when the entity applied an accounting policy retrospectively, or made a retrospective restatement of items in its financial statements, or when it reclassified items in its financial statements.
- Disclosure about impairment review for non-current assets: the IFRS standard applied with regard to impairment of assets is IAS 36, and its core principle is that an asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. IAS 36 requires entities to carry out impairment review annually (for intangible assets) and when there is indication of impairment (for other assets), and to disclose this in the financial statements (IFRS Foundation, 2018b).

- Disclosure about employee benefits: the IFRS standard applied with regard to employees' benefit is IAS 19. IAS 19 requires entities (IFRS Foundation, 2018b):
  - to explain the characteristics of their employees benefits and the risks associated with them;
  - to identify and explain the amounts in their financial statements arising from their employees' benefit plans; and
  - to describe how their employees' benefit plans affect the amount, timing and uncertainty of their future cash flows.
- Deferred tax: the applicable IFRS standard related to deferred tax is IAS 12. IAS 12 requires an entity to recognise a deferred tax liability or (subject to specified conditions) a deferred tax asset for all temporary differences, with some exceptions (IFRS Foundation, 2018b). Temporary differences are differences between the tax base of an asset or liability, and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes (IFRS Foundation, 2018b).
- Disclosure about related parties: The applicable IFRS standard with regard to related party disclosure is IAS 24. IAS 24 requires entities (IFRS Foundation, 2018b) to disclose:
  - the existence of related parties (persons or entities related to the reporting entity) during the reporting period;
  - transactions with related parties during the reporting period;
  - balances from or due to the related parties at the financial statements date; and
  - key management personnel compensation in total and by category.
- Disclosures about the effect of foreign exchange: an entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. The IFRS standard that deals with the effects of changes in foreign exchanges is IAS 21. According to IAS 21, an entity should disclose in its financial statements how it (IFRS Foundation, 2018b) –
  - accounts for foreign currency transactions;

- translates financial statements of a foreign operation into the entity's functional currency; and
- translates the entity's financial statements into a presentation currency, if different from the entity's functional currency. IAS 21 permits an entity to present its financial statements in any currency (or currencies).

The results for the financial statement review with regard to the disclosure are summarised in Table 4.16.

Table 4.16: Summary of issues of disclosure

Financial statements	Number (N = 27)	Percentage
Did not indicate date of authorisation of the financial statements and events after the balance sheet date	19	70%
Did not provide adequate disclosures about financial instruments as per IFRS 7, *Financial instruments: Disclosures*	10	37%
Did not adequately disclose summary of significant accounting policies	7	26%
Did not include disclosure about impairment review	27	100%
Did not provide adequate disclosures about employees benefits	27	100%
Did not include deferred tax	22	81%
Did not include related parties' disclosure	25	93%
Did not include disclosure about the effect of foreign exchange	21	78%

Source: Author's own compilation

As Table 4.16 indicates:

- Contrary to IAS 10, *Events after the reporting period*, 19 (70%) of the companies did not disclose the date of authorisation for the issuance of the financial statements.
- Ten (37%) of the financial statements did not provide adequate disclosure about financial instruments as required by IFRS 7, *Financial instruments: Disclosures*. The inadequate disclosure of financial instruments was probably due to a lack of sufficient skills about financial instruments by accountants and managers, which, in turn, was due to the inherent complexity of financial instruments themselves.
- Seven (26%) of the companies did not provide adequate disclosure about a

summary of the significant accounting policies adopted as required by IAS 1, *Presentation of financial statements*. For example, in most cases, the measurement bases were not disclosed.

- None of the 27 financial statements reviewed, disclosed whether management carried out an implement review with regard to non-current assets, including property, plant and equipment as well as intangible assets as required by IAS 16, *Property, plant and equipment* and IAS 36, *Impairment of asset*s respectively. These standards require company managers to carry out an impairment review for property, plant and equipment and intangible assets (except goodwill) with sufficient regularity and to disclose this in their financial statements. With regard to goodwill, IAS 36, *Impairment of asset* requires an impairment review to be carried out annually.
- In none of the financial statements reviewed, were there adequate disclosures regarding employees' benefits, as required by IAS 19, *Employee benefits*. Only a few of the companies disclosed that they made monthly contributions to the government pension scheme. IAS 19, *Employee benefits* identifies four types of employees' benefits (i.e. post-employment benefits, short-term employee benefits, termination benefits and other long-term employee benefits), and has extensive disclosure requirements for each benefit an entity has. For example, for short-term employees' benefits, an entity should disclose what the benefits comprise (i.e. wages and salaries, compensated absences, and benefits in kind) and the rules and principles applied to measure and recognise these benefits. In the financial statements reviewed, these types of employees' benefits had not been disclosed adequately.
- Of the 27 financial statements reviewed, only 5 (19%) statements indicated deferred tax as required by IAS 12, *Income taxes*.
- Similarly, of the 27 financial statements reviewed, only 2 (7%) statements disclosed about related parties as required by IAS 24, *Related party disclosures*. The rest of the companies failed to disclose the related parties, transactions with the related parties, and compensations paid to key management personnel.

- Of the 27 financial statements, 21 (78%) did not disclose about the effect of foreign exchange rates as required by IAS 21, *The effects of changes in foreign exchange rates*.

Some of the likely reasons for the inadequate disclosure found were a lack of incentives for companies to provide extensive disclosure in their financial statements that, in turn, occurred because financial statements in Ethiopia are mainly prepared for tax and loan compliance purposes only (refer Table 4.2). Other possible reasons for the inadequate disclosure might have been limited capacity of the companies' management to prepare financial statements, and limited capacity of the regulatory bodies to monitor enforcement of accounting rules in the country (refer Table 4.1).

In conclusion, the results of the financial statement review revealed the absence of a single set of accounting standards across the companies whose financial statements were reviewed, and non-compliance with the requirements of different IFRS standards, which were selected considering their relevance to the financial statements reviewed in terms of classification, presentation and disclosure of items. These results reinforced the findings in section 4.2 (analysis of the survey responses), particularly the findings reflected in Figure 4.10 (accounting standards used in Ethiopia at the time of the research), Figure 4.12 (degree of compliance with accounting and financial reporting requirements in Ethiopia), Table 4.2 (reasons for preparing financial statements in Ethiopia) and Table 4.3 (benefits of IFRS in the context of Ethiopia).

4.4 CHAPTER SUMMARY

This chapter reported on the findings of the research aimed to determine the extent to which IFRS adoption is suitable in Ethiopia. From this central problem, the study also aimed to determine the accounting standards used in Ethiopia at the time of this study as well as their strengths and weaknesses, and the chapter reported on findings in this regard as well.

To address the aforementioned research problems, data was collected through a questionnaire and review of financial statements. Consequently, analyses of the questionnaire responses and review of financial statements were done, and the results were presented in this chapter. The results of the questionnaire responses were analysed, and the results are presented in sections 4.2.1–4.2.4. Section 4.2.1 presented the demographic profile of the participants and indicated that the participants were experienced and had relevant qualifications in the area of the study. Section 4.2.2 presented the accounting and financial reporting practices in participants' companies or for their clients. It further indicated the use of different accounting standards across the companies and limited compliance with the accounting standards used by the companies. Section 4.2.2 also indicated that the majority of the companies or clients of the participants did not adopt IFRS. The section further showed that companies or clients of participants who had adopted IFRS had different challenges but the most challenging issue they faced was to get competent professionals with IFRS skills.

In section 4.2.3, findings related to the participants' perceptions about accounting and financial reporting practices in Ethiopia as a whole were revealed, and the results confirmed the absence of a single set of accounting standards as well as limited compliance with accounting rules and laws. That section of the chapter also confirmed that the main reasons financial statements prepared in Ethiopia are to comply with loan and taxation requirements. In addition, the research results indicated that, at the time of this study, IFRS would have been of little benefit in Ethiopia for a capital market given that such market did not exist in the country at the time. The final part, section 4.2.4 of the study, reported the results related to factors that would influence IFRS adoption in Ethiopia. These factors are economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies.

The findings related to the aforementioned factors that would affect IFRS adoption in Ethiopia answered the central research question, stated in section 1.5, regarding the suitability of IFRS adoption in Ethiopia. Consequently, the study findings reported in this chapter provided evidence that, at the time of this research, the economic growth, capital market development, level of accounting education, as well as legal systems and government policies were not conducive to adopting IFRS.

In section 4.3, the analysis of the results of financial statements review and the related research findings were reported. Accordingly, the results of the financial statement review showed that different companies used different accounting standards to prepare their financial statements. Of the 27 companies who had their financial statements reviewed, 12 (44%) used IFRS, 10 (37%) companies used GAAP but did not define which GAAP they used, and five (18%) of the companies even did not disclose the accounting standards they used (refer Table 4.13).

With regard to the issues of presentation, the financial statement review revealed several weakness, for instance omission of some financial statements. For example, of the 27 companies, only 16 (59%) included all the financial statements (statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows) as required by IAS 1, *Presentation of financial statements* (refer Table 4.15). In addition, the financial statement review revealed that 17 (63%) of the 27 companies did not properly classify items in their statement of financial position as required by the IFRS standards (refer Table 4.15). Similarly, the financial statement review showed various problems with regard to disclosure. The most common disclosure issues were (refer Table 4.16) omission of or inadequate disclosure about related parties (93%), inadequate disclosure about impairment review for property, plant and equipment (100%), deferred tax (81%) and foreign exchange rate (78%). The findings in the financial statement review– particularly the issues of presentation and disclosure – indicated considerable non-compliance with the requirements of the accounting standards applied to prepare the financial stamens, and hence reinforced the results reflected in section 4.2.3. Chapter 5 presents a summary of the research, the conclusions, the recommendations, and highlights areas for further research.

CHAPTER 5

SUMMARY, INTERPRETIVE DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The purpose of this study was to assess the suitability of IFRS adoption in Ethiopia with regard to the level of economic growth in the country, external economic openness, capital market development, the level of accounting education as well as legal systems and government policies. In addition, the study aimed to identify the accounting standards and rules in Ethiopia at the time of this research, and evaluated the strengths and weaknesses of these standards and rules in order to find evidence to support or refute the argument for IFRS adoption in the country. This chapter consequently presents:

- a reflection on the limitations of the study;
- a brief summary of each chapter;
- the main findings in response to the research questions;
- research conclusions; and
- highlighting of potential areas for future research.

5.2 LIMITATIONS OF THE STUDY

The objective of the study was to assess suitability of IFRS adoption in Ethiopia at the time of this study, limiting its scope to examination of the contextual factors that influence IFRS adoption. Despite this limitation, the study addressed the research problem as the contextual factors examined were key to assess suitability of IFRS adoption, and the results are supported by additional evidence obtained through the review of financial statements.

Another constraint was that financial statements of only share companies were considered for review because the other forms of businesses in Ethiopia were still in an infant stage at the time, and it was difficult to obtain their financial statements. Given that the other forms of businesses in Ethiopia were in an infant stage, their role in financial reporting practice in the country was assumed insignificant. As a result, the effect of the omission of the financial statements of other forms of businesses (private limited companies and sole proprietors) on the study was also assumed to be negligible. Sole proprietors and private limited companies in Ethiopia are small businesses, mainly engaged in services, retail and entertainment activities. Private limited businesses have only few members (at least two) and with a capital requirement of birr 15 000, which was equivalent to US$500 at the current (June, 2019) exchange rate of 30 birr to US$1. In addition, at the time of this research, private limited companies and sole proprietors were prohibited by law from conducting banking and insurance business. Moreover, the study was done based on data collected from Addis Ababa only in order to use the available time and resources efficiently. Limiting the study to Addis Ababa did not significantly affect the study result because, at the time, Addis Ababa was seen as the commercial hub of Ethiopia, and data obtained in Addis Ababa fairly therefore represented the entire country and thus inferences from the study remain valid.

Finally, only IFRS were used as a benchmark for the financial statement review in the study because some companies did not disclose the accounting standards they used. Nevertheless, given that, IFRS are comprehensive and robust accounting standards, this did not affect the results significantly.

5.3 SUMMARY OF THE VARIOUS CHAPTERS OF THE DISSERTATION

This dissertation comprises five chapters, starting with Chapter 1, which provided a brief overview of the global convergence of accounting standards with IFRS and the nature and challenges of accounting and financial reporting practices in Ethiopia. Following the background and contextualisation of the study, the rationale for the study, the research problem and research questions were discussed. The chapter also briefly explained the research design and methodology, limitations as well as the significance of the research. Chapter 1 concluded by explaining various key terms and providing the reader with an outline and structure of the dissertation.

Chapter 2 provided the literature review and the theoretical framework for the study. It focused mainly on literature and empirical findings related to IFRS and IFRS adoption. The chapter further presented a general overview of IFRS adoption, which included the description and global trends of IFRS adoption. Following the general overview, Chapter 2 explained the benefits and challenges of IFRS adoption by countries across the globe as well as the various factors that would influence a country's decision to adopt IFRS.

As highlighted in section 2.2, the current trend internationally indicates continues movement towards IFRS adoption (Holthausen, 2009; IFRS Foundation, 2018a; PwC, 2016; Ramanna, 2012). The IFRS foundation published a wide-ranging study in this regard in 2015, which indicated that, at the time, 138 countries had taken a position in favour of IFRS as the sole global accounting standards for financial reporting practice (Danjou (2015:1–3) also (refer section 2.2). The number of jurisdictions, which had made a public commitment supporting IFRS as the sole global accounting standards for financial reporting practice had since increased to 156 (IFRS Foundation, 2018a). Moreover, the decision by the EU to have IFRS adopted by all its member states since 2005 and the US Securities and Exchange Commission's removal of the US GAAP reconciliation requirement for non-US-registered companies reporting under IFRS further signify a major shift towards acceptance of IFRS as global accounting standards (Gray et al., 2009; Street, 2012) also (refer section 2.2).

Chapter 2 also pointed out the motivation behind the growing IFRS adoption worldwide. The increased comparability of financial statements, improved disclosure, elimination of barriers to cross-border investing and increased financial forecast accuracy are the major reasons behind the growing trends in IFRS adoption (Armstrong et al., 2010; Ball, 2006; Barth et al., 2008; Brown, 2011; Ramanna & Sletten, 2009). However, IFRS adoption is not without challenges, and Chapter 2 revealed a number of arguments against IFRS as the sole global accounting standards. This included concerns about the legitimacy of the IASB as a global accounting standard setter, the perceived monopoly status of the IASB if IFRS are the sole global accounting standards, and costs to adopt IFRS for companies. Moreover, Chapter 2 revealed the argument that international accounting differences would continue to exist even after IFRS adoption because accounting standards are not the only factors to determine global accounting harmonisation (Hellman et al., 2015; Holthausen, 2009; Kvaal & Nobes, 2010; Nobes, 2013). Some of the factors that affect global accounting harmonisation are sources of finance, cultures and legal systems. Chapter 2 also noted that limited enforcement capacity and the absence of incentives for companies to adopt IFRS in some countries are barriers to adopt IFRS. Finally, Chapter 2 identified several factors that would influence the decision by a country to adopt IFRS. These factors vary from country to country, and were considered as bases to assess IFRS suitability in Ethiopia in this study.

Chapter 3 described the research design and methods adopted to carry out the study. The research design used in this study was a mixed-method design approach, which comprised a survey and content analysis concurrently to obtain data. While the survey was the primary research method in this study, the content analysis was used to obtain additional information, which corroborated the information obtained through the questionnaire in order to address some aspects of the research questions. The chapter provided explanations and details for these methods.

Chapter 4 reported on the analyses of the responses by the participants and the content analysis of the financial statements review. In the analysis of the responses, the results of each question were analysed and summarised using diagrams and tables. During the content analysis of the financial statements, the financial statements were compared with the relevant standards used to prepare them. However, as some of the companies did not define the accounting standards they used precisely, IFRS were used as benchmark to compare all the financial statements. The purpose of the last chapter (Chapter 5) is to interpret the findings by focusing on the research problem and the research questions.

5.4 MAIN FINDINGS IN RESPONSE TO THE QUESTIONNAIRE

The purpose of the present research was to assess the suitability of IFRS adoption in Ethiopia in relation to the level of economic growth in the country, external economic openness, capital market development, the level of accounting education as well as legal systems and government policies. To this end, a questionnaire was used to obtain data on each set of variables (items) represent the aforementioned factors. Exploratory factor analyses were conducted to analyse the data obtained and the main findings are summarised as follows:

5.4.1 Summary of findings related to the level of economic growth

In order to assess the possibility of Ethiopia's economic growth being conducive to adopting IFRS, three underlying variables (the role of the private sector in the economy, restrictions on the financial sector, and inflation) were identified for analysis. These items (variables) were selected for further analysis because their factor loading values were above the 0.3 threshold (refer Table 4.4). The mean value for economic growth was 3.5742 (refer Table 4.9), which suggests that the participants were in agreement with the statements that explained this factor. However, the underlying statements explaining this factor (refer the code under table 4.4) were phrased negatively, and the participants' agreement with these statements and the higher mean value therefore mean that, at the time, Ethiopia's economic growth was not suitable to adopt IFRS. In other words, the limited role of the private sector, restriction on the financial sector and inflation negatively affected Ethiopia's economic growth and therefore, economic growth at the time, was not favourable to adopt IFRS in the country.

This result is also consistent with the literature reviewed in this study (refer Zehgal & Mhedhbi, 2006; Ramanna & Sletten, 2009; Tarca, 2012). According to Zehgal and Mhedhbi (2006), when the level of economic growth in a country is high, the size and complexity of transactions and business activities increase. These, in turn, require high-quality accounting standards (Ramanna & Sletten, 2009). Therefore, the level of economic growth in a country influences the IFRS adoption decision because increased financial reporting qualities are attributes of developed economies, which are likely to adopt IFRS (Tarca, 2012).

5.4.2 Summary of findings related to the level of external economic openness

The suitability of Ethiopia's economic openness to adopt IFRS was examined using two underlying variables (items), namely the economic measures taken by the Ethiopian government to liberalise the country's economy and infrastructure development such as road networks, railways, energy and telecommunications. These underlying variables were identified (considered) because their factor loading values were above the 0.3 threshold (refer Table 4.5). The mean value for external economic openness resulting from further analysis of the aforementioned variables was 3.5250 (refer Table 4.9), which indicated that the participants were in agreement with the statements that explained the underlying variables. According to this result, Ethiopia's economic openness at the time was suitable to adopt IFRS in the country. In addition, the result was in line with the relevant literature reviewed in this study. In this regard, the findings in the literature reviewed indicated that external economic openness exposes a country to international pressures, such as by international investors, multinational corporations and international financial institutions for high-quality accounting standards and hence it is one of the factors for IFRS adoption (Judge et al., 2010). Moreover, Driffield and Love (2007) as well as Mottaleb and Kalirajan (2013) suggest that a country's economic liberalisation attracts FDI which, in turn, demands high-quality financial reporting systems, which encourages countries to adopt IFRS.

5.4.3 Summary of findings related to capital market development

In order to assess suitability of capital market development to adopt IFRS in Ethiopia, the following underlying variables (items) were used. These items were also selected based on the factor loading value criterion (factor loading value > 0.3) (refer Table 4.6):

- income;
- market infrastructure;
- investors' education and awareness; and
- financial sector contribution.

These factors were analysed and 3.7050 mean value for capital market development (refer Table 4.9) was found. However, as the statements explaining each of the aforementioned underlying variables were negatively phrased, this mean value suggested that, at the time, capital market development in Ethiopia was not suitable to adopt IFRS. This result was attributed to the low-income level, poor market infrastructure, poor investors' education and awareness about a capital market and limited financial sector contribution for capital market development. The research result related to capital market development also supported the findings of literature reviewed in this study (Hellman et al., 2015; Lee et al., 2008; Ramanna & Sletten, 2009; Shima & Yang, 2012).

Literature regarding the relationship between capital market and IFRS adoption (refer Lee et al., 2008) suggests that the existence of a capital market leads to high-quality corporate reporting to promote investor confidence, and hence capital market is one of the factors for IFRS adoption in a given country(refer section 2.4.3). Moreover, if a country's main source of financing is equity, with a large number of outside shareholders, the accounting standards are set with the aim to meet capital market demand in respect of accounting quality (Ramanna & Sletten, 2009). As outside shareholders do not have personal access to a company's financial information other than published financial reports, the accounting practices for equity-financed companies are designed to provide a high level of disclosures, and the extensiveness of the disclosure requirement implies that equity-based financing systems are in favour of IFRS adoption (Hellman et al., 2015; Shima & Yang, 2012) and (refer section 2.4.3). Given that, at the time of this research, Ethiopia did not have a capital market and the prospect for capital market development in the country was not promising, IFRS adoption was not suitable from the perspective of a capital market and this result therefore, supports the findings in the literature reviewed.

5.4.4 Summary of findings related to the level of accounting education

The suitability of the level of accounting education to adopt IFRS in Ethiopia was assessed by performing analysis of the following underlying items, which were selected using the factor loading value criterion (factor loading value > 0.3) (refer Table 4.7):

- quality of accounting education;
- absence of strong professional accounting body;
- introduction of ACCA qualification studies;
- certification of accountants and auditors; and
- poor understanding of and a lack of awareness about IFRS.

The analysis of the aforementioned underlying items showed a mean value of 3.6395 for level of accounting education (refer Table 4.9). However, as the statements explaining each of the aforementioned underlying items were negatively phrased – except for introduction of ACCA and certification of accountants and auditors – this mean value suggests that, at the time of this research, the level of accounting education in Ethiopia was not suitable to adopt IFRS. This was due to the poor quality of accounting education, an absence of a strong accountancy body and a lack of awareness about IFRS by the Ethiopian business community despite the apparent positive contributions of the introduction of ACCA studies and the establishment of an institute to certify accountants and auditors locally.

As discussed in section 2.4.4, this result is also consistent with relevant literature, such as Tyrrall et al. (2007) and Albu and Albu (2012). For instance, Tyrrall et al. (2007)

suggest that, in those countries where the accounting profession is not well developed (for example most emerging economies), there is a lack of skills and abilities to exercise professional judgements; hence, this is a barrier to the adoption and implementation of IFRS (refer section 2.4.4). Albu and Albu (2012) analysed the implementation of IFRS in Romania, and found a significant IFRS compliance gap that was broadly due to a lack of professional accounting skills to prepare financial statements in accordance with IFRS and a lack of IFRS expertise by users of financial information and regulators (refer section 2.4.4).

5.4.5 Summary of findings related to legal systems and government policies

The contribution of Ethiopia’s legal systems and government policy was assessed by considering the influence of the current tax law on the accounting practices and the nature of the laws in the country. These underlying factors were chosen based on the factor loading value criterion (factor loading value > 0.3) (refer Table 4.8). Further analysis of these underlying items resulted in a mean value of 3.6458 for legal systems and government policy (refer Table 4.9). However, as was the case for the other factors, the statements explaining these underlying items were phrased negatively and thus the mean value suggests that, at the time of this research, Ethiopia’s legal systems and government policy were not conducive to adopting IFRS in the country. This was due to the influence of the tax law-driven accounting practices at the time and the fact that Ethiopia is not a common law country (Mengistie, 2017). The effect of Ethiopia not being a common law country is lack of proximity between IFRS and the Ethiopian laws. This, in turn, would have made the IFRS adoption in Ethiopia rather difficult at the time.

This result also supports the findings of prior literature (refer Ball, 2006; Brown, 2011; Shima & Yang, 2012), which suggests that legal systems have a significant effect on the adoption and implementation of IFRS in a given country. In particular, IFRS adoption benefits are materialised where the legal systems promote disclosure and investors’ protection. In addition, literature (refer Ayuba & Gugong, 2014) suggests that government policies play an important role in the adoption and implementation of IFRS in developing countries. In section 5.4.6, a summary of the relationship between the research results discussed in sections 5.4.1–5.4.5 and the contingency, world system and modernisation theories are discussed.

5.4.6 Theories

The aforementioned research results (refer sections 5.4.1–5.4.5) regarding the factors that would influence IFRS adoption in Ethiopia (refer below) are all consistent with the contingency and world system theories, namely:

- the level of economic growth;
- external economic openness;
- level of capital market development;
- level of accounting education; and
- the legal system and government policies.

The contingency and the world system theories (refer sections 2.6.2 and 2.6.3 respectively) recognise the importance and influence of environmental factors in accounting standard setting. As a result, these theories require that the environmental factors be considered in setting accounting standards (Larson & Kenny, 1996). As such, the world system theory (refer section 2.6.3) advocates a unique accounting system for each country that meets the information need of that particular country based on its specific environmental factors (Larson & Kenny, 1996; Tyrrall et al., 2007). Therefore, both contingency and world system theories suggests that countries are more likely to adopt IFRS if they have -

- a high level economic growth;
- economic openness;
- a capital market;
- quality accounting education; and
- legal systems and policies prominent in those countries where IFRS had already developed.

On the other hand, the results (refer sections 5.4.1–5.4.5) are contrary to the modernisation theory because the modernisation theory (refer section 2.6.1) advocates the harmonisation of accounting standards globally through adoption of IFRS regardless of environmental factors in those countries, such as economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies (Othman & Kossentini, 2015). This is because the modernisation theory assumes that economic events, transactions and systems are universal in their application in accounting (Larson &

Kenny, 1996). The modernisation theory also assumes that accounting is considered the language of business, and it should be internationalised to serve the international community regardless of the aforementioned environmental factors (Othman & Kossentini, 2015).

In summary, the results of the responses regarding factors that would affect IFRS adoption in Ethiopia indicated that, at the time of this research, the following factors were not conducive to adopting IFRS in Ethiopia:

- economic growth;
- capital market development;
- level of accounting education; and
- legal systems and government policies.

According to the findings, the main reasons for these factors lacking the possibility of being conducive to adopting IRFS were:

- the limited role of the private sector in the economy of the country;
- financial sector restrictions;
- low income level;
- limited communication and market infrastructure;
- limited awareness of and understanding about capital market;
- limited contribution by the financial sector for capital market development;
- absence of IFRS courses in the colleges and universities teaching accounting;
- absence of a strong professional accounting body to provide guidance on IFRS adoption; and
- effect of the current tax law-driven accounting practices and a lack of proximity between IFRS and Ethiopian laws.

Despite these, the country's external economic openness to other countries was found to be a favourable factor to adopt IFRS. According to this study, Ethiopia's economic openness at the time of this research was attributed to policy measures taken by the government to liberalise the country's economy, physical infrastructure development (such as roads, railways, hydroelectric power dams), and relative political stability in the country. However, although Ethiopia's economic openness was favourable to adopt IFRS, the country would be prudent not to adopt IFRS at this stage as the other factors were not suitable, The findings related to the factors that would affect IFRS adoption in Ethiopia answered the central research question stated in section 1.5 with regard to the suitability of IFRS adoption in Ethiopia, as they provided evidence that, at the time of this research, the economic growth, capital market development, level of accounting education as well as legal systems and government policies were not conducive to adopting IFRS, and IFRS adoption was not suitable in Ethiopia at the time. These findings and the resulting conclusion are therefore consistent with the contingency and world system theories, which state that each country has a unique set of environmental factors that require the development of country-specific accounting practices (Othman & Kossentini, 2015). The research findings related to questions emerging from the central research problem are summarised in the next sections.

5.4.7 Summary of accounting practices by companies of the participants

Section 2 of the questionnaire (Annexure A) set out to determine which accounting standards were used in Ethiopia at the time of this research (refer section 1.5). The analysis of the responses from the participants regarding the accounting practices in their companies or for their clients showed that companies or clients of the majority (87%) of the participants used US GAAP for preparing their financial statements (refer Figure 4.7). Only a few (13%) of the participants replied that their companies used IFRS. However, 87% of those participants (both those whose companies were using US GAAP and those whose companies were using IFRS) did not perceive that their companies or clients sufficiently complied with the requirements of the accounting standards when they prepared their financial statements (refer Figure 4.8). Finally, responses from the participants whose companies adopted IFRS, indicated that finding competent professionals with IFRS skills and adjustment to legal requirements were highly challenging issues to their companies or clients with mean scores of 4.2 and 3.61 respectively (refer Table 4.1). These findings support the argument in sub-section 2.5.4 that, at the time of this research, Ethiopia lacked the skills and experts to adopt and implement IFRS due to the relatively low quality of Ethiopian education and the absence of a strong professional accounting body with IFAC membership.

5.4.8 Summary of responses regarding accounting practices in Ethiopia

Further to the accounting practices in their companies, the participants were requested to provide their opinions about the current accounting practices in Ethiopia (refer section 3 of Annexure A). Results of the analysis of the responses indicated that:

- 58% of the participants perceived that there was no single set of accounting standards in Ethiopia (refer Figure 4.10); and
- 77% of the participants perceived that there was only limited compliance with accounting standards (refer Figure 4.12).

The results also indicated that, at the time of this research, companies were preparing financial statements mainly to comply with loan and tax requirements with mean scores of 4.10 and 3.92 respectively (refer Table 4.2). In addition, the results indicated that IFRS would bring few benefits in Ethiopia in terms of providing quality information to the stock market with a mean score of 2.6 (refer Table 4.3). This is due to the absence of a capital market and capacity limitation to enforce the standards. As a result, the majority (57%) of participants were in agreement that Ethiopia needs to have its own national accounting standards (refer Figure 4.11). These findings reinforce the results related to factors that would affect IFRS adoption in Ethiopia – specifically, economic growth, capital market development and level of accounting education discussed in sections 5.4.1, 5.4.3 and 5.4.4 respectively. The results also answered the research questions with regard to the accounting standards in Ethiopia at the time, and problems related to implementation of these standards. The results are consistent with prior research findings (refer Christensen et al., 2015; Hellman et al., 2015; Nobes, 1998), which indicated that companies in countries that do not have capital markets are inclined not to adopt IFRS due to a low incentive for them to have comprehensive accounting standards, such as IFRS. In order to ensure the reliability of information obtained from the participants, they were also requested to provide their demographic profile. Results of the analysis of the participants' demographic profile are summarised below.

5.4.9 Summary of responses regarding demographic profile

Focusing on section 1 of the questionnaire (refer Annexure A), the results of the analysis of the participants' demographic profile in section 4.2.1 showed that the majority (81%) of the participants were male and 88% were aged between 30 and 50 years (refer Figures 4.1 and 4.2 respectively). Furthermore, although the majority (55%) of the participants were first-degree holders, quite a large number (43%) of them also held master's degrees (refer Figure 4.3). With regard to occupations, a significant number of the participants (72%) were accountants by profession but working in different areas, such as financial analysis, financial reporting and financial consultancy (refer Figure 4.4). Lastly, the majority (79%) of participants had between 11 and 30 years' work experience (refer Figure 4.5).

In summary, the participants in this study had sufficient work experience and academic background and therefore the information they provided was believed to be reliable. As explained in section 4.3, a review of financial statements was performed in this study in order to obtain additional evidence that would corroborate the information obtained through the survey (questionnaire). The results of the financial statement review are discussed in the next section.

5.5 SUMMARY OF RESULTS OF FINANCIAL STATEMENT REVIEW

The financial statements review focused on establishing the accounting standards used in Ethiopia at the time of this research, and issues of presentation and disclosure. Accordingly, the results of the financial statement review showed that different companies used different accounting standards to prepare their financial statements. Of the 27 companies who had their financial statements reviewed, 12 (44%) used IFRS, 10 (37%) companies used GAAP but did not define which GAAP they used, and 5 (18%) of the companies did not disclose the accounting standards they used (refer Table 4.13).

With regard to the issues of presentation, the financial statement review revealed several weakness, such as omission of some financial statements. For example, of the 27 companies, only 16 (59%) included all the financial statements (statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows) as required by IAS 1, *Presentation of financial statements* (refer Table 4.14). The review also revealed that 17 (63%) of the 27 companies did not classify items properly in their statement of financial positions as required by the IFRS standards (refer Table 4.14). Similarly, the financial statement review showed various problems with regard to disclosure. The most common disclosure issues were (refer Table 4.15): omission of or inadequate disclosures about related parties (93%), inadequate disclosure about impairment review for property, plant and equipment (100%), deferred tax (81%) and foreign exchange rate (78%). The findings in the financial statements review, particularly the issues of presentation and disclosure, indicate considerable non-compliance with the requirements of the accounting standards applied to prepare the financial statements and, hence, reinforce the results in section 5.4.8 above.

5.6 RESEARCH CONCLUSIONS

The objective of this study was to answer the research questions outlined in 1.5. This involved assessing the suitability of IFRS adoption in Ethiopia by examining the favourability of the economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies for IFRS adoption. Moreover, the study aimed at identifying the accounting standards used in Ethiopia at the time, and to evaluate their strengths and weaknesses. Consequently, the study made use of a mixed-method research design (questionnaire and content analysis of the financial statements) to support the findings.

Accordingly, this study assessed the suitability of IFRS in Ethiopia at the time of this study by examining the underlying factors in the context of the country and, based on the findings of the study, established that IFRS were not suitable for the country at that stage (refer sections 5.4.1 to 5.4.6). The reasons behind this conclusion are limited private investment, absence of a capital market, capacity limitation (including limitations regarding the availability of competent professionals with IFRS skills) and limitations to enforcing the accounting standards and laws (Bekele, 2018; World Bank, 2014; 2018). However, although IFRS were not suitable in Ethiopia at the time, the findings in this study highlighted that it is likely that the factors that affect IFRS adoption would gradually change (improve) in favour of IFRS due to global influences and gradual economic changes in the country. The question, therefore, relates to the timing to adopt IFRS because the changes may take years to happen. Consequently, this suggests a need for continuous assessment at a reasonable time interval depending on the changes in the underlying factors, particularly with regard to the country's economic factors. Therefore, IFRS should not be adopted in Ethiopia until the underlying factors (economic growth, capital market development, external economic openness, level of accounting education as well as legal systems and government policies) discussed above change.

In addition, based on the results outlined under 5.4.7, 5.4.8 and 5.5, the study established that there was no a single set of accounting standards in Ethiopia at the time of this research, and different companies used different accounting standards when preparing their financial statements. These different accounting practices among entities make comparison between various financial statements of companies difficult. Moreover, the study established that, at the time, companies did not comply with the requirements of the accounting standards they used which, in turn, was partly due to capacity limitation in the companies themselves, for example a lack of competent staff with required skills and partly due to a lack of incentives to comply with the accounting standards and laws in the country.

As highlighted above, capacity limitation to enforce accounting standards and laws is a serious challenge in Ethiopia, such as a lack of competent professionals to implement accounting standards, particularly IFRS, and a lack of adequate technical and human capacity in terms of the regulatory bodies. To address these problems, accounting education in Ethiopia needs to be updated in order to prepare graduates for enhanced financial reporting requirements, such as IFRS, and the curriculum for the accounting education at colleges and universities should also incorporate international accounting components, including IFRS. These measures will enhance graduates' capability and overcome the skills gap.

Further to measure around accounting education, the country's accounting regulatory body (AABE) (Ethiopian Government, 2014) also needs to be capacitated sufficiently. The government needs to ensure that the AABE has the required technical, human and financial resources to accomplish its objectives. For example, the AABE has to be staffed with adequate experts who have a sufficient level of technical competence and experience in accounting, which would enable the AABE to deliver its responsibilities. AABE is a government regulatory body that oversees the accounting and auditing practices in Ethiopia.

Another important point related to capacity enhancement in financial reporting practice is having a strong professional accounting body. As noted in this dissertation, at the time of this study, there was no strong accounting body with IFAC membership in

Ethiopia. Therefore, a strong professional accounting body should be established with collaboration of all the stakeholders, such as accounting professionals and the government (AABE). The presence of a strong professional accounting body would assist the Accounting and Auditing Board of Ethiopia in setting accounting standards and competence and capability requirements for accountants in public practice. In addition, a strong professional body would facilitate local professional accountancy training, organise continuous professional development courses, provide guidance on implementation of accounting standards, and serve the interests of the professional accountants in the country.

Finally, it was mentioned at the beginning of this section that, at the time of this research, IFRS adoption was not suitable for Ethiopia. However, owing to the existing accounting problems (refer Figures 4.10-4.12 and table 4.1), the country needs to have a single set of standards and therefore it would be sensible if Ethiopia could set its own national accounting standards converged with the IFRS. Convergence would be beneficial to Ethiopia because it would provide room to contextualise its accounting standards to economic realities of the country by deviating to some extent from the IFRS as issued by IASB. In addition, as convergence is a gradual process, and thus it would allow the country to develop capacity to implement and enforce IFRS successfully. Given that the timing is crucial for IFRS adoption in Ethiopia, convergence would be suitable and provide the benefits of IFRS with limited burden.

In summary, the study investigated the suitability of IFRS adoption in Ethiopia, considering the country's economic growth, external economic openness, capital market development, level of accounting education as well as legal systems and government policies. The results showed that, at the time of the study, none of the factors, except Ethiopia's external economic openness, was conducive to adopting IFRS in the country. This, in turn, suggests that IFRS adoption was not suitable for Ethiopia – at least not in the short term. The research findings and the conclusion are consistent with the contingency and world system theories but they are contrary to the modernisation theory because the modernisation theory ignores environmental factors in accounting standard setting while the contingency and world system theories consider environmental factors in accounting standard setting.

Moreover, the study found that, at the time of this research, there was no single set of accounting standards in Ethiopia, and different companies used different accounting standards when preparing their financial statements despite the fact that the government of Ethiopia issued a proclamation in 2014 to adopt IFRS (Ethiopian Government, 2014). According to this study, the slow progress towards IFRS adoption in Ethiopia is the result of capacity limitations and a lack of incentives for companies to adopt IFRS. To overcome this problem, it is recommended that Ethiopia set its own national accounting standards converged with IFRS.

5.7 RECOMMENDATIONS FOR FUTURE RESEARCH

Firstly, in answering the research questions, potential areas for future research were identified. In assessing the suitability of IFRS in Ethiopia based on the factors selected, it became clear that those factors change over time. This suggests that the conditions under which the suitability of IFRS was tested are subject to changes, and it would be worthwhile to conduct similar research on the subject, particularly with regard to the economic factors in the country sometime in the future in order to see the developments.

Secondly, the research findings indicated that only few companies had adopted IFRS in Ethiopia, and the research was done too early to assess the effect of IFRS on accounting quality in Ethiopia. However, as more companies adopt IFRS, it would be possible to assess the outcome of IFRS on accounting quality in Ethiopia and draw meaningful conclusions. Therefore, an assessment of the influence of IFRS on accounting quality would be a potential area for future research.

Thirdly, as highlighted in this dissertation, at the time of this research, limited capacity to enforce accounting standards and laws was a serious challenge in Ethiopia (Mengistie, 2017; WEF, 2018). These were a lack of competent professionals to implement accounting standards – particularly IFRS – and a lack of adequate technical and human capacity in terms of the regulatory bodies. To address these problems, accounting education in the country needs to be updated in order to prepare graduates for enhanced financial reporting requirements, such as IFRS, and the curriculum for accounting education at colleges and universities should incorporate international accounting components, including IFRS. Therefore, further research to determine whether educators are sufficiently trained and have the necessary skills to change and teach the new curriculum would be beneficial.

Fourthly, only suitability of IFRS was examined in this study. The findings however indicated some companies in Ethiopia use the US GAAP. Therefore, it would also be beneficial to conduct research on the suitability of US GAAP in Ethiopia. Given that US GAAP are used in Ethiopia, companies might already have acquired a good amount of skills and experience about US GAAP, and there might be another opportunity to set national accounting standards converged with the US GAAP as well as IFRS.

Finally, following the selection of a new Ethiopian prime minister by the Ethiopian People's Revolutionary Democratic Front (the country's ruling party) in April 2018, the government is taking steps to end the government monopoly on key economic sectors, such as telecom, energy and air transport. While the practical implementation of this is going to be complex and is likely to face strong opposition from different sectors of the public, the prime minister seems intent on moving forward. In addition to appointing reform-minded executives to key economic positions, including the governor of the central bank of the country, the chief executive of Ethio-Telecom (the country's state-owned telecom company) and the head of national planning commission, the prime minister set up an advisory council on the privatisation of SOEs in August 2018. Therefore, further research on the progress of this economic reform initiative and its effect on the country's economy and IFRS adoption would be beneficial.

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ANNEXURE A

UNISA university of south africa

PARTICIPANT INFORMATION SHEET

October 3, 2016

Financial Reporting Practices in Ethiopia

Dear prospective participant

My name is Tewodors Gobena Yirorsha and I am doing research supervised by Dr AA van Rooyen and Mr C Chikutuma, both academics in the College of Accounting Sciences, towards an MPhil Accounting Sciences degree at the University of South Africa (Unisa). We are inviting you to participate in a study entitled: *Financial reporting practices in Ethiopia*.

The aim of the study is to identify the accounting standards and principles currently used in Ethiopia and evaluate their strength and weakness in order to find evidence supporting the argument for or against International Financial Reporting Standards (IFRS) adoption in the country. In addition the study will also assess the suitability of IFRS adoption in Ethiopia with regard to the country's level of education in accounting, legal systems and government policy, existence of capital market, economic growth and external economic openness. Being a participant is voluntary and you are under no obligation to consent to participation. You may also withdraw at any time without penalty. Hard copies of your answers will be stored by the researcher for a period of five years in a locked cupboard in his office for future research or academic purposes; electronic information will be stored on a password protected computer. Future use of the stored data will be subject to further Research Ethics Review and approval if applicable. Information will be shredded once the five year period has expired while password protected electronic information will be removed from the computer permanently.

While there is no financial or other direct benefit in participating, your contribution will assist me to obtain insights as to the suitability of IFRS adoption in Ethiopia. It will take about 20 minutes of your time to complete the questionnaire. **We would greatly appreciate your contribution!**

This study has received written approval from the Research Ethics Committee of the College of Accounting Sciences at Unisa. If you would like to see the ethics approval letter, have any questions in respect of this study or want to receive a summary of the results, please contact me:

Tewodros Gobena
ted_gob@yahoo.com
+251911135727

Thank you for taking the time to read this information sheet and for participating in this study.

CONSENT TO PARTICIPATE IN THIS STUDY

- I have read and understood the study as explained in the information sheet.
- I understand that my participation is voluntary and that I am free to withdraw at any time without penalty.
- I am aware that the findings of this study will be anonymously processed into a research report, conference proceedings and/or journal publications.

I understand and accept the above and will participate in this study.

_____________________________ _____________________________

Signature Date

Section 1: Demographic profile

Please provide the information required by either ticking a box or providing the information required

1. Gender:

   Male ☐ Female ☐

2. Age: ________________

3. Highest educational level including professional membership if applicable:

   Bachelor's degree ☐
   Master's degree ☐
   Doctoral degree ☐

   Professional membership (if applicable)________________________ ☐

   Other - please specify

   ____

   ____

4. Current occupation:

   Accountant ☐
   Auditor ☐
   Financial analyst ☐

   Other - please specify

   ____

   ____

   ____

5. Work experience:

   Less than 5 years ☐
   Between 5 and 10 years ☐
   Between 11 and 20 years ☐
   Between 21 and 30 years ☐
   More than 30 years ☐

   Other - please specify

   ____

   ____

Section 2: Information regarding accounting practices of the company or clients of the participant

6. How long have you been preparing corporate annual reports for the business (either for your company or clients)?

Less than 2 years
Between 2 and 5 years
Between 6 and 10 years
Between 11 and 15 years
More than 15 years
Never prepared corporate annual reports

7. Please select the accounting standards that have been used for preparing financial statements for your company.

US GAAP
IFRS

Other - please specify

8. In your opinion, what is the degree of compliance with the applicable accounting and financial reporting requirements including laws and regulations in your company or clients? (Choose only one option).

Full compliance
Moderate compliance
Limited compliance
Non-compliance

9. Did your company or client adopt IFRS?

Yes
No
If your answer is yes, when?

10. If your company or client adopted IFRS, how challenging were the following factors? Rate your answer as follows:

5 – Extremely challenging; **4** – Highly challenging; **3** – Moderately challenging; **2** – Somewhat challenging; **1** – Not challenging

		5	4	3	2	1
10.1	Obtaining competent professionals with IFRS skills					
10.2	Availability of market process for valuation purposes as per IFRS requirements					
10.3	Costs to adopt and implement IFRS					
10.4	Relevance of the IFRS prepared reports to users					
10.5	Adjustment to legal requirements					

Section 3: Perceptions about current accounting practices in Ethiopia.

11. Select the accounting standards currently used in Ethiopia.

International Financial Reporting Standards (IFRS) ☐
United States' Generally Accepted Accounting Principles (US GAAP) ☐
Country's own national standards ☐
No single set of accounting standards are used in the country ☐
Not sure ☐

Other - please specify

____

____

12. In your opinion what accounting standards would be the most appropriate in Ethiopia? (Choose only one option).

International Financial Reporting Standards (IFRS) ☐
United States' Generally Accepted Accounting Principles (US GAAP) ☐
Ethiopia needs to have own national accounting standards ☐
Not sure ☐

Other - please specify____

13. How do you perceive the degree of compliance with the applicable accounting and financial reporting requirements including laws and regulations in Ethiopia? (Choose only one option).

Fully compliance ☐
Moderate compliance ☐
Limited compliance ☐
Non-compliance ☐

14. Rate the reasons why Ethiopia prepares published financial statements? Rate your answer as follows:

5 – Extremely important; **4** – Very important; **3** – Of moderate importance; **2** – Of little importance; **1** – Not important at all

		5	4	3	2	1
14.1	Compliance with accounting standards					
14.2	To provide information to shareholders					
14.3	For management decision-making information					
14.4	For tax compliance					
14.5	To comply with loan requirements					

15. Rate the benefits of IFRS in the order of relevance in the context of Ethiopia. Rate your answer as follows:

5 – Extremely relevant; **4** – Very relevant; **3** – Of moderate relevance; **2** – Of little relevance; **1** – Not relevant at all

		5	4	3	2	1
15.1	Improved earnings management					
15.2	Timely loss recognition					
15.3	Improved disclosures					
15.4	Improved financial statements comparability					
15.5	Quality information to stock market					

Section 4: Perception towards factors that could affect the adoption of IFRS in Ethiopia.

In this section your perception towards the following specific factors is sought. Please indicate the appropriate scale for your opinion by ticking (√) on the space that indicates your choice from the options provided.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Factors to examine IFRS suitability in Ethiopia					
Economic growth					
16. The current Ethiopia economic growth is mainly attributed to government investment in infrastructure projects.					
17. The role of the private sector in the Ethiopian economy is limited and hence, the country's decision to adopt IFRS at this stage is premature.					

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
18. Ethiopian financial sector is closed to foreign investors and hence this can affect the country’s effort to sustain its economic growth.					
19. Owing to coordinated fiscal and monetary policies in Ethiopia, inflation has been well controlled since 2013 and hence it cannot be a significant barrier to adopt IFRS.					
20. Given that Ethiopian economy has experienced strong and broad based growth over the past decade, averaging 10.8% per year, it is potentially conducive to adopt IFRS.					
Economic openness to other countries It is believed that economic liberalisation, infrastructure development, political stability and safety are key indicators of a country's economic openness to the rest of the world in terms of attracting investment. Accordingly:					
21. In Ethiopia, adequate measures have been taken to liberalise the country’s economy and improve the business environment for foreign investors.					
22. Ethiopia has been politically stable since the change of government in 1991 and this has been attracting foreign direct investment.					
23. There is an adequate level of infrastructure development in Ethiopia to attract foreign investors.					
24. Limited access to capital is a barrier to attract foreign investment to Ethiopia as required.					
25. Restriction for foreigners to invest in financial sector is a barrier to attract foreign investment to Ethiopia as required.					
26. The rate of crime and theft is low in Ethiopia and hence it is not a problematic factor to do business in the country.					
Capital Market Development					

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
27. In Ethiopia the role of private companies in the economy currently is not at a level that leads to capital market development.					
28. In Ethiopia, income is fairly low and this would affect capital market development in the country.					
29. Market infrastructure in Ethiopia, particularly communication infrastructure (for example telephone and internet services) is not adequately developed to support the capital market in the country.					
30. Investors' education and awareness about capital market such as awareness about equity trading is relatively lower in Ethiopia compared to other developing countries and hence this can be considered as a barrier to capital market development.					
31. In Ethiopia, although the number of financial institutions is growing fairly, the range of services are very limited. As a result the contribution of the financial sector for capital market development is minimal.					
Level of Education in Accounting					
32. The quality of accounting education in Ethiopia is not at the level that would significantly support IFRS adoption and implementation.					
33. Given the absence of a strong accounting professional body with International Federation of Accountants (IFAC) membership in Ethiopia, it will be difficult to have proper guidance on IFRS adoption and implementation.					
34. The introduction of Association of Chartered Certified Accountants (ACCA) qualification studies in Ethiopia can help to fill the gap in IFRS skills.					
35. The Institute for Certification of Accountants and Auditors under the Ethiopian Civil Services University will gradually upgrade the skills and					

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
competence of accountants and auditors to a level required for IFRS implementation in the country.					
36. Poor understanding and lack of awareness about IFRS by Ethiopian business community, may lead to resistance by stakeholders such as managers, government agencies and other in the process of IFRS adoption and implementation.					
Legal Systems and Government Policies					
37. The appropriate laws are in place to adopt IFRS in Ethiopia.					
38. Adequate policy measures have been taken by the Ethiopian government to reduce the cost of doing business in the country.					
39. Lack of capacity to enforce laws and regulations is a serious challenge to adopt IFRS in Ethiopia.					
40. The influence of the current tax law driven accounting practice in Ethiopia is a barrier to adopt IFRS in the country.					
41. Given that Ethiopia is not a common law country, the country's legal systems are not conducive to adopt IFRS.					

Any additional comments:

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Thank you for your cooperation.

ANNEXURE B

UNISA university of south africa

COLLEGE OF ACCOUNTING SCIENCES
RESEARCH ETHICS REVIEW COMMITTEE

Date: 11 October 2016

Ref: 2016_CAS_054
Name of applicant:
Mr T Yirorsha
Student/Staff #: 55772889

Dear Mr T Yirorsha

Decision: Ethics Approval

Name: Mr T Yirorsha
Ted_gob@yahoo.com

Tile: Financial reporting Practices in Ethiopia

Qualification: Postgraduate student research

Thank you for the application for research ethics clearance by the College of Accounting Sciences Research Ethics Review Committee for the above mentioned research. Final approval is granted for the completion of the research.

For full approval: *The research ethics application was reviewed in compliance with the Unisa Policy on Research Ethics by the College of Accounting Sciences Research Ethics Review Committee on 11 October 2016.*

The proposed research may now commence with the proviso that:

1) *The researcher/s will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.*
2) *Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study, as well as changes in the methodology, should be communicated in writing to the College of Accounting Sciences Research Ethics Review Committee . An amended application could be requested if there are substantial changes from the existing proposal, especially if those changes affect any of the study-related risks for the research participants.*
3) *The researcher will ensure that the research project adheres to any applicable*

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national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study.

Note:
The reference number [top right corner of this communiqué] should be clearly indicated on all forms of communication [e.g. Webmail, E-mail messages, letters] with the intended research participants, as well as with the College of Accounting Sciences RERC.

Kind regards,

Ms Lindie Grebe
(Chairperson of CAS RERC)
grebel@unisa.ac.za
(012) 429 4994

Prof Elmarie Sadler
(Executive Dean of CAS)

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