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Evaluating the International Financial Reporting Standards (IFRS) adoption in developing countries: an institutional theory review

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Abstract. *Due to the rising globalization over the last three decades, several nations are searching for internationally standardized financial reporting rules. More uniformity in financial reporting is now desired. The application of institutional theory can lead to a better comprehension of how IFRS Standards are implemented; however, it has been demonstrated that institutional features have a significant influence on social conduct and are hence crucial in characterizing the emerging countries. It follows that it seems reasonable to infer that developing nations would adopt IFRS for objectives beyond economic ones.*
The goal of the current study is to conduct a review of the institutional theory literature with a focus on investigating the application of IFRS in developing countries; particularly the relationships among this theory. A systematic review of the literature was the approach employed, and the main papers were discovered utilizing the following databases: books, the most cited publications, and the Web of Science. Consequently, in the context of accounting systems for developing countries, this research will provide an opportunity to support further studies that foster a greater appreciation for the theoretical contributions' capacity to determine the institutional structure of change procedures associated with the adoption of IFRS.

Keywords: international financial reporting standards (IFRS), institutional theory, developing countries, systematic literature review, Governance.

JEL Classification: M41.

1. Introduction

It has been the International Financial Reporting Standards (IFRS) that managed to accomplish the task of global accounting becoming more consistent rule. The present aim is to make clear why such accounting principles represent the very beginning of the way to the final world-wide recognition of a single set of the international accounting principles. The (IFRS) were introduced in 2001.

In an attempt to achieve credibility, several developing nations have changed their accounting strategies to conform to IFRS because they feel that the nations who achieve so with the greatest level of similarity and transparency are More reputable and, as a result, provide more chances to draw in additional investments, raise the financial excess and attain a greater pace of growth for the economy. The implementation of IFRS still is one manifestation of the worldwide demand for reform that exists in the term of legitimacy and the needs of the major countries. (Mehaoua et.al 2021)

Harmonization is more than just establishing boundaries and eliminating options to promote uniformity in processes; it also entails mixing and merging diverse nations' accounting standards into a coherent whole. Financial statement regulators and preparers, in addition to financial statement consumers, are pressuring financial statement providers to standardize their disparate accounting procedures. Unity is the essence of harmony. Since financial reporting practices differ across international boundaries and there is already variation in accounting as a result of information asymmetry. In order to make the accounting data gathered globally easily comparable, comprehensible, and pertinent for financial decision-making, the fundamental goal of the harmonization of accounting standards is to tear down national borders. (Emovon and Agbo, 2023).

In an effort to find a suitable theory that would help businesses and nations deal with the changing nature of accounting systems. Businesses react to institutional change in order to enhance their legitimacy, and the institutional theory presents appropriate interpretations for these actions. Despite being created and implemented first in modern economies, a number of studies have demonstrated that the institutional theory positively influences the growth of international accounting standards in developing and emerging economies. Because it incorporates economic theory with cultural, social, political, and technical fields, institutional theory is appealing because it provides a much wider reach within the social sciences. (Sellami and Gafsi, 2019)

As a result, this study aims to provide a thorough assessment of the institutional theory literature with a particular focus on developing countries that have adopted IFRS. Three mains research questions are looked at in this paper:

1. From an institutional theory views, what has scholarly research affected the adoption of IFRS in developing nations?
2. Which the kinds of institutional theory were they for?
3. What the potential benefits are wanted to be contributed to the body of literature by a discussion of institutional theory?

Upon the beginning of it, the research goes conducted in this manner: The first section covers the introduction to this topic. Section two explains the data and techniques used in the present study. Section three provides an overview of the literature; more information about an institutional approach to the process of accounting harmonization, and articles concerning research performed in developing nations. Final section provides conclusions and suggestions for further investigation.

2. Research methodology

Our study contribution is expanding knowledge on the adoption of IFRS in developing countries. This raises some methodological issues related to emerging economies. Reviewing IFRS research in developing nations (Boolaky et.al. (2020). The Internet's Library of Science archives have been utilized in this research for both article reviews and search procedures.

In order to choose pertinent articles on the implementation and utilization of (IFRS) in developing nations from the standpoint of institutional theory approach, a methodical research a systematic review was performed. One of the most essential processes in developing research is recognizing the body of knowledge in a subject of institutional theory, which is aided by a comprehensive literature evaluation. (Antônio & Luciane, 2022). Using an organized review of literature helps to provide an overview of the area by considering key points, the area's current direction, potential problems, and the path for further study.

These were the particular objectives of this research:

- to determine how academic studies influenced the adoption of IFRS in emerging countries, from the perspective of institutional theory;
- to be aware of the types of institutional theory that functioned;
- to be aware of the potential benefits that an analysis of institutional theory could provide to the library of literature.

3. Review of Literature

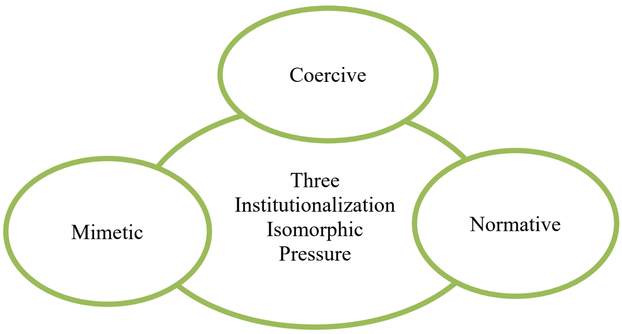
3.1. The institutional theory (definition and approaches)

Institutional theory has its origins in the authority and approval of specific organizational procedures, which are consequently embraced to deal with the environmental challenges of competition. This means that it forecasts that organizations will often copy the conduct standards of other businesses in the sector (Cardona et.al 2020). At the foundation of institutional theory is the concept of institutionalism that looks for the reasons behind why organizations do what they do, includes methods and techniques that are outlined by the ideas that are prevalent in the workplace and have been institutionalized in society. An effective and well-liked explanatory technique for examining organizational behavior and development is institutional theory. The new institutionalism lays a strong focus on the formative function of institutions, while classic views emphasize the assumption that individuals, rational agents, and their own preferences and interests govern organizations.

The institutional theory possesses two approaches – old institutional theory, and new institutional theory – it can be predicted that, in an environment where isomorphism exists, institutions will typically adhere to the same standards and practices when it comes to recording and disclosing accounting information. With its integrated emphasis on the external force of the environment by isomorphic forces and social legitimacy regarding compliance, institutional theory has been the most widely employed theoretical foundation (Guerreiro et al., 2020).

The concept known as organizational isomorphism refers to the efficient process by which organizations undergo institutionalization. The uniformity of techniques, procedures, and management employed by organizations is the cause of these phenomena. Three different forms of institutional isomorphism are shown in figure 1. These can either greatly benefit enterprises or lead to isomorphic dilemmas that obstruct their growth. Specifically, their name is: coercive, mimicking, or standard. (Vailson and Marco. 2021)

Figure 1. *Institutional Isomorphism Mechanisms*



Source: Che Zuriana et.al 2015.

Thus, the first category of isomorphism is coercive isomorphism, which describes the power that laws, conventions, and governmental bodies have on organizations; the outcomes of official or informal pressures give rise to the pressures primarily associated with concerns of political power and legitimacy. Mimetic isomorphism is the second form of isomorphism. It happens when an entity seeks outside itself for instances of prudence because it feels that it lack certain suitable characteristics inside itself. The creature then tries to internalize the traits it sees in the other entity. Conversely, normative isomorphism, the third kind of isomorphism, is typically employed by those with an interest in the organization, both internal and external, with the goal of achieving maximum efficiency and professionalization. (Nguyen 2022)

3.2. The implications of institutional theory upon IFRS

Understanding how IFRS have evolved into the world's accounting standard is made easier by the institutional theory framework. As a result, the requirements of financial statements' major users are going to be better met. (Mantzari et.al 2017)

Regardless of their true value, institutional practices like IFRS-based accounting structures may be embraced in order to gain external credibility. Improved social acceptance and legitimacy from other nations, as well as enhanced reputation of domestic enterprises, are significant anticipated effects of IFRS. It is believed that concerns about social legitimacy and the desire to realise significant economic gains are what drive institutional reform. Therefore, resistant techniques are likely to be used when it is anticipated that complying with institutional constraints would have positive effects on the economy and legitimacy. On the other hand, organisations are more likely to compromise on conformity requirements or manipulate the criteria or conditions of conformity when adhering to institutional practices is thought to yield minimal benefits in terms of money and legitimacy. It is in this regard that the adoption of IFRS by numerous countries and organisations has been encouraged. (Ana Paula, 2023)

by the anticipated gains in legitimacy and economy. Economic and efficiency themes were central to the reasoning behind the introduction of IFRS. Remarkably, the market orientation of IFRS drives its purported economic (ideological) benefits, satisfying the information needs of capital market players. Economic rationale and the belief that more relevant, comparable, and transparent financial reporting will result from stricter quality-usefulness requirements are what motivate the adoption of IFRS. More access and lower capital costs, as well as improved integration of the domestic and global financial markets, are among the financial advantages of implementing IFRS that are frequently mentioned in the literature. reduced expenses associated with processing financial data for the world's capital markets, increased foreign investment (Akisik, 2020), and encouragement of faster economic expansion.

Subsequent contributions to institutional theory introduced the notion of institutional logics, in addition to surpassing the notion of organizational passivity (Abras et al., 2023). Consequently, the significance of institutional logics – broader cultural practices and ideas that influence individual and organizational behavior – is used for clarification of resistance to change and offers insights into the emergence of organizational heterogeneity and disconnection.

Several institutional studies on international accounting research. For example, Nguyen 2022, In his PhD thesis, he explored the effects of change, particularly the implementation of IFRS in Vietnam in 2025, and provide practical strategies for facilitating this transition within the context of Vietnamese Higher Education of Accounting. For this study, the researcher used a mixed-method approach, combining interviews that were semi-structured along with content evaluation as two qualitative methodologies. the researcher relies on the

Institutional Theory in order to understand whether the IFRS became beneficial for foreign-headquartered firms. When assessing the effectiveness of university-level IFRS learning and preparation techniques. The main conclusions of this research were:

- The content analysis result indicated that a smaller number of the courses under "IFRS" or Worldwide Accounting Standards had a greater degree of emphasis.; Furthermore, in response to the impending IFRS job market, students become familiar with how to employ certain international accounting standards for particular company situations – a skill that most students find daunting.
- The interview data indicates that the adoption of IFRS happens continuously, beginning with particular company categories. More likely bigger organization’s first, such those that are publicly traded or have foreign investment. The participants stated that IAS are helpful for controlling accounting procedures and boosting transparency.

4. The employing of institutional theory and its effects on (IFRS) in developing nations

International accounting holds that any country has distinctive regulatory structures that set its accounting procedures apart from those of other nations. Accounting procedures are developed on the foundation of institutional considerations (Tahat et al. 2018). Organizational behavior concept has compelled businesses to use new tactics that are required to bridge the gaps between businesses that are attempting to meet these criteria and to reduce the performance gap. Simply saying that something has been practiced is not enough to persuade experts in other domains. Consequently, there is a requirement for logical change that makes it easier for accountants to persuade and comprehend one another.

According to Hassan and Marston (2019), the country's institutional and legitimate variables have a crucial role in shaping the evolution of accounting methods. This research has two main goals: first, it will examine how multiple essential variables (such as the economy, politics, culturally, specific to a nation and accounting regulatory scheme) affect the formation of accounting behaviors; second, it will use institutional theory to demonstrate which these elements affect the results of firms in developing nations.

Developing countries require a system of accounting which can gather all financial data and be used to several levels of economic decision-making. Investors may find it difficult and costly to evaluate and report financial statements that were properly created in compliance with various accounting standards. In an attempt to prove their legitimacy and win acceptance, nations frequently adopt the lowest possible level of formal structures when interacting with other countries.

Adopting the IFRS doesn't improve a country's economic performance; rather, it gives it credibility. Given that nations often follow current regulations and standards, this is identical with the institutional theory. This promotes the broad implementation of internationally recognized systems and practices. (Albu, Albu & Gray 2020). Because of this, the institutional theory proposes that there is a structural isomorphism, wherein countries begin imitating one another's behavior’s without necessarily helping their own economies grow.

A comparative analysis study made by Andrzej and Sarhad, 2022, The purpose of this study aimed to explore the financial effects of IFRS implementation on inflows of foreign direct investment. Over the years 1996–2019, the researchers examined 22 economies comprising the Middle East and North Africa. The Eclectic Perspective technique is used in the study, and it is expanded to incorporate a number of institutional quality measurements. The study demonstrated statistically significant evidence that foreign direct investment (FDI) is positively related to IFRS adoption; When comparing the results of the study to the countries in the Middle East and North Africa countries indicated a strong positive and statistically substantial relationship. Furthermore, the results demonstrated that, in the Middle East and North African nations, institutional quality characteristics including political stability and government efficacy have played an essential part in determining foreign direct investment.

Leah and Ryan (2018), examining the impact of making the adoption of IFRS mandatory for publicly traded enterprises within certain developing nations. The study adopts an innovative method to look at how business executives observe financial reporting quality and market availability following the implementation of IFRS. Eight nations from Asia, Africa, and Latin America are included in the study's sample. The study found that the adoption of IFRS had a beneficial impact on three survey factors linked to accounting across eight different developing nations. The variables represent how executives and business leaders view the financial reporting situation in each nation.

In Africa; Boolaky et.al. (2020), explore the institutional forces (coercive, mimetic, and normative) supporting the International Financial Reporting Standards (IFRS); this investigation included 54 African nations between 2010 and 2015.

According to the results of the study. the following neo-institutional theoretical forecasts were noticed: (coercive, mimetic, and normative isomorphism) The impact on Africa's adoption of IFRS, even though the isomorphic pressure connections are different from those found in earlier research on adoption in developing nations and globally. Particularly, the supporting evidence of the Global Bank's and the IMF's effect on African nations that was included in the evaluation program for the Report on The Compliance of Standards and Codes-Accounting and Auditing. Additionally, the study discovered that a nation's choice to embrace IFRS is highly correlated with the existence of worldwide audit firms and the length of time that a member has been a member of the International Federation of Accountants; nations that have more organized and successful professional accounting organizations have higher adoption rates for IFRS.

5. Conclusions

A considerable amount of researches on institutional theory and IFRS has provided substantial understanding through the significance of claims for authority, creative techniques, strategic approaches and especially emerging nations, appreciate IFRS because of its significant economic advantages.

Two approaches for IFRS adoption research were reviewed in this study: the first covers IFRS adoption in developing nations, and the second discusses institutional theory review with regard the isomorphism and logical concepts, that's are primarily employed for clarifying the modifications in global financial reporting.

It is observed that the link between the adoption of IFRS and institutional theory is at a significant point. However, the findings of the literature presently in publication demonstrate that institutional theory and interpretations maintain institutions using collaborative opinions, and creativity, using an analytical and pragmatic approach, recognizes the adoption of isomorphic ways to acquire legitimacy. Additionally, it has been shown that the majority of articles with an effect factor were produced in Europe and emerging nations, and that institutional theory is important for appreciating advancements. Because of the appropriate societal forces, the IFRS requirements will enhance the financial reports' quality, similarity, and accessibility. In addition, the new principles aim to provide benefit. The Institutional Theory framework illustrates how norms regulated by being institutionalized and integrity express the interactions between institutions.

Finally, this paper reviewed the major developments in the field of institutional theory and the implementation of IFRS in countries that are evolving in order to provide new viewpoints and a convincing theoretical base. Based on the legitimacy assumption, the implementation of IFRS has been thoroughly researched, with isomorphism and institutional forces serving as the primary academic tools. To aid in the comprehension of principles. As future research, the author offer theoretical insights on how to distinguish formal from informal institutions as well as culturally oriented sorts of organizations.

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