

Factors Affecting Adoption of International Financial Reporting Standards in Selected Private Commercial Banks in Ethiopia

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Abstract—This study aims to examine factors affecting the adoption of International Financial Reporting Standards (IFRS) in Ethiopia. The study focuses on examining the benefits and challenges of IFRS including the factors that could influence its adoption. To answer research questions and test the hypotheses the study adopted the mixed research approach. The questionnaire data were analyzed using descriptive statistics, correlations, and multiple linear regression analysis and data from document reviews were interpreted qualitatively. The results show that IFRS adoption in commercial banks will result in a number of important benefits to a wide range of stakeholders. High cost of adopting, the complex nature, as well as IFRS's emphasis on fair value accounting, are listed among the most important challenges of IFRS adoption. The study also finds that with the exception of government policy the other six variables which are professional bodies, capital market, educational level, company size, leadership & commitment, and other factors significantly influence the adoption of IFRS in commercial banks. Finally, the findings suggest that a rigorous IFRS capacity building program should be embarked by the government, all regulatory bodies and training institutions in order to provide the needed manpower for IFRS implementation. In addition to that, academic courses regarding IFRS should be incorporated in colleges and universities levels.

Index Terms—Adoption, International Financial Reporting Standards, Ethiopia, Commercial Banks

I. INTRODUCTION

Globalization in the business world today has strengthened the need for the world-wide harmonization of Accounting Standards on which

financial reporting can be based for the benefit of users of the financial reports (Aseoluwa&Jelil, 2017). According to Renders & Gaeremynck (2007) growth in international trade and capital flows and a rising cross-border economic integration over the past decades have led to the desire to harmonize accounting standards across countries. Mirza, Holt & Orell (2006) argue that without common standards, it is difficult to compare financial information prepared by entities located in different parts of the world. Therefore, adopting a single global accounting language will ensure understand-ability, comparability and transparency of financial statements which will strengthen the confidence of investors and other users of accounting information around the world (Dholakia, 2012). There is a trend towards increased worldwide convergence in accounting standard practices (Ball, 2001).

The comparability, credibility, and positive capital market effects of adoption to capital market participants are not disputed. However, the impact, benefits and costs of the transition to IFRS vary from country to country depending on its starting point, characteristics and culture (Dunne, Finningham, Hannah, Power, Fifield, Fox, & Veneziani, 2008). Chartered Accountants World Wide (ICEAW) (2015) on its summaries of 200 empirical research papers conducted on the effects of mandatory IFRS adoption conclude that “IFRS adoption benefits were unevenly distributed among different firms and different countries due to differences in institutions and incentives, there may have been either negligible benefits or even negative effects rather than benefits

for particular firms or countries". The developing countries transition modalities to the IFRS differ from those of developed countries (Zehri&Chouaibi, 2013). In recognizing of the benefits of IFRS adoption, Ethiopia has enacted financial reporting proclamation in the year 2014 which can be applicable by all reporting entities operating in Ethiopia and announced the official adoption of IFRS as established by IASB. Accordingly, the Accounting and Auditing Board of Ethiopia has established as per council of ministers' regulation no.332/2014 as an autonomous governing organ to Promote high quality reporting of financial and related information by reporting entities and to regulate the accounting Auditing profession of Ethiopia.

As per Financial Reporting proclamation 847/2014 article 5(2), the public interest entities are required to comply with International Financial reporting standard when preparing financial statements. Among others, Banks are the one and the biggest form of public interest entities which mobilizes financial resources from the public and injects it to the economy. Ethiopian banks were accounted and presented their financial transaction based on requirements provided under commercial code 1960 and NBE proclamation 592/2008 for the last many years. However, both the commercial code and NBE proclamation has no requirements for compliance with any defined accounting standards (ROSC, 2007). Consequently, inconsistency of reporting method from period to period and usage of different reporting methods among Ethiopian private banks were observed until the closing of the year, 2016. Accordingly, AABE has warned reporting entities in Ethiopia not to refer IFRS on their financial statement unless they fully comply with all the requirements of the IFRSs applicable to their circumstances (AABE, 2016). For strengthening the process of the adoption, AABE has established a three phase IFRS implementation road map under its four-year strategic plan running from the year 2016-2020. According to this the first phase is Mandatory Adoption of IFRS which indicated that, Significant Public Interest Entities, Financial Institutions and public enterprises owned by Federal or Regional Governments will adopt IFRS at the effective date of July 8, 2016. The second phase is that, Other Public Interest Entities (ECX member companies and reporting entities that meet Public Interest Entities quantitative thresholds) and International Public

Sector Accounting (IPSA) for Charities and Societies will mandatorily adopt IFRS at the effective date of July 8, 2017. And all other public interest entities and Charities and Societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements at the effective date of July 7, 2018. The third and the final phase is also saying that, Small and Medium-sized Entities, shall mandatorily be adopted as at July 8, 2018. This means that all Small and Medium-sized Entities in Ethiopia will statutorily be required to issue IFRS based financial statements for the year ending July 7, 2019.

In spite of the benefits obtained from adopting IFRS, there are also challenges. The existing literature on the challenges in IFRS adoption focuses on factors that inhibit preparers of financial statements' ability to meet the regulatory requirements. Such factors include inadequate supply of accounting professionals for local businesses (Uwadiae, 2013; World Bank, 2011); the type of management system (Wallace, 1987); lack of awareness of the consequences of persistent failure in setting the accounting standards (Ball, 2016); cultural influences on disclosure and measurement such as secrecy and conservatism (Bakre&Lauwo, 2016). According to World Bank (2011) other possible challenges in the adoption of IFRS are weak enforcement mechanisms, an inadequate supply of certified accountants, secrecy among financial statements preparers, and incompatibility with industry accounting information systems and the lack of IFRS knowledge.

The ultimate question that calls to mind at this juncture is "what are the challenges, benefits and factors affecting adoption of International Financial Reporting Standards by private commercial banks in Ethiopia? This study is therefore designed to investigate the factors affecting adoption of International Financial Reporting Standard, evidence from Ethiopian private commercial banks.

1.1. Statement of the Problem

International Financial Reporting Standards were being implemented in Ethiopia since in 2016 with the intention of providing legitimacy and economic benefits to companies. Ethiopian companies are required by law to use IFRS beginning from 2016 up to 2020. It is reported that companies mandated to adopt IFRS face various challenges that can hinder the purpose of IFRS adoption.

Several studies conducted in different countries, indicate that a number of factors influence the adoption of IFRS. Pricope (2016) and Susana Callao, Jos'e, Jarne, Jos'e, & La'mez (2007) argue that companies' characteristics such as listing status, companies' size, and ownership structure and enforcement mechanism are the factors inhibiting IFRS adoption. Other factors, according to Ibrahim (2014); Jones & Higgins (2006); and Uwadiae, (2013), include practical difficulties such as recognition, measurement and disclosure of accounting items. Hofstede (2001) also provided some insights into the influence of external, ecological and economic factors in the development of accounting standards. Borker (2013) explained how cultural factors affect responses to changes in accounting standards. Asiyaban&Abdoli (2012) also indicated that despite the perceived economic benefits, companies' cultural factors are known to be one of the challenges in international accounting standards' convergence.

Several research studies have been done in relation to the challenges of adopting IFRS in Ethiopia: FelekeNegash (2019) examined the major challenges of IFRS implementation by private insurance companies in Ethiopia; Alexander Hache (2019) and Aytenew (2018) did a survey on the Challenges and Opportunities of Adopting IFRS by Private Ethiopian Commercial Banks; Eyob Lemma (2017) also examined the Benefit and Challenges of adopting IFRS in Case of commercial Bank of Ethiopia; FirdawokTeshome (2017) studied Challenges and Prospects of International Financial Reporting Standards (IFRS) implementation in Ethiopia; and Alemgena Bekele (2016) also studied the benefits and key challenges of using IFRS, case study of Heineken Brewery Factory.

Borker (2013) and Asiyaban&Abdoli (2012) indicated that despite the perceived economic benefits, companies' cultural factors are known to be one of the challenges in international accounting standards' convergence. Tucker Sharif (2010) states that when government policy is hostile to the foreign and global principles, the adoption of IFRS may be impossible suggesting that the government should support the adoption of IFRS. Al- Shammari (2008), states that the rapid growth and opening up of capital markets has led governments to adopt IFRS, in the expectation that adoption would meet demands by local and international investors for more detailed and

comparable financial reporting. Iyoha & Jimoh (2011) argued that the education and training of accountants have strong implications for IFRS adoption. Chamisa (2000) for example found that professional bodies have played a significant role in supporting the adoption of IFRS in developing countries. Aljifri & Khasharmeh, (2006) in the study of United Arab Emirates accounting practice they found that company size (large- medium-small) affect the adoption of IFRS.

In addition, most of previous studies were conducted mainly by focusing on the challenges and benefits of IFRS adoption other than on the factors affecting adoption of IFRS in Ethiopian private commercial banks. The challenges and prospects of IFRS adoption vary across previous studies that have attempted to identify the issues in adopting IFRS in Ethiopia. Most of the studies examining these challenges identified lack of attention and commitment of management, poor contribution of education and training, lack of supports from accountancy professional bodies, weak enforcement of regulatory body, high cost of implementation, Complexity of IFRS, lack of Implementation guidance and uniform interpretation, lack of knowledge to practically apply the standard, lack of compatible technology which can embed accounting information with the requirement of IFRS, weak corporate governance, inadequacy of transition period, improper planning, and non- availability of transparent market information (problem of data asymmetry) as the factors inhibiting IFRS adoption. However, there are other factors that could challenge the implementation of IFRS such as asset valuation and conservatism (employee resistance). Furthermore, it is evident that previous researchers have identified different challenges. But, here in this study, the researchers aimed at investigating the challenges in different perspectives collectively to see whether Ethiopian private commercial banks facing it or not.

1.2. Research Questions

This assessment is an attempt to answer primarily the following research question to realize the intended objectives of the study and to address the research problem appropriately. The following specific research questions are developed to address and assess the broader research objectives:

1. What are the practical benefits of adopting IFRS in Ethiopian private commercial banks?

2. What are the problems faced by Ethiopian private commercial banks in the process of adopting IFRS?
3. What are the underlying factors (i.e., Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) that could affect the level of adoption of IFRS? .

1.3. Objectives of the Study

This study is designed to achieve the following objectives.

1.3.1. General Objective

The general objective of the study was to examine factors that determine the adoption of IFRS among private commercial banks in Ethiopia.

1.3.2. Specific Objectives

The specific objectives of the study are:

1. To identify the key benefits of adopting IFRS in Ethiopian Private Commercial Banks.
2. To identify the challenges to adopt IFRS by Ethiopian Private Commercial Banks.
3. To investigate the factors affecting adoption of International Financial Reporting Standards in Ethiopian Private Commercial Banks.

III. RESEARCH METHODOLOGY

3.1 Research Design

A research design is the overall plan for relating the conceptual research problem to relevant and practicable empirical research. In other words, the research design provides a plan or framework for data collection and its analysis. This study employed a descriptive research and explanatory research design. It was descriptive for it aims its result of data analysis the description of the challenges and prospects of IFRS adoption in Ethiopian Private Commercial Banks. The descriptive research involves gathering data and systematically treating it to present a comprehensive and intelligible inference (Orodho& Kombo, 2002). Explanatory research type was used in this research because the study identifies the cause and effect of independent variables on private commercial banks' IFRS adoption. The methodology to conduct this study was based on the general and specific objectives of the paper. Specifically, regression analysis was used to measure the effect of determinants factors on the dependent variable.

3.2. Research Approaches

This study analyzed factors affecting the adoption of IFRS by private commercial banks in Ethiopia. This requires quantitative approach. But this study also adopted a qualitative explanation regarding key benefits and challenges of adopting IFRS. According to Kothari (2004), mixed approach is the appropriate method for such kind of studies. Therefore, this study employed simultaneous mixed method that comprises both the qualitative and quantitative approaches to assess the factors affecting IFRS, challenges and prospects of adopting International Financial Reporting Standards for private commercial banks in Ethiopia

3.3. Target Population

Target population in statistics is the specific population about which information is desired. According to Denscombe (2008), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. According to NBE (2015/16) report, the number of banks declined to 18 from 19 due to the merger of Construction & Business Bank with Commercial Bank of Ethiopia. Of the 18 banks 16 were private such as; Dashen Bank S.C (DB), Awash Bank S.C (AB), Wegagen Bank S.C (WGB), United Bank S.C (UB), Nib International Bank S.C (NIB), Bank of Abyssinia S.C (BOA), Lion International Bank S.C (LIB), Cooperative Bank of Oromia S.C (CBO), Berehan International Bank S.C (BRIB), Buna International Bank S.C (BIB), Oromia International Bank S.C (OIB), Zemen Bank S.C (ZB), Addis International Bank S.C (ADIB), Abay Bank S.C (ABB), Enat Bank S.C (EB) and Debub Global Bank S.C (DGB). All private commercial banks were target population of the study.

3.4. Sampling Size and Sampling Technique

Since targeted population is small in size, the researcher used a census method and took the whole population. Based on this, the study was conducted on 16 private commercial banks which is the total population of the study. And also, by adopting a census method three employees who have related tasks with IFRS from head office branch (including the general manager, the finance head, chief accountant and the internal auditor) were selected from each bank believing that these employees have direct

involvement in the adoption process of IFRS to ask their perception about the challenges, prospects and factors affecting adoption of IFRS to their banks. Furthermore, the study conducted an interview with concerned members of regulatory & enforcement bodies and other professionals of IFRS to incorporate their view through in depth conversation in strengthening the information that were gathered through questionnaires. Therefore, a total of 112 individuals were selected as target respondents.

3.5. Types and Sources of Data

3.5.1. Data Type

This study used both primary and secondary data. Primary sources of data include interview and questionnaire, whereas secondary sources data were generated through a review of relevant documents.

3.5.2. Sources of Data

Both primary data and secondary sources were utilized during gathering of data in the study.

Primary Data

Primary data like the management decision ability, attitude of the management towards IFRS, commitment of the leadership in this regard and practices in the factors affecting, challenges and prospects of adopting IFRS were obtained from the executive managements and managers, chief accountants, auditors and fiancé heads of each band as well as employees whom they have direct involvement in the adoption process of IFRS.

Secondary Sources

The secondary sources were obtained from the shelves of the organization that include audited financial reports and rules and procedures developed for adoption of IFRS, articles, magazines and other related materials from different published and unpublished research papers, books and websites on the adoption, challenges and prospects of IFRS.

3.6. Data Collection Method and Instrument

This study used both primary and secondary data. Primary sources of data include interview and questionnaire, whereas secondary data were generated through a review of relevant documents.

3.6.1. Questionnaire

Self-administered questionnaires containing three sections: the demographic part, open ended questions and closed ended questions were distributed to general managers, finance heads, chief accountant and internal

auditors and three employees in the samples who are deemed to be knowledgeable about IFRS because of their involvement in the adoption process and could provide important perspective on the challenges, prospects and factors affecting adoption of IFRS in Ethiopian Private Commercial Banks. The response is expected to help understand the challenges, prospect and factors influencing IFRS adoption in the banking sector. The research evidence was gathered by using both close-ended and open-ended questionnaires as mixed questionnaires are more flexible than employing single approach (McNabb, 2005).

These closed ended questions are intended to measure the respondents' attitude towards the challenges, prospects and factors affecting IFRS adoption and to assess their perception about this global standard. These were composed of Likert scale item questions. For close ended questions, the respondents were asked to indicate their levels of agreement on a five-point Likert scale ranging from 1(Strongly Disagree) to 5(Strongly Agree). The five-point scale indicating the degree of agreement on the questions were calculated and interpreted by using the following formula.

Interval

$$= \frac{\text{The Highest Score} - \text{The Lowest Score}}{\text{Number of Interval}}$$

$$\text{Interval} = \frac{5 - 1}{5} = 0.8$$

The average score (mean) obtained from each item was interpreted into degree of agreement. A mean (M) score between 4.21-5.00 means the respondents strongly agreed (SA), 3.41- 4.20 means they agreed, 2.61-3.40 means the respondents are neutral, between 1.81-2.60 means they disagreed and a mean between 1-1.80 means the respondents strongly disagreed (Marenesh, 2018).

3.6.2. Interview

Semi structured interview with concerned members of regulatory & enforcement bodies and other professionals of IFRS was conducted to seek their perception about the challenges, prospects and factors influencing IFRS adoption to substantiate data that were collected through questionnaires. It allowed the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry aroused at the study progresses. Questions in the interview checklist were constructed based on the review of literature.

3.7. Data Analysis

As explained in the preceding part, the research is designed to follow a mixed method. To this end, both qualitative and quantitative analyses were used. Data collected using questionnaire was analyzed through descriptive statistics, frequency distribution, correlation and multiple linear Regression using Statistical Package for the Social Scientists (SPSS 21). It helps to describe what the data look like, where their center (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leedy, 1989). The SPSS was used to find out percentages, mean values, frequencies, correlations, etc. as main means for summarizing the data.

Unlike the quantitative analysis, no statistical approaches were used to collect and analyze qualitative data. There are a variety of approaches to collecting this type of data and interpreting it. Some of the most used methods are:

Content Analysis: It is used to analyze verbal or behavioral data. This data can consist of documents or communication artifacts like texts in various formats, pictures or audios/videos.

Narrative Analysis: This one is the most used as it involves analyzing data that comes from a variety of sources including field notes, surveys, diaries, interviews and other written forms. It involves reformulating the stories given by people based on their experiences and in different contexts.

Grounded Theory: This method involves the development of causal explanations of a single phenomenon from the study of one or more cases. If further cases are studied, then the explanations are altered until the researchers arrive at a statement that fits all the cases.

There are more methods of Qualitative Analysis like Conversation Analysis and Discourse Analysis, but the above-mentioned ones are the most common methods. In analyzing the qualitative data from interviews, the study used narrative approaches.

IV. DATA ANALYSIS AND DISCUSSIONS

This section presents the data analysis, the research findings or results, and based on the results the

researcher gives discussion on the findings and also gives interpretation of the results. In order to present findings and discussions about the challenges, prospects and factors affecting adoption of IFRS in private commercial banks. The results of the study are discussed by triangulating the different source results; questionnaire results, interview and document review results. The data analysis intends to accomplish the objectives of the study and answer the research questions.

4.1. Response Rate

The total number of questionnaires distributed to the purposively three employees who have related tasks with IFRS from head office branch (including the general manager, the finance head, chief accountant and the internal auditor) of each private commercial bank in order to collect data about the challenges, prospects and factors affecting adoption of IFRS were 112. Of the total questionnaires distributed only 108 responses were collected with the response rate of 96.43%.

4.2. Demographic Characteristics of Respondents

Based on the information given in table 4.1. below, of the total respondents Bachelor's degree and Master Degree holders counts large number of respondents, even though Bachelor's degree holders are higher in number than those Master Degree holders which covers 57.41% & 40.74% respectively. And PhD holders were few in number which counts 1.85%. As it is shown in table 2 the minimum level of education of all respondents was Bachelor's degree.

When we come to work experience of the respondents, the higher number of respondents lied between 11-16 years, which counts 48.15% of all respondents. And the work experience between 5-10 and 17-20 counts the next large proportion of the respondents which covers 29.63% and 20.37% respectively. The rest few respondents have work experience of above 20 years and scored 1.85% of all the respondents. Based on this, by considering the level of education and work experience of all respondents they are knowledgeable and experienced enough to give reliable information on the challenges, prospects and factors affecting IFRS adoption in private commercial banks.

Table 4.1: Demographic characteristics of respondents

Variable	Category	Frequency	Percentage
Gender	Male	79	73.15%
	Female	29	26.85%
	Total	108	100%
Level of education	Certificate	0	0%
	Diploma	0	0%
	Bachelor Degree	62	57.41%
	Master Degree	44	40.74%
	PhD	2	1.85%
	Total	108	100%
Work experience	Less than 5 years	0	0%
	5-10 years	32	29.63%
	11-16 years	52	48.15%
	17-20 years	22	20.37%
	Above 20 years	2	1.85%
	Total	108	100%
Current position	Internal Auditor	16	14.81%
	Chief Accountant	16	14.81%
	Finance head	16	14.81%
	General manager	14	12.96%
	Experts	46	42.59%
	Total	108	100%

Source: Survey data 2026& SPSS Result

4.3. Prospects of IFRS adoption

In analyzing the prospects, challenges and factors affecting adoption of IFRS in the banking sector, the researcher used related questionnaires. This data, which is related to the prospects of IFRS adoption in this sector; attraction of foreign direct investment and financial support, bridging the communication gap with stakeholders and uniformity of accounting language will be presented and discussed separately according to the overall mean responses. Accordingly, the overall mean (M) score between 4.21-5.00 is considered as the respondents strongly agreed (SA), if the respondents score between 3.41-4.20 means they agreed (A), the score between 2.61-3.40 is considered

as the respondents are neutral(N), the respondents score between 1.81-2.60 shows that they disagreed and if the respondents score between 1-1.80 shows that they strongly disagreed (Marenesh, 2018).

4.3.1. Attraction of Foreign Direct Investment & Financial Support

To assess whether the adoption of IFRS attracts more foreign direct investment & financial support, the study used seven questions and the overall mean responses was 3.64. As it falls in the scale between 3.41-4.20, the respondents agreed that the adoption of IFRS will attract foreign direct investment & financial support.

Table 4.2: Descriptive statistics attraction of FDI & financial support

Description	N	Mean	Sta. Dev
Adoption of IFRS attracts investment & financial support	108	3.5316	0.54568
Adoption of IFRS improves access to international market	108	3.6311	0.52595
Adoption of IFRS improves credibility of financial statements	108	3.7123	0.55114

IFRS adoption result in reduced cost of capital	108	3.7126	0.50822
IFRS provides better information for investors in decision making	108	3.7211	0.54821
IFRS promotes cross border investment	108	3.5547	0.65035
Overall Mean and Standard Deviation	108	3.643	0.554

Source: Survey data 2026& SPSS Result

Based on the information given in table 4.2, respondents indicated that Adoption of IFRS attracts investment & financial support. This is indicated by the mean value of 3.53 indicating that respondents agree that Adoption of IFRS attracts investment & financial support. Standard deviation for this description is 0.54 suggesting that there is less variability in respondents' perception regarding to the attraction of investment and financial support by adopting IFRS. Another prospect of IFRS assessed by the study is improvement of access to international market by adopting IFRS. The respondents indicated that adoption of IFRS improves access to international market with mean score of 3.63. The respondents also agreed that, the adoption of IFRS will improve credibility of financial statements with mean score of 3.71. In addition to that according to their response adoption of IFRS in this sector will provide better information for their decision and in result it promotes cross border investments mean score of 3.72 and 3.55. The overall standard deviation of this variable was 0.54. As it is less than one, it indicates that there is less variability in respondents' perception regarding to the attraction of foreign direct investment by adopting IFRS.

This result is consistent with the results of the study conducted by Okpala (2012); Abel (2011); Demaki(2013);and Irvane& Lucas (2006). Based on this it can be generalized that, adopting IFRS will help attracting foreign direct investment. Therefore, the banking sector will be able to prepare financial statements in line with this international standard. In result this reliable and credible financial statements which is the main factor to attract foreign direct investment, will make the country's risk profile known and predictable, because foreign direct investment is more attracted in a situation where there is high probability of gain than risks. This adoption of IFRS directly increases the Ethiopian foreign direct investment and in effect it improves the economic development of the country. Because of this, it will be easy to make well-informed, useful and meaningful comparison of investment portfolio in Ethiopia by international investor.

4.3.2. IFRS Bridges the Communication Gap with Stakeholders

Five questions were asked to examine whether the adoption of IFRS bridges the communication gap with stakeholders in banking sector of Ethiopia.

Table 4.3: Descriptive statistics on bridging the communication gap with stakeholders

Description	N	Mean	Sta. Dev.
Adoption of IFRS provides financial reporting transparency	108	3.4211	0.65722
IFRS based financial statement is better understandable by stakeholders	108	3.6677	0.63123
IFRS provides full & detail disclosure than the previous standard	108	3.4757	0.77559
Adoption of IFRS reduces agency problem	108	3.6212	0.72472
Adoption of IFRS reduces communication barriers with stakeholders	108	3.7525	0.68729
Overall Mean and standard deviation	108	3.587	0.695

Source: Survey data 2026& SPSS Result

Based on the information in table 4.3, adopting IFRS in the banking sector will provide transparent and understandable financial reporting with stakeholders through accessing full and detail disclosures of financial statements as the overall mean of this variable (3.58) falls in the scale 3.41-4.20 and this

indicates that the respondents agreed that adopting IFRS in this sector will bridge the communication gap with stakeholders. The respondents also agreed that adoption of IFRS will help in reducing the agency problems and avoid the communication barriers with stakeholders with a mean score of 3.62 and 3.75

respectively. Similarly, the interview result also strengthens this result as adoption of IFRS will solve the communication gap with stakeholders because it will provide transparent and understandable financial statements by stakeholders which will help avoiding information asymmetry and reducing different communication barriers the overall standard deviation was also 0.695 as it is less than one implied that the respondents' attitude towards adoption of IFRS will reduce the communication gap. This result is in line with the findings of (Okpala, 2012; Armstrong et al.,

2007; and Covrig, Defond& Hung, 2007). For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world and can use a single set of standards in preparing financial statements for all companies in different jurisdictions.

4.3.3. Adoption of IFRS Provides Uniformity of Accounting Languages

Six questions were asked to assess whether the adoption of IFRS in banking sector will provide uniformity of accounting language.

Table 4.4: Descriptive statistics on uniformity of accounting language

Description	N	Mean	Sta. Dev.
IFRS avoids confusion resulting from using different reporting standards	108	3.6315	0.61802
IFRS improves understandability of financial statements	108	3.7314	0.68931
Adoption of IFRS could help to prepare single set of financial statements to d/t types of users	108	3.8542	0.71055
MNCs need not prepare financial statements in d/t languages	108	3.6287	0.71223
Accounting professionals can be employed everywhere in the world	108	3.7768	0.61421
Decreases confusing terminologies of business languages	108	3.6443	0.63241
Overall Mean and standard deviation	108	3.711	0.662

Source: Survey data 2026& SPSS Result

As indicated in table 4.4 above, the overall mean of respondents is 3.71. This indicates that the respondents agreed as adoption of IFRS in this sector helps to achieve uniformity of accounting language as it falls in the scale 3.41-4.20. Respondents of this variable also replied that the adoption of IFRS in the banking sector will help to avoid the confusion of different users created because of using different reporting standards with a mean score of 3.63. The respondents agreed that, due to the fact that accounting languages become uniform, that understandability of financial statements revealed by commercial banks is improved with a mean score of 3.73. In addition, the respondents have agreed that multinational companies will not be required to prepare their financial statements in different languages, the adoption of IFRS will decrease confusing terminologies of business languages and it enables them to prepare a single set of financial statement to different types of users with a mean score of 3.62, 3.64 and 3.85 respectively. In effect accounting professionals can be employed

everywhere in the world.

The overall standard deviation of respondents regarding IFRS adoption will lead to uniformity of accounting language is 0.662 which is less than one and implies the respondent's perception towards adoption of IFRS will lead to uniformity of accounting language. The result of the study is consistent with the findings of Omimi-Ejooor(2016) and Abel (2011). Thus, we can say that IFRS adoption eliminates the unnecessarily complex and multiple reporting accounting languages.

4.3.4. Comparability and Transparency

To assess whether the adoption of IFRS enhances comparability and transparency in financial reporting, six questions were asked. The overall mean response was 3.73. Since it falls in the scale between 3.41-4.20, the respondents agreed that the adoption of IFRS in the banking sector will enhance comparability and transparency of financial reporting.

Table 4.5: Descriptive statistics on Comparability and Transparency

Description	N	Mean	Sta. Dev.
Financial statements based on IFRS are reliable and comparable	108	3.8214	0.71301
Adoption of IFRS improves effectiveness and efficiency of financial reporting	108	3.6215	0.57432
IFRS makes external financing easier	108	3.7735	0.81031
Adoption of IFRS enhance transparency of companies through better reporting	108	3.7212	0.61324
It enables greater effectiveness of the internal audit	108	3.7759	0.70223
It provides better reporting and information on new and different aspects of the business	108	3.7115	0.64261
Overall Mean and standard deviation	108	3.737	0.675

Source: Survey data 2026& SPSS Result

In relation to the assertion that IFRS result in improved efficiency and effectiveness of financial reporting, many respondents (with mean response of 3.62) believe that adoption of IFRS improves the efficiency and effectiveness of financial reporting. The respondents agreed with the proposition that financial statements prepared based on IFRS are more reliable and comparable. Similarly, the interview result reveals that since similar economic transactions are accounted for similarly by eliminating different methods of accounting for the same transactions, adoption of IFRS leads to improved comparability and reliability of financial statements. Respondents who do not agree that IFRS increase comparativeness of the financial statements may be influenced by the widely acknowledged tendency of IFRS to sanction multiple alternative treatments (Bowrin, 2007).

Almost all of the respondents believe that the financial statements would become more transparent as a result of the adoption of IFRS while most believed that the adoption of IFRS would make external financing easier (with mean response of 3.77). The adoption of IFRS would also enable greater effectiveness of the internal audit (with mean response of 3.77). Many of the respondents believe that IFRS should have been implemented earlier in Ethiopia due to the greater transparency and the better provision of information that IFRS supply in a globalized environment. In relation to transparency of financial statements the interview result reveals that the increased transparency promised by IFRS could substantially reduce the agency problem between management and

shareholders through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders. It could also cause a similar increase in the efficiency of contracting between borrowers and lenders. This finding was consistent with Jermakowicz (2004) and (Apostolos et al., 2010).

The overall standard deviation of respondents regarding IFRS adoption will enhance comparability and transparency of financial statements is 0.67 which is less than one and implies the respondent's perception towards adoption of IFRS is unanimous that it enhances comparability and transparency of financial statements. ^[1]_{SEP}The result of the study is consistent with the findings of Ramesha (2016) and Ashok (2014). Thus, adoption of IFRS in the banking sector will significantly change the contents of financial statements as a result of this more refined measurement of performance and state of affairs, and enhanced disclosures leads to greater comparability and transparency.

4.4. Challenges of Adopting IFRS in the Banking Sector of Ethiopia

In this section practical challenges of IFRS adoption by private commercial banks in Ethiopia are discussed based on the responses of IFRS project implementation team.

4.4.1. Cost of Adoption

The study used five questions to examine the respondent's level of agreement on the challenge of cost of adoption IFRS in the banking sector.

Table 4.6: Descriptive statistics on cost of adoption of IFRS

Description	N	Mean	Sta. Dev.
Cost of adoption of IFRS challenges its successful conversion	108	3.7430	0.67215
Adoption of IFRS is costly	108	3.7643	0.71134
Companies hesitate to adopt IFRS because of its cost	108	3.8213	0.64215
Increases costs of preparing financial statements	108	3.7942	0.75723
The required resource to adopt IFRS is not available	108	3.7301	0.70321
Cost of adoption of IFRS challenges its successful conversion	108	3.4125	0.64261
Overall Mean and standard deviation	108	3.770	0.697

Source: Survey data 2026& SPSS Result

As indicated in table 4.6, the overall mean of respondents for this issue is 3.77 which falls in the scale 3.41-4.20 and indicates that the respondents agreed as cost of IFRS adoption is a challenge. Shifting to IFRS will lead to different costs like the cost of training personnel to understand the new standard, cost of acquiring new accounting packages, cost of discarding former accounting packages which will not fit with the IFRS are the costs which will be challenges of adopting IFRS. Therefore, the respondents perceived that the cost required to adopt IFRS will put its negative impact on successfully complying with this new globally accepted standard. The overall standard deviation of this data on

challenge of IFRS adoption conversion cost is 0.69 which is less than one and indicates that the respondent’s perception on this issue is not varied. The study result is consistent with the findings of Udofia & Ikpantan (2015) and Teferi&Pasricha (2016). Based on this the respondents perceived that conversion cost of IFRS is the main challenge of adopting it in the banking sector of Ethiopia.

4.4.2. Availability of Competent Specialists

To analyze the respondent’s perception on the challenge availability of competent specialists to adopt IFRS in the banking sector the researcher used six related questionnaires.

Table 4.7: Descriptive statistics on Availability of Competent Specialists for IFRS adoption

Description	N	Mean	Sta. Dev.
Lack of training facilities and academic course on IFRS will also pose challenge in the implementation process.	108	3.8117	0.71703
Implementation of IFRS requires high level of education, competency and expertise to be able to understand, interpret and the make use of the standards	108	3.9113	0.73125
- Lack of the required Staff knowledge and experiences [SEP]	108	3.8472	0.84361
- Adoption of IFRS in the banking sector Increases staff training needs [SEP]	108	3.9146	0.76921
The existence of institution that facilitate & provide training on IFRS and also certified members of professional body shall facilitate the practice of international standards.	108	3.6422	0.78113
Requires employees to take adequate training.	108	3.9871	0.59432
Overall Mean and standard deviation	108	3.852	0.73

Source: Survey data 2026& SPSS Result

As indicated in table 4.7 above, the overall mean of respondents for this issue is 3.85 which fall in the scale 3.41-4.20 and reveals that the respondents agreed as availability of competent specialist is a challenge for

IFRS adoption. Respondents have agreed that, adoption of IFRS will be challenging because of inadequacy of training materials and academic courses related to IFRS adoption with mean score of 3.81.

Respondents also agreed that implementation of IFRS requires high level of education, competency and expertise to be able to understand, interpret and the make use of the standards in the banking sector of Ethiopia. In addition, respondents feel that lack of required staff knowledge and experience for IFRS adoption increases staff training needs so that employees need to take adequate training with mean score of 3.84, 3.91 and 3.98 respectively. Furthermore, respondents agreed that institutions and professional bodies should facilitate and provide trainings to successfully adopt and practice international standards with mean score of 3.64.

The overall standard deviation of respondents regarding to the availability of competent specialists required to adopt IFRS is 0.73 which is less than one and indicates that the respondents' perception whether availability of competent specialists is a challenge of adoption of IFRS in the banking sector is unanimous. The finding of this study is supported by the conclusions forwarded by Iyoha & Jimoh (2011),

Sharif (2010), and Wong, (2004). According to Iyoha & Jimoh (2011) the education and training of accountants have strong implications for IFRS adoption. They also concluded that education and training are important for the successful adoption of IFRS. This finding is also in line with the result of Armstrong et al. (2007) and Soderstrom& Sun (2007) Similarly the interview result also revealed that, unless training and education on IFRS is given broadly provided and get more concern, it will be the main challenge of not only in the adoption but also the same will happen in its implementation in the banking sector of Ethiopia.

4.4.3. Conservatism

Under this description, to analyze the respondents' level of agreement on the employees and business partners' resistances to change to adopt IFRS in the banking sector of Ethiopia, the study used seven related questionnaires which deemed to assess their perception that whether employees' resistances to change in the banking sector is a challenge.

Table 4.8: Descriptive statistics on Conservatism to adopt IFRS in Banking Sector

Description	N	Mean	Sta. Dev.
IFRS is negatively perceived by employees	108	3.6271	0.71882
Employees do not need to shift & confront the new standard	108	3.7343	0.68130
Updating oneself to the new standard requires conducive environment	108	3.8461	0.66521
Employees do not perceive the benefit of IFRS	108	3.7185	0.69282
There is employees threatening & unhelpful perception of the change	108	3.6953	0.73432
Negative reactions of main business partners	108	3.5348	0.88432
Conflict of interest between management and stakeholders	108	3.6834	0.68542
Overall Mean and Standard Deviation	108	3.691	0.723

Source: Survey data 2026 & SPSS Result

As indicated in table 4.8 above, the overall mean of respondents for this variable is 3.69 which falls in the scale 3.41-4.20 and indicates that the respondents agreed employees' resistance and business partners' negative reaction is a challenge for successful IFRS adoption in the banking sector. Respondents also agreed that, employees do not have positive perception regarding to the new internationally accepted standard IFRS because they perceived that this new standard will require them to exert additional effort and changing the local standard, they mastered to the new that they do not know well is challenging with mean score of 3.73. Therefore, much of the respondents have agreed that absence of conducive environment to adapt

experience the new standard makes them to resist changing and overlook the benefits of IFRS adoption in the banking sector with mean score of 3.84 and 3.71 respectively. Respondents also perceive that employees feel threaten of making mistakes and unhelpful if they adopt the new standard and practice it with mean score of 3.69. Furthermore, respondents also agreed that negative reaction of business partners and conflict of interest between management and stakeholders are perceived challenges to adopt IFRS with mean score of 3.53. and 3.68 respectively.

The overall standard deviation of respondents regarding to conservatism is 0.72 which is less than one and implies that the respondents' perception

whether employees' resistance business partners' reaction to change is a challenge for adoption of IFRS in the banking sector is unanimous. This study result is consistent with the findings of Pasricha (2016) and Bareil (2013). This reveals the implementation of the international accounting standards will present the resistance phenomenon, as technological changes are

needed, as well as training, communication and peoples' commitment.

4.4.4. Asset Valuation

To analyze the respondents' level of agreement whether Asset valuation is a challenge to adopt IFRS in the banking sector of Ethiopia, the study used six related questionnaires.

Table 4.9: Descriptive statistics on Asset valuation to adopt IFRS in the banking sector

Description	N	Mean	Sta. Dev.
The required documents to re-valuate assets are not available	108	3.7826	0.55231
The fair value measurement can bring a lot of volatility and subjectivity in financial statements	108	3.7375	0.68312
Difficult to access fair value for all assets	108	4.1063	0.67439
Observable market transaction or market information is not available	108	3.8142	0.59306
Measuring non-financial assets is difficult	108	3.8917	0.57241
Complying with IFRS standards requires a number of significant changes in the way that finance departments collect, classify and present financial data.	108	3.7376	0.64315
Overall Mean and standard deviation	108	3.844	0.619

Source: Survey data 2026& SPSS Result

As it can be seen from table 4.9 above, the overall mean of respondents for this variable is 3.84 which falls in the scale 3.41-4.20 and indicates that the respondents agreed that asset valuation is a challenge for successful adoption of IFRS in the banking sector. Most of the respondents (mean response of 3.73) believe that the adoption of IFRS which uses fair-value financial reporting approach introduce significant volatility in the balance sheet and, more importantly, in earnings. The interview result suggests that volatility of earnings is considered to be among the most important challenges of implementing IFRS. Company management will have to learn how to deal with volatility in reported performance. This is also supported by the results of the 2004 survey carried out by Jermakowicz, according to which adoption IFRS brings about increased volatility of earnings. Another challenge of adopting IFRS can arise due to its emphasis on fair value accounting. Most of the survey respondents believe that the new improvement of IFRS which is the use of fair value accounting instead of historical cost is another challenge in adopting the international standard with a mean score of 4.10. Similarly, the interview result reveals that

since the fair value accounting incorporates more information into the financial statements than historical costs it is a major challenge for developing countries particularly Ethiopia. Since some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices that cannot be materially influenced by managers due to less perfect market liquidity, IFRS's use of this accounting method can be considered as a challenge. As particularly listed in Ball et al. (2006), IFRSs are instilled into fair value accounting. The other difficulty they agreed is collecting, classifying and presenting financial data by finance departments to comply with IFRS standards with mean score of 3.73.

The overall standard deviation of respondents regarding to the challenge of asset valuation to adopt IFRS is 0.61 which is less than one and indicates that the respondents' perception whether asset valuation is a challenge for adoption of IFRS in the banking sector is unanimous. The study result is in line with MuktiBapna (2017).

4.4.5. Professional Bodies

To examine the respondents’ level of agreement on whether the availability of professional bodies is a

challenge to adopt IFRS in the banking sector of Ethiopia, the study used five related questionnaires.

Table 4.10: Descriptive statistics on professional bodies to adopt IFRS in the banking sector

Description	N	Mean	Sta. Dev.
For successful implementation of IFRS the support of professional bodies is very great.	108	3.7634	0.76351
The adoption and implementation of IFRS in a country with having limited professional bodies is very challenging.	108	3.7745	0.72037
The existence of strong professional bodies plays important roles in implementation of IFRS.	108	3.8214	0.71518
The engagement & consultation of professional bodies facilitate implementation of IFRS.	108	3.7035	0.60234
The existence of strong professional bodies enables members to provide and practice good international standard and provide expected quality assurance.	108	3.6730	0.77502
Overall Mean and standard deviation	108	3.747	0.715

Source: Survey data 2026 & SPSS Result

As indicated in table 4.10 above, the overall mean of respondents for this variable is 3.74 which falls in the scale 3.41-4.20 and shows that the respondents agreed the availability of professional bodies in the country is a challenge to adopt IFRS in the banking sector. Respondents have agreed that the role of professional bodies to successfully adopt and implement IFRS is crucial but it is very challenging to do that with limited professional bodies in the country with mean score of 3.76 and 3.77 respectively. Most of the respondents have also agreed that the existence of strong professional bodies in the country play important role and their engagement and consultation of these professional bodies will facilitate the adoption and implementation of IFRS with mean score of 3.82 and 3.70 respectively. Furthermore, respondents also agreed that that professional bodies also will help to provide and practice good international standard and provide expected quality assurance with mean score of 3.67.

The overall standard deviation of respondents regarding to the challenge availability of professional bodies to adopt IFRS is 0.71 which is less than one and implies that the respondents’ perception whether the availability of professional bodies in the country is a challenge for adoption of IFRS in the banking sector is unanimous. Consistent with the result of this study Mir & Rahman (2005); Aljifri & Khasharmeh, (2006);

and Chamisa (2000) found similar result. Chamisa (2000) for example found that professional bodies have played a significant role in supporting the adoption of IFRS in developing countries particularly in Zimbabwe. This finding is also consistent with the findings of Laga, 2012; Masoud, 2014; and Mohamed (2014). To this end, UNCTAD (2008) also concluded that African countries are affected by challenges of adopting and implementing IFRS such as the gap between education and the requirements of IFRS, the lack of training and inability of accountants and professional bodies to remain shoulder to shoulder of the standards issued by IASB.

4.5. Factors Affecting the Adoption of IFRS

Finally, the factors that could explain the adoption of IFRS by Ethiopian commercial banks have been examined by estimating linear regression model and using Pearson correlation analysis. In this section, one dependent variable against seven independent variables was investigated. The dependent variable is the adoption of IFRS, while the independent variables are Leadership & Commitment, Government Policy, Professional Bodies, Company Size, Capital Market, Educational Level and other factors. The subsequent sections will present the results of the Pearson correlation analysis and regression model respectively.

4.5.1. Pearson Correlation Analysis

In statistics, the Pearson correlation analysis is a measure of the correlation (linear dependence) between two variables, giving a value between +1 and -1 inclusive. It is widely used in the sciences as a measure of the strength of linear dependence between two variables. The p-value, in Pearson Correlation analysis, attempts to provide a measure of the strength of results of a test, in contrast to a simple reject or do not reject decision.

In Pearson correlation analysis the value of strength of relationship (r) plays an important role in determining

the level of relationships among variables. The significance level, $p < 0.05$ is also used to establish the relationship. This significance level shows that there is only 5 percent chance that the relationship does not exist, and 95 times out of 100 times the relationship among variables can be defined as having significant correlation. The table below shows the results of the Pearson correlation analysis among the variables, testing of the hypotheses and interpretation of the Pearson correlation results will be presented in a separate section with the results of the regression analysis.

Table 4.11. Pearson correlation

	IFRS	GP	CS	EL	CM	PB	LC	OF
IFRS Correlation Sig. (2-tailed) N _{SEP} ^[1]	1 108							
GP Correlation Sig. (2-tailed) N _{SEP} ^[1]	.176 .091 108	1 108						
CS Correlation Sig. (2-tailed) N _{SEP} ^[1]	.369** .001 108	.282* .014 108	1 108					
EL Correlation Sig. (2-tailed) N _{SEP} ^[1]	.569** .000 108	.385** .001 108	.339** .003 108	1 108				
CM Correlation Sig. (2-tailed) N _{SEP} ^[1]	.237* .040 108	.149 .202 108	-.147 .208 108	.256* .027 108	1 108			
PB Correlation Sig. (2-tailed) N _{SEP} ^[1]	.419** .000 108	.396** .001 108	.197 .104 108	.420** .000 108	-.191 .116 108	1 108		
LC Correlation Sig. (2-tailed) N _{SEP} ^[1]	.587** .000 108	.335** .000 108	.244** .006 108	.305** .001 108	.467** .000 108	.362* .041 108	1 108	
OF Correlation Sig. (2-tailed) N _{SEP} ^[1]	.485** .000 108	.316** .000 108	.163 .067 108	.332** .000 108	.208* .019 108	.298** .001 108	.402** .000 108	1 108

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

As shown in the above table, of the total of seven explanatory variables tested in this study, there is a significant correlation between six of the independent variables (company size, education level, capital market, professional bodies, leadership & commitment and other factors) and the dependent variable i.e. adoption of IFRS by Ethiopian commercial banks. The correlation between government policy and adoption of IFRS has a very weak value. Based on the results in table 4.11 there are positive relationships between IFRS adoption and most of the independent variables, these shows that most of the hypotheses are supported.

4.5.2. Inferential Statistics

Multivariate regression was used to establish the

correlation between the independent variables and the dependent variable. The analysis applied the Statistical Package for Social Sciences (SPSS) version 21.0 to compute the measurements of the multiple regressions for the study. The goal of this analysis is to know the level to which IFRS adoption is affected by government policy, company size, capital market, professional bodies, educational levels, leadership & commitment and other factors using R² value, beta coefficient and P- value for the significant of the relation.

3.7.1.1. Model Summary

The overall results of the subject study are as shown in Table 4.12.

Table 4.12: Model Summary

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.683 ^a	.467	.425	.34304
a. Predictors: (Constant), PB, CM, CS, GP, EL, LC, OF				
b. Dependent Variable: IFRS adoption				

As shown in the table above, both R² and adjusted R² measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R² is the modification for the limitation of R² the value of the adjusted R² is considered to measure the fitness of the model. Thus, as it is shown on table 4.12, the value of adjusted R² is 0.425, indicating that the independent variables in the model are explaining 42% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major

determinants of IFRS adoption.

3.7.1.2. Analysis of Variance(ANOVA)

The study further sought to establish the goodness of fit of the regression model using ANOVA statistics. According to Mugenda&Mugenda (2003), ANOVA is a statistical technique for the data analysis, which is applied in establishing whether any significant differences among two or more groups or samples at a chosen level of probability exist, or not. An explanatory variable is said to be a significant predictor of the dependent variable if the absolute t-values of the regression coefficient related with that independent variable is greater than the absolute critical t-values. The results of the study are as shown in the table below.

Table 4.13 Analysis of Variance (ANOVA)

ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.497	5	1.299	11.043	.000 ^b
	Residual	7.414	103	.118		
	Total	13.911	108			

a. Dependent Variable: IFRS adoption

b. Predictors: (Constant), PB, CM, CS, GP, EL, LC, OF

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that

indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the

dependent variable, where F-value is 11.043 with a p-value of less than 0.05 (i.e. $p < 0.000$) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable.

3.7.1.3. Coefficient of Determination

Regression co-efficient indicates the direction of the relationship between dependent and independent variables. The results of this study are as shown in Table 4.14.

Table 4.14: Regression Coefficient Analysis of the Model

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.974	.419		2.325	.022
	Government Policy	.050	.029	.604	1.167	.245
	Company Size	.117	.074	.315	4.305	.000
	Educational Level	.148	.038	.192	3.888	.000
	Capital Market	.048	.083	.414	5.412	.000
	Professional Bodies	.013	.081	.299	3.734	.000
	Leadership & Commitment	.196	.074	.187	2.643	.009
	Other Factors	.121	.071	.382	2.476	.014

a. Dependent Variable: IFRS adoption

The values of the unstandardized Beta Coefficients (β) indicate the effects of each independent variable on dependent variable. Furthermore, the values of the unstandardized Beta Coefficients in the Beta column of the Table 4.14 above, indicate which independent variable makes the strongest contribution to explain the dependent variable (IFRS adoption), when the variance explained by all other independent variables in the model is controlled.

As shown in the above table, of the total seven explanatory variables tested in this study, company size (p-value= 0.000), education level (p-value=0.000), capital market (p-value=0.000), and professional bodies (p-value=0.000), leadership & commitment (p-value=0.009), other factors (p-value=0.014), were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between government policy and adoption of IFRS with a regression coefficient of 0.050, and P-value of 0.245. The result also reveals that there is a positive relationship between all the independent variables and the adoption of IFRS.

4.5.3. Hypothesis Testing and Interpretation of the Results

The last section of the study aims to find out the factors affecting the adoption of International Financial Reporting Standards by Ethiopian commercial banks.

This particular section presents the results of the study indicated by statistics, using correlation and regression analysis. The correlation and regression between independent variables and IFRS adoption were compared against the hypotheses tested in the investigation. The results show that there is significant relationship between independent variables such as capital market, education level, professional bodies and company size, leadership & commitment, other factors and the dependent variable i.e., IFRS adoption. Even though most of the hypotheses are supported, the study found that there is a weak relationship between government policy and adoption of IFRS.

In the next section the effect of each independent variable tested under this study is discussed and analyzed based on the theoretical predictions, prior empirical studies and hypothesis formulated for this study.

3.7.1.4. Government Policy

In this study both the Pearson correlation and regression results indicate that there is insignificant relationship between government policy and adoption of IFRS. The results of the Pearson correlation indicate that the value for the correlation coefficient (r) is 0.176 and insignificant at 0.05. On the other hand, the results of the regression analysis show there is a weak relationship between government policy and IFRS

adoption, with a regression coefficient of 0.050, t-statistic of 1.1167 and P-value of 0.245. This indicates that this value is insignificant to further the relationship with adoption of IFRS. Therefore, the first hypothesis is rejected.

The result is consistent with the findings of Sharif (2010). Tucker (2002) states that when government policy is hostile to the foreign and global principles, the adoption of IFRS may be impossible, suggesting that the government should support the adoption of IFRS.

3.7.1.5. Capital Market

In this study, both the correlation and the regression result show there is a significant positive relationship between capital market and adoption of IFRS. As it is presented on table 4.11, the Pearson correlation result shows a significant correlation between capital market and IFRS adoption with correlation coefficient of $r = 0.237$ and significant at 0.05. The regression result also shows a significant relationship between capital market and IFRS adoption, with a regression coefficient of 0.048, t-statistic of 5.412 and P-value of 0.000. Thus, from the result it can be conclude that capital market influences the adoption of IFRS. This result is consistent with the hypothesis of the study.

Consistent with the result of this study a number of prior empirical evidence found significant relationship between capital market and adoption of IFRS; (Chamisa (2000), Sharif (2010) and Zeghal & Mhedhbi (2006)). In conformity with this Al-Shammari et al. (2008), states that the rapid growth and opening up of capital markets has led governments to adopt IFRS, in the expectation that adoption would meet demands by local and international investors for more detailed and comparable financial reporting.

3.7.1.6. Educational Level

As it is presented on table 4.11, there is a positive correlation between adoption of IFRS and education level with a correlation coefficient of 0.569 and significant at 0.01. The correlation between education level and adoption of IFRS by Ethiopian commercial banks has a very good value. Similarly, the regression result shows a significant positive relationship between IFRS adoption and education level, with a regression coefficient of 0.148, t-statistic of 3.888 and P-value of 0.000. This indicates that education level influences the adoption of IFRS and the result is consistent with the hypothesis of the study.

The finding of this study is supported by the

conclusions forwarded by Iyoha & Jimoh (2011); Sharif (2010); and Wong, (2004). According to Iyoha & Jimoh (2011) the education and training of accountants have strong implications for IFRS adoption. They also concluded that education and training are important for the successful adoption of IFRS.

3.7.1.7. Professional Bodies

As it is presented on table 4.11, there is a positive correlation between adoption of IFRS and professional bodies with a correlation coefficient of 0.419 and significant at 0.01. The correlation between professional bodies and adoption of IFRS by Ethiopian commercial banks has a very good value. Similarly, the regression result shows a significant positive relationship between IFRS adoption and professional bodies, with a regression coefficient of 0.013, t-statistic of 3.734 and P-value of 0.000. This indicates that professional bodies influence the adoption of IFRS and the result is consistent with the hypothesis of the study.

Both the regression and Pearson correlation analysis results show that there is significant relationship between professional bodies and IFRS adoption. Consistent with the result of this study Mir & Rahman (2005); Aljifri & Khasharmeh, (2006); and Chamisa (2000) found similar result. Chamisa (2000) for example found that professional bodies have played a significant role in supporting the adoption of IFRS in developing countries particularly in Zimbabwe.

3.7.1.8. Company Size

In this study, both the correlation and the regression result show there is a significant positive relationship between company size and adoption of IFRS. As it is presented on table 4.11, the Pearson correlation result shows a significant correlation between company size and IFRS adoption with correlation coefficient of 0.369 and significant at 0.05. The regression result also shows a significant relationship between company size and IFRS adoption, with a regression coefficient of 0.117, t-statistic of 4.305 and P-value of 0.000. Thus, from the result it can be conclude that company size influences the adoption of IFRS. This result is consistent with the hypothesis of the study.

According to the regression and Pearson correlation analysis results there is a significant relationship between company size and IFRS adoption. This result is supported by the findings of Aljifri & Khasharmeh, (2006). In the study of United Arab Emirates

accounting practice, they found that company size (large- medium-small) affects the adoption of IFRS.

3.7.1.9. Leadership and Commitment

As it is presented on table 4.11, there is a positive correlation between adoption of IFRS and leadership & commitment with a correlation coefficient of 0.587 and significant at 0.01. The correlation between leadership & commitment and adoption of IFRS by Ethiopian commercial banks has a very good value. Similarly, the regression result shows a significant positive relationship between IFRS adoption and professional bodies, with a regression coefficient of 0.196, t-statistic of 2.643 and P-value of 0.009. This indicates that leadership & commitment influence the adoption of IFRS and the result is consistent with the hypothesis of the study. Thus, leadership & commitment affect the adoption of IFRS in Commercial banks for which the better leadership and eagerness to commitment leads to implement and adopt the IFRS faster than else to apply in the financial reporting of the company.

3.7.1.10. Other Factors

As it is presented on table 4.11, there is a positive correlation between adoption of IFRS and other factors with a correlation coefficient of 0.485 and significant at 0.01. The correlation between leadership & commitment and adoption of IFRS by Ethiopian commercial banks has a very good value. Similarly, the regression result shows a significant positive relationship between IFRS adoption and professional bodies, with a regression coefficient of 0.121, t-statistic of 2.476 and P-value of 0.014. This indicates that other factors influence the adoption of IFRS and the result is consistent with the hypothesis of the study.

V. CONCLUSION AND RECOMMENDATION

5.1. Summary and Conclusion

This study examined the adoption of International Financial Reporting Standards (IFRS), its prospects, the challenges and factors affecting adoption of International Financial Reporting Standards in Ethiopia with particular reference to the banking sector. Three research questions were developed and tested in this study. The first question is to understand the prospects of adopting IFRS for commercial banks. The second question is to understand the challenges faced by the commercial banks in the process of adoption of IFRS and the third question is examining

the factors affecting adoption of IFRS by commercial banks in Ethiopia.

The study used document analysis (annual reports, legislations, directives, and other documents), interview with finance managers and audit directors and self-administered questionnaire to finance officers and accountants. Questionnaire data were analyzed using descriptive inferential statistics and data from interview and document reviews were interpreted qualitatively.

The government of Ethiopia has expressed an initiative to integrate its financial statements with international standards. Intention of the government to adopt IFRS is manifested by the recently issued draft proclamation called “Financial Report Proclamation of Ethiopia” which obliges “public interest entities” to follow IFRS in their financial reporting. However, the Financial Report Proclamation of Ethiopia is being criticized for not setting a firm deadline for the IFRS transition.

The results show that the introduction of IFRS in Ethiopia will result in a number of important benefits for a wide range of stakeholders. The benefits of effective and efficient financial reporting will accrue to companies. Since similar economic transactions are accounted for similarly by eliminating different methods of accounting for the same transactions, adoption of IFRS leads to improved comparability and reliability of financial statements.

Adoption of IFRS has also the benefit of more transparent financial statements to companies which in turn reduce the agency problem between management and shareholders as increased transparency causes managers to act more in the interests of the shareholders.

IFRS adoption will also avoid the confusion of different users created because of using different reporting standards. Accounting languages will become uniform which will improve understandability of financial statements revealed by commercial banks. In addition, multinational companies will not be required to prepare their financial statements in different languages because the adoption of IFRS will decrease confusing terminologies of business languages and it enables them to prepare a single set of financial statement. In effect accounting professionals can be employed everywhere in the world. Therefore, it is possible to conclude that, the adoption of IFRS in the banking sector of Ethiopia will

provide uniformity of accounting languages.^[1,2,3]

The main challenges in the process of adopting IFRS include significant cost of adoption of IFRS, legal requirements, availability of competent specialists, conservatism, professional bodies and asset valuation. The result of this study regarding to the adoption of IFRS in the banking sector of Ethiopia showed that cost of adopting IFRS in this sector will affect its successful adoption. Accordingly, the conversion cost to shift to IFRS is costly and companies in this sector will hesitate to adopt IFRS because of its cost. And also, it was responded that unavailability of the required resources to convert in to IFRS makes it costly.

The other challenge to the adoption of IFRS in the banking sector of Ethiopia is the training and education required for adoption of IFRS. IFRS adoption is difficult because of lack of training materials and academic courses related to IFRS adoption. To be able to understand, interpret and the make use of the standards, IFRS requires high level of education, competency and expertise which will be a challenge for adoption of IFRS in commercial banks. And it is responded that adoption of IFRS requires the institutions and professional bodies to facilitate and provide trainings to successfully adopt and practice international standards.

Similarly, the result of this study revealed that employees' resistance and business partners' reaction are challenges to the adoption of IFRS in the banking sector of Ethiopia. Employees do not have positive perception regarding to the new internationally accepted standard IFRS because they perceived that this new standard will require them to exert additional effort and changing the local standard, they already mastered to the new that they do not know well is challenging. Another key challenge to the adoption of IFRS in the banking sector of Ethiopia is asset valuation. Unavailability of required documents, accessing fair value measurement for all assets, high volatility and subjectivity in financial statements, absence of observable market transactions, and difficulty of measuring non-financial assets will make the adoption of IFRS challenging. Lastly the result of this study revealed that the availability of professional bodies is another challenge to the adoption of IFRS. Professional bodies in the country is limited which makes the strong support of these professional bodies engagement and consultation to successfully adopt

IFRS will be difficult.

Finally, this empirical study has been conducted to critically examine the factors that could influence the adoption of IFRS in Ethiopian commercial banks. The Pearson correlation and multiple linear regression analysis have been used for the study and the result reveals that variables including capital market, professional bodies, education level, company size, leadership & commitment, and other factors have significant effect on the adoption of IFRS in commercial banks. The study also found statistically insignificant relationship between government policy and adoption of IFRS in commercial banks.

5.2. Recommendation

Based on the study results, the researcher gives the following recommendations:

The study result established that the adoption of IFRS in the banking sector of Ethiopia showed that cost of adopting IFRS in this sector will affect its successful adoption. So as to reduce the conversion cost of IFRS adoption, the government and professional bodies should access trainings for large number of professionals so that these professionals can in turn address this access to other professionals to share the cost of commercial banks that they should have paid. So as to efficiently and successfully adopt IFRS, training and education should be broadly addressed and incorporated in academic courses by developing IFRS curriculum at college and university levels.

The study result indicates that employees' resistance and business partners' reaction are challenges to the adoption of IFRS in the banking sector of Ethiopia. Thus, it requires the banks to make their employees psychologically get ready and the right perception regarding to the adoption process of IFRS.

The study also revealed that asset valuation, unavailability of required documents, accessing fair value measurement for all assets, high volatility and subjectivity in financial statements, absence of observable market transactions, and difficulty of measuring non-financial assets are another key challenge to the adoption of IFRS in the banking sector of Ethiopia. Therefore, the study recommends companies to be willing to provide the required documents to value assets. And accessing observable market transaction or information as possible should be the responsibility of the sector and government.

The result of this study revealed that the availability of

professional bodies is another challenge to the adoption of IFRS. Professional bodies in the country are limited which makes the strong support of these professional bodies engagement and consultation to successfully adopt IFRS will be difficult. Therefore, the accounting and auditing board of Ethiopia should take important measures to encourage and increase limited number of professional bodies since their engagement and consultation of professional bodies play a great role to successfully adopt IFRS.

Finally, the findings reveal that there are numerous factors that impact adoption of IFRS in commercial banks. The study found statistically insignificant relationship between government policy and adoption of IFRS in Ethiopia. Based on the findings of the study, it is essential that the government should support adoption of IFRS. The government should also open training for accountants about IFRS and encourage its adoption, since adoption of IFRS could attract foreign direct investment, which in turn may lead to economic growth.

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