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The Effect of Organizational Factors on Adopting of International Financial Reporting Standards (IFRS) In Libyan Firms

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Abstract

International Financial Reporting Standards (IFRS) is a way of reporting financial results for companies. Most of previous studies were conducted in European Union (EU) and focused on macroeconomic performance of multiple countries. The purpose of this study is to examine the organizational predictors and the consequence of adopting IFRS on the organizational level in Libya. The study reviewed the literature and in particular the Technology-Organization-Environment (TOE) framework to develop the conceptual framework of this study. The study proposed that organizational factors (accounting capabilities, top management support, and organizational readiness) will affect the adoption of IFRS which in turn will affect the organizational performance of accounting companies in Libya. The population of this study is the accounting companies in Libya represented by accountants in these companies. The data was collected using a questionnaire and analyzed using SPSS and AMOS. The findings showed that the organizational factors is important construct. The accounting capabilities are the most important components in the organizational factors followed by the top management support. Organizational readiness did not affect the adoption of IFRS. Adoption of IFRS has a positive effect on organizational performance. Decision-makers are advised to conduct training to enhance the accounting capabilities of the personnel in the Libya accounting companies. They are also advised to adopt the IFRS because it has a positive impact on the organizational performance of the Libyan companies.

1. Introduction

IFRS has spread all over the world with 120 countries are adopting the IFRS in 2018. It competes with the American standard known as the Generally Accepted Accounting Principles (GAAPs) which still in use by the American companies [1]–[3]. However, countries in Asia, Africa, and Europe are adopters of the IFRS [4]–[8]. Nevertheless, several setbacks have made the companies as well as countries hesitant to adopt the IFRS and these are related to the accounting capabilities as well as the other organizational factors [9]–[11] [12]–[15]. In addition, the consequence of adopting the IFRS are mixed. Some studies found that adopting the IFRS requires additional cost and negatively affect the performance of companies. Other indicates that the cost is mitigated in the long term and lead to positive impact on the performance of companies [16]–[18][19]–[21][22]–[24].

Among the predictors of IFRS, El-firjani [9] indicated that the accountant education, as well as the economic growth and external auditors are key predictors of the IFRS. Faraj and El-Firjani [10] indicated that the important factors that hinder the adoption of IFRS are related to training programmes, accountants lack adequate skills, awareness and capabilities, accounting education, English language, absence of enforcement from external auditors, and the governance mechanisms are weak. The adoption to the legal system, economic structure, accounting education, and culture structure.

In term of the consequence, the findings of the study of Gingrich, Kratz, and Faraci, (2018) who examined the adoption of IFRS in eight developing countries from Asia and Africa, and Latin America found that IFRS adoption has positive impact on four developing countries while insignificant effect on other four. There is mixed result regarding the level of adopting IFRS. In addition, theories that are used in the field are limited [19].

Previous studies focused on the implications of the IFRS in European countries [25]–[30]. In addition, previous studies focused on the adoption on developed nations and the consequence of the adoption of the market of these nations [31] [12], [32]–[39].

Previous studies also look at the adoption from macroeconomic approach and examined it by taking global perspective [40], [41], or taking developed and developing nations together and compare the adoption practices and rate as well as the consequence [42]–[44]. Few of the previous studies examined the adoption of the IFRS in single country and especially in the developing countries [21], [45].

Libya is a developing country in North Africa. The country is in the developing phase of its economy after a decade of instability. IFRS is not mandatory in the country. However, there are some companies that are utilizing the IFRS along with the GAAPs and the national accounting standards which are mainly adopted from the United Kingdom as well as the US due to colonialism in the past and the economic ties with the US [9], [10], [46]–[48].

Few of the previous studies examined the role of technology-organization-environment framework (TOE). Lihniash et al. [49] has used the TOE to propose that there are organizational (awareness, commitment), technological (human resource, technology resource, and users' readiness), and environmental factors (government and user's attention) that can affect the adoption of Internet Financial Reporting (IFR). Accordingly, this study is classifying look into the impact of organizational factors, which includes the factor of accounting capabilities of the companies, top management support to the adoption of IFRS, and the organizational readiness to adopt IFRS. The remaining of this paper discusses the literature review, methodology, findings, discussion, and conclusion.

2. 2. Literature Review

This section discusses the theoretical framework, IFRS in Libya, and the hypotheses development.

2.1 Technology-Organization-Environment Framework

Tornatzky and Fletscher [50] developed the technology-organization-environment (TOE) framework to determine the organizational level adoption of Information System (IS) product and services. Since then, TOE has emerged as a widely used theoretical adoption framework for the adoption of IT products and services [51]. TOE is different from other theoretical adoption models and frameworks because it includes the variables that are related to technology, organization and environment [52]. Prior studies have deployed the TOE for categorizing the variables based on related context. [53] divided the variables into individual, organizational, technological, and environmental. In this study, the TOE is partially used to explain the effect of organizational factors on the adoption of IFRS in Libya.

2.2 IFRS in Libya

Researchers indicate that the adoption of IFRS has increased recently as it becomes the standard for disclosing mandatory and voluntary information that are related to the performance of companies [30]. Nevertheless, there is no agreement among researchers about the benefits and challenges that face countries as well as companies in adopting and using the IFRS. The adoption of IFRS has attracted the attention of researchers, practitioners, as well as policy makers. Researchers have investigated the predictors of the adoption of IFRS mostly in the European and western countries and few investigated the adoption of IFRS in developing countries [45], [54]. In addition, most of previous studies focused on the macroeconomic variables while less attention paid to the internal and external factors of companies. For example, a study conducted by El-firjani (2010) investigated the adoption of IFRS in Libya found that the adoption of IFRS is weak and still in its infancy stage. Further, the authors related the adoption to variables such as the foreign ownership, legislation, accounting education, economic growth, and the external auditors. A similar study also in Libya conducted by Zakari (2014b) found that the accountant education, economic structure as well as legal system and culture are important predictors of adopting IFRS in Libya.

Most of previous studies focused on the adoption of IFRS in developed countries [45] and few examined this adoption in developing countries [45]. This is also in line with the findings of a review study conducted by [19] who found that the economic consequences of IFRS adoption is still limited in developing countries especially with respect to the impact of IFRS adoption on foreign direct investment, cost of equity capital and earnings management.

The accounting profession in Libya is still in its infancy stage and more effort are needed to train accountant for the use of internationally accepted code of accounting [9]. Thus, the accounting is still developing in Libya and there are needs for studies to understand the status and provides suggestions for decision makers to improve the accounting and auditing. More education and training regarding the international standards are needed [10], [47].

2.3 Conceptual Framework

This study proposes that the effect of organizational factors on adoption of IFRS will be positive and significant. The study also proposed that the adoption of IFRS will have a positive impact on the organizational performance of the Libyan companies. Figure 1 shows the conceptual framework of this study.

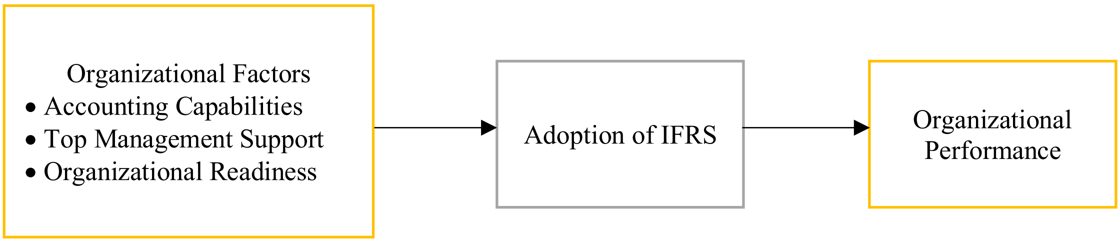

Figure 1: Conceptual Framework

2.3.1 Organizational Factors and Adoption of IFRS

Organizational factors refers to the factors that affect the organizational level of adopting new system or technology [55]. The organizational factors in this study includes the accounting capabilities, top management support, and organizational readiness. Previous studies that have examined the organizational factors that are related to the board of director and the characteristics of the organization found that there is a positive effect between the organizational factors and the adoption of IFRS as well as other system [56]–[58]. Organizational factors were proposed in the study of [53] to have a direct effect on the adoption of GAAPs. Similarly, in the study of [49], the organizational factors was proposed to affect the adoption of IFR. In this study, the organizational factors are expected to have a direct effect on the adoption of IFRS by accounting companies in Libya. Thus, it is hypothesized:

H1: Organizational factors affects positively the adoption of IFRS.

2.3.2 Accounting Capabilities and Adoption of IFRS

Accounting capabilities is proposed as a dimension of organizational factors. Several previous studies found that the accounting education is one of the enablers of the adoption of IFRS [9]–[11], [28]. [42] examined the adoption of IFRS and found that the accounting capabilities of companies is a predictor of the adoption. In line with previous studies and based on the context of Libya where education of accounting and accounting capabilities level is highly related to the adoption of IFRS, this study proposed that the accounting capabilities will have a significant effect on the IFRS adoption. Thus, it is hypothesized:

H2: Accounting capabilities have a significant positive effect on IFRS adoption.

2.3.3 Top management support and Adoption of IFRS

Top management support is defined as the financial and non-financial support that the management provides for adopting new system [53]. In this study, the top management support was listed under the organizational factors. This is because the voluntary adoption of IFRS is mainly a decision that is made by the top management represented by the board of director [59]–[61]. Numerous studies referred to the role of the management of the companies in decision related to the disclosure of information [19], [62]–[64]. [65] indicated that the board of companies is a critical factor for the adoption of internet reporting. In this study, the top management support is proposed to have a direct effect on the adoption of IFRS.

H3: Top management support has a positive effect on IFRS adoption.

2.3.4 Organizational readiness and Adoption of IFRS

Technological readiness has been described with two dimensions: financial readiness (financial resources for adopting the new innovation), and technological readiness (infrastructure and human resources for usage and management of the innovation such as adopting the IFRS in this case) [52], [66] [67]. [53] proposed that the organizational readiness is an important organizational factor that can affect the adoption of GAAPs. Lihniash et al. [49] also shared the same view and considered readiness as a predicting variable of the adoption of IFR. Previous studies also argued that the literature is divided regarding the effect of organizational readiness and the necessity of the readiness for the adoption of a new technology. For instance, in a study of adopting the technology in Indonesia, the findings showed that organizational readiness has insignificant effect on the adoption of the technology [68]. [69] examined the literature related to organizational readiness and concluded that the literature is divided regarding the effect of organizational readiness on the adoption of a new technology or system and provide examples in studies where the effect is insignificant [70], [71]. In this study, the readiness of accounting companies to shift to IFRS is critical for the adoption of IFRS by accounting companies in Libya. Accordingly, the following is proposed:

H4: organizational readiness will have a positive effect on the adoption of IFRS.

2.3.5 Adoption of IFRS and the Organizational Performance

Adoption of IFRS has a mixed finding. While some studies found that there is a positive association between IFRS and earning quality, other failed to prove this relationship [20], [62]. Previous studies examined the effect on adopting IFRS on several macroeconomic outcome such as the market reaction [19]. Samaha and Khlif [19] pointed out that the consequences of IFRS adoption is still limited in developing countries. [21] also indicated that the adoption of IFRS has mixed findings. Adoption of IFRS has increased the comparability of financial reports as well as the market liquidity and reduced the cost of equity. Few of the previous studies examined the effect of adopting IFRS on the organizational level and on the performance of companies. For example, in the study of [72], the effect of adopting IFR on performance was investigated and it was found that the adoption of IFR has a positive significant effect on performance of American companies. In this study, the adoption of IFRS is expected to affect positively the financial performance of companies. Thus, it is hypothesized:

H5: adoption of IFRS has positive effect on the financial performance of companies.

3 Research Methodology

The population of this study includes all accountants who are working in Libya. However, due to the fact that some companies are small and owned by one individual, the study focuses on certain types of large-scale companies that have the capabilities and the potential to adopt the IFRS. These includes accounting companies authorized by the central bank in Libya, listed companies, non-listed large-scale companies, and banks. The inclusion of this type of companies is due to the fact that these companies are aware of the IFRS and its implications and applications. According to the Central banks in Libya, they are 164 registered accounting companies in Libya, 19 commercial banks, 10 public banks. In addition, the listed companies accounted to 67 while the large scale non-listed companies accounted to 269. In each companies, four individual will be taken as represented of the company. This includes the internal auditor, external auditor, head of accounting department, and CFO. This makes the population of this study 2212. Thus, the population of this study is 2212. This study uses the random sampling selection method to determine the sample size from the population. The sample size is calculated based on the formula that was given by [73] which showed that the exact sample size of population of 2212 is 327 at margin error of 0.05 and confidence level of 0.95. However, based on the fact that non-response rate is high and accounting for missing value and outliers, researchers suggested to add 10% to 30% to the original sample to obtain sufficient responses [74]. Accordingly, in this study, the sample size will be increased by 30% to account for missing value and outliers. This has made the sample size of this study (327*30%+327= 425) is 425 respondents.

The measurement of the variables was adopted from previous studies. Measurement of accounting capabilities (6 items) was adopted from [75]–[79]. Top management support (4 items) was adopted from [80], organizational readiness (4 items) was adopted from [80], [81], adoption of IFRS (4 items) was adopted from [81] and organizational performance (7 items) was adopted from [82]. The questionnaire was validated by two experts and a pilot study was conducted prior to data collection. The reliability of the measurement was achieved because the Cronbach's Alpha higher than 0.70 for all the variables of this study and this is in line with prior research.

The data was collected using a questionnaire. Online questionnaire was sent to the respondents and their companies as well as the public relation department and requested to be filled by the intended people. A total of 267 responses were received. Eight of the responses were missing more than 15% and they were removed. In addition, seven responses were having outliers' issue and they were removed from the dataset. This makes the complete and usable responses accounts to 248. The data is normally distributed and no multicollinearity issue among the variables.

4 Findings

This section presents the background information and the result of hypotheses testing.

4.1 Profile of the Respondents

This study collected the data from respondents working as accountants in Libyan accounting companies. The profile of the respondents is presented in Table 1. It shows the gender, age, education, and experience of the respondents. Gender of the respondents shows that the highest percentage of respondents are males. For the age of the respondents, 41.5% or 103 of the respondents are in the age between 31 to 40 years followed by 32.7% or 81 of the respondents are in the age between 41 to 50 years. In term of education, the highest percentage of the respondents are holders of bachelor's degree with count of 155 and percentage of 62.5%. 112 or 45.2% of the respondents have experience between 11 to 15 years, 55 or 22.2% of the respondents have experience of 16-20 years, 40 or 16.1% of the respondents have experience between 5 to 10 years.

Table 1: Profile of the Respondents

Variable	Label	Frequency	Percent
Gender	Male	178	71.8
	Female	70	28.2
Age	30 years of less	24	9.7
	31-40 years	103	41.5
	41-50 years	81	32.7
	51-60 years	26	10.5
	61 and above	14	5.6

Variable	Label	Frequency	Percent
Education	Bachelor	155	62.5
	Master	76	30.6
	PhD	9	3.6
	Other	8	3.2
Experience	Less than 5 years	23	9.3
	5-10 years	40	16.1
	11-15 years	112	45.2
	16-20 years	55	22.2
	More than 20 years	18	7.3

4.2 Structural Equation Modelling

4.2.1 Measurement Model

The analysis of this study was conducted using AMOS version 25.0. The CFA for all variables was conducted. Since this study is using a second order construct such as organizational factors, the CFA of organizational factors was conducted. The fit indices and the factor loading were examined. The indices were achieved and there was no need to examine the modification index for improving the indices. This confirmed that organizational factor is measured using three components that are the accounting capabilities (AC), top management support (TMS), and organizational readiness (OR) which loaded well on organizational factors with loading of 0.65, 0.89, and 0.72 respectively. Thus, this confirms that the organizational factors consist of three first order variables. Figure 2 shows the CFA of organizational factors.

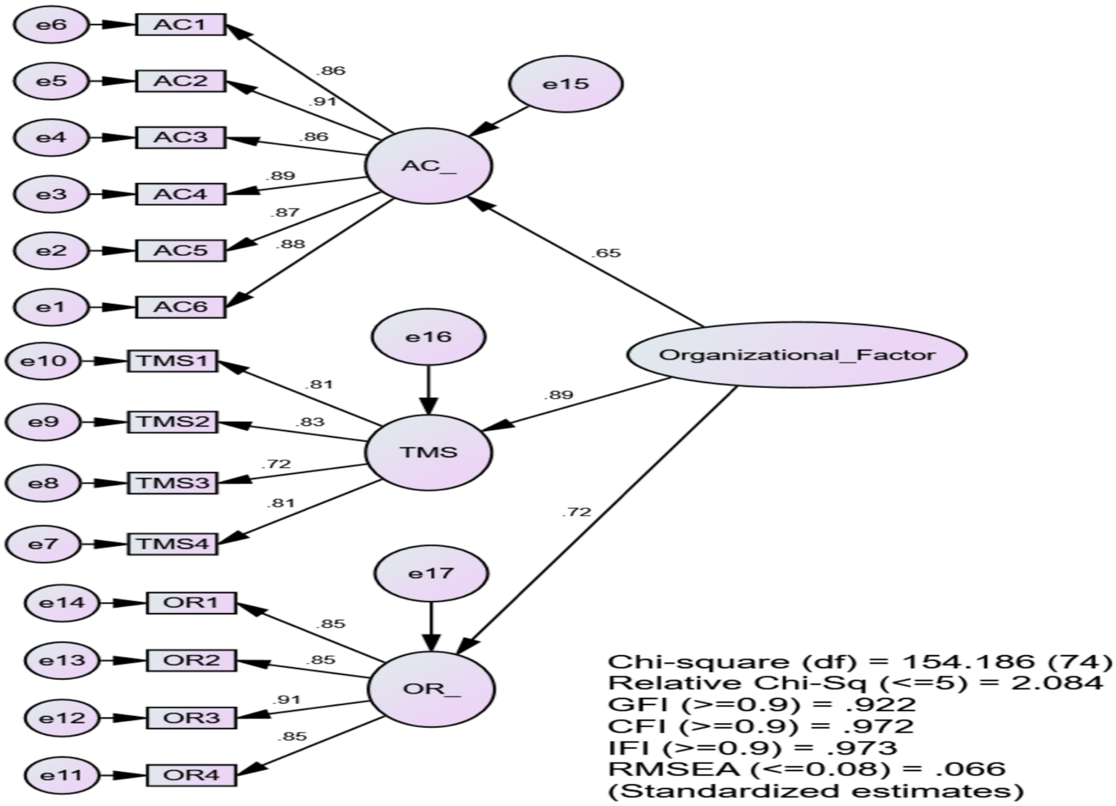

Figure 2: CFA of Organizational Factors

The measurement model of the variables was assessed. In this stage, the factor loading for all variables was checked as well as the Cronbach's alpha, composite reliability, and convergent validity. Table 2 shows the result of assessing the measurement model. It shows that all the criteria of assessment were achieved.

Table 2: Factor Loading, Reliability and Convergent Validity

Second order	First Order	Item	FL> 0.60	CA> 0.70	CR> 0.70	AVE> 0.50
Organizational factors	Accounting capabilities	AC6	.874	0.944	0.952	0.769
		AC5	.867			
		AC4	.888			
		AC3	.863			
		AC2	.913			
		AC1	.855			

Second order	First Order	Item	FL> 0.60	CA> 0.70	CR> 0.70	AVE> 0.50
	Top management support	TMS4	.812	0.856	0.872	0.631
		TMS3	.715			
		TMS2	.830			
		TMS1	.814			
	Organizational readiness	OR4	.855	0.920	0.923	0.750
		OR3	.911			
		OR2	.844			
		OR1	.852			
Adoption of IFRS		IFRS1	.920	0.940	0.959	0.853
		IFRS2	.921			
		IFRS3	.935			
		IFRS4	.919			
Organizational performance		OP1	.815	0.944	0.947	0.719
		OP2	.899			
		OP3	.884			
		OP4	.856			
		OP5	.880			
		OP6	.810			
		OP7	.786			

Researchers agreed that the discriminant validity is achieved when the square root of AVE is greater than the cross loading of the variables [83], [84]. In other words, when the numbers that are highlighted in Table 3 are greater than their rows and columns, then it can be concluded that the discriminant validity is achieved. Table 3 shows that the discriminant validity of the variables was achieved. This is because the value in bold are greater than its row and column indicating that the discriminant validity is achieved.

Table 3: Discriminant Validity for First Order

	OP	**AC**	**TMS**	**OR**	**IFRS**
OP	**0.892**				
AC	0.341	**0.923**			
TMS	0.443	0.574	**0.899**		
OR	0.401	0.463	0.639	**0.879**	
IFRS	0.446	0.534	0.348	0.282	**0.901**

4.2.2 Structural Model

The third level of SEM-AMOS is the structural model. In this level, the hypotheses are tested and the r-square of the model is presented. Hair et al. (2010) indicates that the structural model is assessed by the R-square and the coefficient. The R-square of the dependent variable adoption of IFRS is 0.62 indicating that the organizational factors can explain 62% of the variation in the adoption of IFRS. Table 4 shows the result of testing the hypotheses. It shows the dependent variable (DV), independent variable (IV), path, estimate (B), standard error (S.E.), critical ratio (C.R.), p-value (P).

Table 4: Result of hypotheses testing

H	D.V	Path	IV	B	S.E.	C.R.	P	Significant
H1	IFRS	<---	Organizational Factor	.284	.081	3.491	.005	Yes
H2	IFRS	<---	Accounting capabilities	.546	.086	6.334	***	Yes
H3	IFRS	<---	Top management support	.171	.035	4.524	.000	Yes
H4	IFRS	<---	Organizational readiness	.030	.055	.543	.413	No
H5	OP	<---	Adoption of IFRS	.344	.049	7.090	***	Yes

The first hypothesis of this study proposed that the organizational factor will have a positive effect on the adoption of IFRS. The findings in Table 4 show that the effect of organizational factor on the adoption of IFRS is positive and significant (B=.284, C. R=3.491, P=0.005). Similarly, the effect of accounting capabilities on the adoption of IFRS is positive and significant (B=.546, C. R=6.334, P<0.001). Therefore, H1 and H2 are supported. For H3, top management support has a positive effect on IFRS adoption (B=0.171, C. R=4.524, P<0.001). H4 proposed that organizational readiness has a positive impact on the adoption of IFRS among Libyan accounting companies. The findings show that organizational readiness has insignificant effect of the adoption of IFRS (B=.030, C. R=.543, P=0.413). Accordingly, H4 is rejected.

For the fifth hypothesis, the study predicted that the adoption of IFRS by Libyan accounting companies will increase the organizational performance of these companies. The finding in Table 4 indicates that the effect of the adoption of IFRS on organizational performance is positive and significant (B=.344, C. R=7.090, P<0.001). Thus, companies that adopt the IFRS will increase the organizational performance.

5 Discussion

This study aimed to examine the effect of organizational factors on the adoption of IFRS as well as the effect of IFRS adoption on organizational performance. The findings showed that organizational factors as a construct is important for the adoption of IFRS. Libyan accounting companies must pay attention to this construct because the increase in the level of the organizational factors will lead to a positive increase in the adoption of IFRS among Libyan companies. The findings of this study are in agreement with the findings of previous studies [56]–[58]. Organizational factors also have been proposed to have a significant effect on the adoption of IFR [49].

Accounting capabilities have a significant positive effect on IFRS adoption. The positive effect of accounting capabilities could be due the fact that accountants that is equipped with knowledge will find it easy to adopt the IFRS. These companies that have high qualified accounting personnel will not hesitate to adopt the IFRS while those with low knowledge will tend to avoid the adoption. These findings are in line with previous studies that noted the importance of accounting capabilities for using accounting system reporting such as IFRS [9]–[11], [28]. The top management support was assumed to have a positive effect on the adoption of IFRS by Libyan companies. The finding of hypotheses testing showed that the effect of top management is positive and significant indicating that the positive increase in the top management support will lead to an increase in the adoption of IFRS among Libyan companies.

The positive effect of top management support could be related to the fact that top management in the Libyan companies shows support and encouragement for the adoption of IFRS and it provides strong leadership and engage in the process of IFRS adoption. Thus, most of previous studies is in agreement with the findings of this study in term of the positive effect of top management support on the adoption of IFRS [19], [62]–[64]. The findings showed that the effect of organizational readiness on the adoption of IFRS is not significant. Organizational readiness among Libyan companies has no relationship with the IFRS adoption. This finding is not consistent with the findings of previous studies. Most of previous studies indicate that the organizational readiness is critical for the adoption of new system [52], [66]. Nevertheless, the findings in this study can be related to the notion that the available technological resources are not sufficient for the use of IFRS and due to the notion, that the companies do not assign specific budget for the adoption and the use of IFRS. In line with the findings of this study, a study conducted by [68] who found that organizational readiness is not an enabler of the technology or system adoption in Indonesia. Further, other studies argued that organizational readiness is not an important predictors of the adoption of a new system [70], [71] and there is a disagreement between researchers regarding the role of organizational readiness [69].

The findings showed that the adoption of IFRS leads to a positive impact on the organizational performance of accounting companies in Libya. Companies that adopt the IFRS will have an improved and increase in the organizational performance. This positive effect can be explained based on the fact that using the IFRS will enhance the internal business processes in the accounting companies in Libya. IFRS is an international standard and customers require the reporting of their activities to be based on the IFRS. Thus, companies in Libya will attract more customers locally and internationally, which ultimately will lead to better organizational performance. Further, using the IFRS, more investors will be attracted to the companies, and this will eventually affect the performance of these companies. The findings are consistent with the findings of previous studies. Previous studies indicated that the adoption of IFRS improves the earning quality [20], [62].

6 Conclusion

This study was conducted in Libya to examine the predictors and consequence of IFRS adoption among Libyan accounting companies. The data was collected using a questionnaire. AMOS was deployed to examine the CFA, measurement model, and the structural model. The findings showed that the organizational factors are important for the adoption of IFRS which in turn is critical for the organizational performance in Libya. There are some limitations that need to be highlighted in this study. The findings of this study are limited to accounting companies in Libya. A number of accountants or knowledgeable personnel participated in this study. Thus, the findings are limited to their perception. Based on the findings and the limitations of this study, future studies are recommended to conduct more studies in developing countries using a single country. Future studies are also recommended to replicate this study and compare the findings with the findings of this study. The future research is also recommended to examine the adoption of IFRS among non-accounting companies. Public listed companies and large-scale companies or multinational companies can be used as a target population. Future studies are also recommended to increase the sample size for better generalization of the findings of the study.

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