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The power of political governance and the adoption of international accounting standards

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Abstract

This research is guided by the desire to discern the impact of political factors that could affect the decision of IAS/IFRS adoption in developing countries. In other words, this work has looked to identify variables that are potentially capable of influencing the adoption of IAS/IFRS in these countries.

The results of our analyzes, based on a sample of 108 developing countries, enabled us to conclude definitely the great importance of political governance on the one hand, and the supremacy of taxation on the other.

.**Keywords:** International accounting standards (IAS/IFRS) - Developing countries - Political Governance.

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1. Introduction

The globalization of economic exchanges and the universalization of firms are on the rise. Financial statements built in accordance with national accounting standards could subsequently barely match the needs of investors and financiers. To reconcile the gap in accounting practices across countries, the international accounting standard setters supported the attempt to issue consistent accounting standards that would reduce the gap in international accounting. While developed countries have been largely intercepted in the development of accounting systems that take account of the attributes of their environment, developing countries appear to be subject to the adoption of such systems, although invented for Circumstances.

Without any uncertainty, the pressure of the State with regard to the adoption of the new accounting systems is still flagrant. Indeed, organizational changes are always driven by new political and legislative text, which encourages organizations to adopt the rules laid down by the authority. Given that the political factor is a latent variable that is difficult to measure, the explanation of the links between this factor and the adoption of IAS / IFRS has expanded to explain the possible relationships between the selected components of a political system and its adoption. In 1995, Doupnik and Salter mentioned that the legal system of a given country is of great relevance to the direction and regulatory implementation of accounting systems. Touron (2005) argued that different policy factors can affect the national standard and play a role in the process of adoption of accounting standards. Indeed, the accounting laws are not always a neutral mechanism to measure, but they represent the effect of a political trial determined by the economic interest of stakeholders (ZEFF, 1998). Constantly adhering in an analysis of the political context, several other researchers are concerned about another axis namely "political governance" and its allocation in the event of the adoption of International Accounting Standards in developing countries. These latter were characterized by the absence and even by the poor organization of the financial markets. Then such adoption of IAS / IFRS standards would be relevant to these nations. They enable them to reform existing stock exchanges, strengthen foreign direct investment, and make financial information in these countries more comparable and transparent. To this end, our study will implicitly explain the reasons why some countries did not adopt IAS / IFRS despite the fact that they lead to improved quality of financial reporting, comparability, reliability and relevance financial institutions. This study will be of interest also to highlight some political variables stimulating the economies of developing countries to

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adopt international accounting standards instead of always keep practicing national accounting systems. At the level of the present study, we try to provide input to the previous literature based on the determinants of the choice of an accounting practice by a DCP by reverting to a new dimension, which is political governance.
The remainder of this paper is structured as follows : The second section will strive to theoretically explain the interactions between the adoption of IAS/IFRS and the weight of political governance. The third section will focus on the synthesis of the key empirical findings. Finally, in the fourth section, we present our main conclusions.

2. Weight of political governance *vs.* the adoption of IAS / IFRS

Several definitions inflict on governance. Linguistically, it acquires a sometimes polemical conception of the fact that it is indicated and defined in a complex and sometimes contradictory way. Nevertheless, given the diversity of uses of the word, it turns out to be related to the analysis of the adjacent themes of "good governance". Referring to the definition of the World Bank, the good governance represents the ways in which authority is exercised in the public government to achieve economic and social development. Literature has distinguished two types of governance: corporate governance for the private sector and political governance for the political and administrative aspects. When it comes to political governance, the analysis object covered by our study, it is customary to revolve mainly around global governance or global Territorial governance or local level in relation to governance measures. Be that as it may say, this study reflects the view that the adoption of new accounting standards cannot be achieved only by making reforms in the boards. It is therefore important to work on the framework of political governance in the face of corporate governance if the improvement of the quality of financial information is to be achieved. For this reason, this study will adhere to the literature by integrating the weight of political governance at the country level as a determinant of the adoption of international accounting standards.

According to Houque and al. (2011), countries with high-quality governments are more likely to firmly apply international accounting standards. Their results confirmed their predictions estimating that companies in countries with high quality ale government would be more likely to choose an auditing firm *"Big4"* and that this relationship will lead to the inevitability of the

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adoption of IAS / IFRS in these countries. In the same vein, Rakoto and al. (2008) suggested that the decision to increase the transparency of management and in this case the elevation of good governance legitimized supports reform records by politicians. Larson and al. 1995 and Hassab and al. 2003 have also inferred that an effective government balance can significantly influence the economic context, which can subsequently have an effect on the development of accounting. Clearly, the governance evokes the joint political processes, laws and institutions by simulating the way a country or institution is piloted, managed and controlled. Governance is seen as appropriate when the processes of the mechanisms reverberate the rights and interests of stakeholders in a democratic vision. It increases financial accountability and strengthens the government's honesty as a government. It is increasingly widely perceived that there is a relationship between good governance and the success of current prospectuses and opening-up to foreign development programs and that this report has, over time, supported the need for control the quality of governance between and within countries. In other words, good governance is appropriate for the prevention of corruption by putting the State and its institutions to be effective and efficient, participatory, transparent, responsive and fair. In this regard, it is essential, in the promotion of good governance, to combat the various corruptive abuses. On the other hand, although the number of democratic regimes and the use of appropriate governance mechanisms have been considerably developed over the last decades, corruption of civil servants and, more generally, government dysfunctions remain widespread throughout the world. Disastrously, this inability to create good governance has disastrous economic and political consequences. (Adserà and al., 2003). Dictionaries described corruption as impairment of integrity, virtue, or moral principle; Depravation, forfeiture, and / or inducement to act by dishonest or illegal means. The embarrassment of corruption is universal and has long been recognized in both developed and developing countries, both in the public and private sectors. Corruption, since antiquity, can have a destructive effect. Compromising development, ruining public confidence and overwhelming the lives of many, the scope of corruption is inevitable. It is a serious global problem that affects many countries around the world (Transparency International 2008, United Nations 2008, World Health Organization, 2008). The World Bank (2001) stated that corruption is *"the greatest obstacle to economic and social development."* Corruption exists in all societies and has a negative and definitive influence on citizens' investment, growth and political behavior (Ehrlich and Lui, 1999, Easterly and Levine 1997, Kaufman and al., 1999, Knack and al. Keefer, 1995). It has also been defined as misuse of the public service or a business for a particular purpose. The

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general consequences of corruption are the failure of growth and investment (Mauro, 1995) and the creation of a serious obstacle to attempts to consolidate democratic institutions and open market economies (Schleifer, 1997). Riahi-Belkaoui (2004) pointed out that there is a consequence of corruption that has largely been ignored in the economic and accounting literature, namely the impact on the quality of accounting. This author has profusely shown that there is a significant relationship between the level of corruption and the level of outcome management. As a result, countries that are heavily corrupt are expected to escape from accounting references whose primary objective is the disclosure of reliable financial information such as IAS / IFRS. In this regard, Irvine and al. (2006) found that corruption in the United Arab Emirates has significantly contributed to the failure of this nation to adopt IAS / IFRS. In addition, Riahi and Khoufi (2015) concluded that behavioral factors, mainly corruption, are more dominant than economic factors in the decision to adopt IAS / IFRS by a set of economic and behavioral variables in developing countries. Their study was based on a sample of 76 developing countries.

Certainly, countries with unstable governments and difficult to govern are more likely to be corrupted. (DiRienzo and al. 2007, Alam, 1995, Rose-Ackerman, 1978 and Tanzi, 1998). Hazhar (2010) argued in a study that looked at a sample of developing countries that there was an environmental problem from countries that could adopt IAS / IFRS. Indeed, the general security situation could determine whether or not a country would adopt these standards. Following the same idea, political stability may produce a high quality accounting and therefore to ensure a robust financial system. So, political stability and democracy could affect both accounting and institutional irregularities. Political instability has been credited with erosion of confidence in the political system and diminished interpersonal trust in society (Seligson 2002). In addition, Tanzi and Davoodi (1997) pointed out that political instability favors irregularities in government budgeting and is very feasible when the main control or audit institutions are not well developed. In this respect, the adoption of international accounting standards, which admit of meeting the expectations of donors seeking to reform political stability by fighting corruption and promising financial transparency, seems to be political governance at the level of developing countries.

Referring to the above, we can argue that : *Developing countries with a low level of instability of political institutions and a governance structure based on rules, in which priority and rights arising from contracts are applied reliably and respected, are more likely to adopt The IAS / IFRS standards.*

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3. Variables and empirical model

Our initial sample consisted of all developing countries, which number 144 countries; Broken down into 90 countries that have adopted IAS / IFRS standards, 29 which were distant from the adoption of these standards and 25 countries where we have no information on the decision to adopt IAS / IFRS. The strategy for the adoption of each country was identified after contacting the IASB. The statistical deviceswere maintained, finally, a sample of 108 developing countries. (Table 1).

Analysis of information Found in the accounting systems of the developing countries selected in our study, allowed us to distinguish countries that have adopted IAS / IFRS from those that have not adopted these standards. This distinction has authorized us to define a dichotomous variable that takes the value 1 if a country has adopted the IAS / IFRS standards in 2013 and 0 if not.

According to the hypothesis, the weight of political governance should be measured.

The multitude of studies on the institutional aspect of the world's countries and the progressive interest in development issues of the institutional spheres s international prompted researchers to move towards the construction of appropriate policy indicators admit the Statistical estimation of the origins of these mutations. The initial database established for this purpose was that of Bollen (1980). It placed at the disposal of researchers comparable measures of democracy. However, these measures have presented a daunting limit saw that they were not available for a reduced period of time and do not allow, therefore, to observe the temporal evolution of nations. It is for this discernment that a survey of the weight of political governance for each country seems more appropriate for us.
At the time in which we is sound governance *"(...) important from the point of view of national policy of international economic relations or of research in economics and political science"*. Duke and Lavallée (2004).
On the one hand, it should be stressed that the tools for measuring governance have allowed better identification of the foundations and consequences of mismanagement of public affairs and have also helped to stimulate governments to act , on the other hand. To date, databases or accrediting tools to explain the various aspects of governance are frequent. The most used tools among the hundreds that have been mentioned, have drawing composite indicators (aggregate) designed on perceptions. They simplify to a single digit " *(...) significant*

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amounts of data from various sources and often many "Arndt and Oman (2010). Among these, the best known are the six " *Worldwide Governance Indicators* "" WGI "created by Daniel Kaufmann, Aart Kraay and their team at the World Bank Institute. The literature has recorded that the "WGI" and the other various meticulously crafted composite indicators have presented limits that their subscribers continually turn out to neglect. The most serious disadvantages are perceived through the inadequacy of usefulness in the sense that these indicators could have guided the actions of those who wish to improve the quality of governance in any country, on the one hand, and Fragility of their statistical foundations as indicators of comparison between countries, on the other.

Indeed, as already quoted, a majority of scientific writings have been able to deduce that developing countries with a low level of instability in political institutions and a rule-based governance structure in which the priority and rights deriving from Contracts are reliably applied and respected, are more likely to facilitate the adoption of international accounting practices. In this regard, we considered that the weight of political governance can also be included among the political postulates of the adoption of IAS/IFRS in developing countries. To discern the magnitude of the significance of this variable in the strategy of adopting IAS/IFRS standards in developing countries, we used an interactive proxy between the level of political instability and the level of Corruption of each country in our sample. The components of the security of a country undoubtedly play a key role in organizing the process of the establishment of new standards such as accounting. According to our hypothesis, we expected that a low level of political instability and low corruption certainly go facilitate the establishment of international accounting standards in developing countries.

- **The level of political instability (INSTAB)**

It is true that the adoption of international accounting standards requires a very appropriate institutional context, both politically and economically, given that they have been set up in strictly institutional contexts. Nevertheless, under this pretext, a country with a poor institutional framework, particularly through its high level of political instability, may not synchronize with these new rules. Therefore, we expect a clear harmony between the political texture and the strategy of adopting IAS/IFRS standards in specific countries. The measurement of the degree of political instability has been established using the average of the overall index of pacifism *"Global Peace Index"* during the five years preceding the date of the adoption of IAS / IFRS The developing countries. This index was established by the

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magazine "THE ECONOMIST" in 2007. It is rated from 1 to 5 (low-high) according to the level of instability of political institutions or their inability to provide for his citizens, enterprises and foreigners investors: 1, very stable and very unstable 5.

- **The level of corruption (CPI)**

By definition, corruption is the alteration or embezzlement of process or interference with or several people in the plan. The briber is to get the privileges or special superiorities. The corrupt expected to achieve Reward In exchange for his indulgence. It takes generally *to "corrupt the personal enrichment or enrichment of the organization corrupting."* Lenglet, (2009).

Corruption is undoubtedly a practice that can be Illegal according to the area of interest. It is rarely found in the literature, which has highlighted the correlation between environmental factors and the decision to adopt international accounting standards. In our study, it is assumed to be an obstacle to the entry of new accounting standards in a given developing country. The measurement tool adopted to identify this variable is the global ranking of corruption in each country of the world which was established by *"Transparency International: The global coalition against corruption.*" This is a classification and prioritization of the International Corruption Perceptions Index (CPI) calculated for all countries of the world. It represents, on a scale of 0 to 10, a score of perception of corruption in the public sector for each country; Where 0 means that the country is perceived as very corrupt and 10 means that the country is perceived as very clean. According to Transparency International, the CPI classifies countries based on the degree of corruption in their public sector. It is a composite index and a combination of surveys taken from data related to corruption and collected by a variety of notorious institutions. The IPC reflects the views of observers from around the world including experts who live and work in the countries assessed.

To monitor the effect of political governance on the level of adoption of IAS / IFRS standards in emerging economies, we introduce two control variables appreciated by the previous literature (Shima and Yang, 2012; Rodrigues and al.; Kossentini and Ben othmen, 2014) namely: Taxation (TAX) and size (SIZE). Table 2 presents the operationalization of the explanatory variables our study.

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Before beginning the analysis of results, we have conducted a review of the correlations between the different explanatory variables. In case of no detection of a possible multicollinearity between these variables we can introduce them fully to the model. It should be noted that different statistical tests will be conducted with SPSS 20 software.

Since the dependent variable is binary, which takes 1 if a country has already adopted or is considering adopting IFRS ; 0 if not, the proper analysis would be an application of a logistic regression.

4. Results and Conclusions

The empirical data were addressed using three statistical tool figures. The first one consists in the descriptive analysis which makes it possible to detect the global texture of each variable within the DCs. The second figure is the univariate analysis. This tool is used to test the impact of each variable on the adoption of IFRS. The third analysis tool is the multivariate analysis method. She admits to perfecting the results of the univariate analysis by other empirical results from the multivariate regression model estimation.

From Table 3, we find that most of the factors significantly influenced the decision of the adoption of IAS / IFRS. Indeed, the variable "SIZE" appears as the only variable that is not widely and significantly affect the decision to join the IAS / IFRS by pay s Development (coefficient = -0.08, Sig = 0, 848).

The other two variables (GOV and TAX) of our model also evoked very significant significances. It goes without saying that the variable tracing the weight of governance in a country, which has been measured interactively by the rank of the perception index of corruption on the one hand and the level of political instability on the other, greatly affects the decision of the adoption of IAS / IFRS by the selected sample (coefficient = -0.0 4, Sig = 0, 13). Indeed, the higher the levels of perception of corruption and political instability, the less likely they are to adopt these accounting standards. This jeopardizes well also explains the negative sign insight in logistic regression (coefficient = -0.04). In sum, these results affirm our hypothesis amply.

Logistic regression was similarly favored our expectations about the strong role of taxation (coefficient = -0.1 21, Sig = 0.0 05) in alignment with the PED strategies towards the adoption of IAS / IFRS. These circumstances are in line with those found by Shima and Yang

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(2012), Rodrigues and al. (2012) and Ben Kossentini Othmen (2014). In total, our findings led us to ensure that political factors influence the use of international accounting standards by developing countries.

the results of this analysis also allowed us to discover that The (negative) relationship between the dependent variable and the one that measures the weight of political governance has clearly demonstrated that our subsample, which takes the value of 1 (countries that have adopted IAS / IFRS), reflects a political context Where the interaction between the level of corruption and political instability is favorable (less corruption with an appropriate level of political instability) compared to the second sub-sample (countries that have not adopted IAS/IFRS). Furthermore, are the results allowed us to conclude that the importance of taxation has affected negatively (more than the weight of political governance) the likelihood of the adoption of IAS / IFRS in a given country. As a result, high inflation levels in the first sub-sample have ruled out the likelihood of adopting IAS / IFRS standards. Overall, our study provided a unique overview of the association between certain policy variables and the adoption of international accounting standards.

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Table 1 : The composition of the final sample

Sample	Developing countries
Starting sample	119
Countries that have adopted IAS / IFRS in 2013	*90*
➢ *Countries with information on the explanatory variables which are unavailable*	*8*
➢ ***Rest***	**82**
Countries remain far from adopting IAS / IFRS	*29*
➢ *Countries with information on the explanatory variables which are unavailable*	*3*
➢ ***Rest***	**26**
Final sample	**108**

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Table 2 : Operationalization of the explanatory variables

Variables	Designation	proxy	Source
GOV $_i$	**The weight of political governance** an interactive proxy between the level of political instability and the level of a corruption in each country , "INSTAB * CPI "	• The level of political instability (INSTAB) : measured by the average of the overall index of pacifism " *Global Peace Index* " during the five years preceding the date of the adoption of IAS / IFRS by developing countries. • The level of corruption (CPI): measured by the world ranking of corruption in each country of the world.	• The economist • Transparency International: The global coalition against Corruption (2011)
TAX $_i$	**The weight of taxation**	The marginal top tax firms over the five years preceding the date of the adoption of IAS / IFRS standards in developing countries.	PricewaterhouseCoopers and a World Bank
SIZE $_i$	**The size of the country**	The share of final consumption of government expenditure in GDP in the five years preceding the date of the adoption of IAS / IFRS standards in developing countries.	The World Bank

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Table 3 : The results of logistic regression

Variables	coeff α	Wald	Sig.
GOV	-0.004	6,201	0,013
TAX	-0.121	7.859	0.005
SIZE	-0.008	0,037	0.848
Chi-square	17.2 938*****		
-2log-Likelihood	101.279		
Hosmer-Lemeshow test	7,210 *		
R-square Cox & Snell	0 153		
R-square Nagelkerke	0, 229		
% of good classification	78.7		
N	108		

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