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# MACROECONOMIC DETERMINANTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION: EVIDENCE FROM THE MIDDLE EAST NORTH AFRICA (MENA) REGION

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**ABSTRACT**

*The adoption of International Financial Reporting Standards (IFRS) as a country's Generally Accepted Accounting Principles (GAAP) has accelerated in the last 5 years with approximately 120 sovereign governments designating IFRS as the required financial reporting framework for at least some companies in the country. The American Institute of Certified Public Accountants (AICPA) reports that of these, about 90 countries have adopted it fully for all businesses, large and small. In an annual update, PricewaterhouseCoopers (PwC) lists 147 countries that have some relationship with IFRS (the U.S. is listed, for instance, as it allows foreign companies with a capital market presence to use IFRS instead of converting their results to U.S. GAAP). Yet many of the world's 201 recognized countries have resisted fully adopting IFRS, particularly in the Middle East North Africa (MENA) region of the world. This begs the question: what are the perceived benefits of adopting IFRS at the country level?*

**JEL:** M4, O53

**KEYWORDS:** International Financial Reporting Standards **(**IFRS), Generally Accepted Accounting Principles (GAAP), Middle East North Africa (MENA), Macroeconomics, Capital Flows, Disclosure

## INTRODUCTION

Many potential benefits for adoption of International Financial Reporting Standards (IFRS) have been articulated in the literature (Armstrong et al., 2010, Defond et al., 2012, Horton et al., 2013, Kosi and Pope 2010, Florou and Kosi, 2015) particularly at the firm level. At the firm level a dominant explanation for adoption of IFRS suggests that the increased transparency which entails IFRS adoption potentially increases the reputation of the firm. Benefits of adopting IFRS at the country level are relatively sparse (see exceptions: Ramanna and Sletten, 2009, Hope et al., 2006). Thus the motivation for driving IFRS choice as a policy at the country level is an important and relatively under-researched idea. Of particular interest is whether the economic background of a country leads to adoption of IFRS in the Middle East North Africa (MENA) region.

We use variables associated with a country's efforts at increasing outside investment flows and add several variables that are specific to the region. If a country adopts IFRS, what compels it to do so? At the most fundamental level the issue is a cost-benefit analysis. The costs have been shown in the literature reviewed below to be mostly a one-time conversion cost. The benefits have been shown to be increased capital flows

and the resulting increase in GDP. However, the benefits are not automatic. They can be enhanced or nullified by pre-existing conditions within the country or region. We posit that because IFRS adoption is costly, countries only bear the costs when other factors are in place to create a favorable environment for capital inflows. We find that the probability of adoption is increasing in bureaucratic quality and GDP per capita, but is decreasing in the level of oil and gas reserves and socioeconomic conditions.
The rest of the paper is organized as follows: we provide a brief overview of the costs and benefits for adoption at the country level and the firm level identified in the literature. We describe our data, sources of information, and the construction of our models. We end with an analysis of the implications of our results.

## LITERATURE REVIEW

The American Institute of Certified Public Accountants (AICPA) maintains a website for IFRS resources and discusses the benefits and costs in its FAQ section. It presents the advantages of adopting IFRS at the firm level as follows:

*"By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier. Furthermore, companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide. Companies also may need to convert to IFRS if they are a subsidiary of a foreign company that must use IFRS, or if they have a foreign investor that must use IFRS. Companies may also benefit by using IFRS if they wish to raise capital abroad."* (*http://www.ifrs.com/ifrs_faqs.html#q5)*

The costs are primarily a function of conversion costs and are estimated at approximately 0.13% of total revenue as a one-time cost (PricewaterhouseCoopers, 2013). Similarly, much research about the adoption of IFRS has focused on the benefits and costs at the firm level. IFRS adoption is linked to many capital-market benefits at the firm level, including enhanced market liquidity, lower costs of capital, and positive changes in stock price (Daske et al., 2013, Bova and Pereira, 2012). At the firm level, adoption of IFRS improves information efficiency for the firm although this is dependent on country-specific characteristic of type of law (civil vs. common) (Lambertides and Mazouz, 2013, Apergis 2015). Florou and Kosi (2015) document that the cost of public debt decreases and its use increases for mandatory adopters of IFRS in a broad sample of countries that include both EU and non-EU members. Kosi and Pope (2010) also find that credit relevance is higher for firms that adopt IFRS but that the improvement is dependent on the effectiveness of a country's enforcement regime. Horton et al. (2013) use the changes in analyst's forecast errors and produce results that suggest "mandatory IFRS adoption has improved the quality of information intermediation in capital markets and as a result firms' information environment by increasing both information quality and accounting comparability."

Hope et al. (2006) and Ramanna and Sletten (2009) look at country-level adoption and conclude the likely adopting countries have weaker investor protection environments (Hope et al., 2006) or moderate governance standards (Ramanna and Sletten, 2009). Hope et al. (2006) attribute this phenomenon to countries using "bonding theory" to signal that their capital markets are high quality (as other IFRS adopting nations). Ramanna and Sletten (2009) surmise that countries with better corporate governance standards view IFRS adoption "as being too costly." They argue that countries which have already implemented high-quality governance standards have laid the foundation for increased capital flows without any change in the financial reporting regime. Yet other incentives may compel firms (and countries) to adopt a particular standard. Network effects may induce countries to adopt IFRS in response to the actions of their trading partners. Such adoptions are carried out to reduce transaction costs among partners (Ramanna and Sletten, 2014). A special standards problem exists in the Middle East North Africa (MENA) region: in addition to country Generally Accepted Accounting Principles (GAAP) required for government reporting, many MENA countries have also adopted special standards related to sharia finance disclosures, issued by the

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Some member countries require strict adherence to these standards and others require additional disclosures primarily for banks that regularly lend money. This suggests that some MENA countries may have less of an incentive to adopt standards that give the appearance of better governance, when they already perceive their governance standards as high quality.

A number of studies have examined problems with adoption in addition to the benefits that accrue to firms or countries. Daske et al. (2013) separate firms into two groups, as "serious" vs. "label" adopters. Label only adopters change to the new standards but make no other legal or institutional changes to reinforce the new reporting regime. They find that the positive capital-market effects documented by previous research accrue almost exclusively to "serious" adopters. This firm-level effect has parallels with country-wide adoption, in that countries with lax enforcement regimes are not likely to reap the benefits of higher investment activity that is normally associated with higher quality financial reporting (Nandialath and Rogmans 2013). Encompassing the problem of lax enforcement regimes is the more general measure of institutional framework. Apergis (2015) studies the role of the adoption of IFRS in the MENA region for improving financial reporting quality and reports that the lack of a strong institutional framework may reduce the expected benefits of improved quality.

Costs are sometimes difficult to anticipate and occur well after the adoption of the new standards has taken place. These costs happen in two ways. Using semi-structured interviews, Fox et al. (2013) find that among various stakeholders in the U.K. and Italy, "there was widespread agreement that costs exceeded the benefits of reporting under the new standards." Other external stakeholders can be affected by the policy choices that are allowed under IFRS that may not be present in a country's current GAAP. IFRS can be adopted in variations that can substantially change the impact on individual firms and the overall transparency of financial reporting at the country level. Kvaal and Nobes (2010) study five developed countries [Australia, France, Germany, Spain, and the UK] with mandatory IFRS reporting requirements and document wide differences in versions between countries both in standards required and in accounting policy choices at the firm level. They believe that this makes comparability among firms questionable, as many of the variations would be difficult for analysts to disentangle. The benefit of high quality standards adoption at the country level is increased capital flows. Hope et al. (2006) conclude that

*The adoption of IFRS is likely viewed as a means to improve disclosure policies and accounting systems, to enhance the integration of domestic markets into world markets and to subsequently accelerate economic growth. In order to improve financial reporting quality, the adoption of IFRS by a country is an important step." (Hope et. al, 2006)*

Increased capital flows are important for those countries that need to augment their internal markets with outside flows and as Ramanna and Sletten (2009) observe, countries with very strong governance mechanisms appear to eschew IFRS adoption. Klibi and Kossentini (2014) also examine macroeconomic effects of IFRS adoption at the country level by examining the effects of adoption on share market development in the MENA region. They find that adoption of IFRS is positively related to share market expansion and development. Rogmans and Ebbers (2013) specifically look at determinates of Foreign Direct Investment (FDI) flows among macroeconomic indicators at the country level for the MENA region. Their main findings support existing theory on FDI flows but add findings related to resource endowments. High levels of natural resource holdings are negatively related to FDI flows, whereas relatively high prices for resources encourage FDI flows. Our analysis focuses on macroeconomic indicators specified for the MENA region to test these assumptions and findings on the likelihood of IFRS adoption.

Firms may have many motivations for implementing higher quality financial reporting but at the country level, most research indicates that due to the costs of adopting IFRS, countries choose to adopt new standards to encourage investment through increased interest in capital markets (Klibi and Kossentini,

2014) or to increase their perceived corporate governance in order to attract foreign direct investment (Rogmans and Ebbers, 2013). Under most conditions countries choose to bear the costs of increasing financial reporting quality when other factors are favorable for attracting capital. The most commonly identified factor associated with increased capital flows is a country's market size, usually measured by a country's GDP (Bevan and Estrin, 2004). High levels of per capita GDP indicate markets with high spending power and this can be expected to increase capital market inflows. We use GDP per capita to control for this effect and expect it to be correlated to the choice to adopt high quality reporting standards. An alternate measure is related to openness of trade, as measured by the ratio of exports to GDP. Jun and Singh (1995) found that export orientation was the single most important determinant in capital inflows for a set of 31 developing countries.

One would expect poor institutions and high levels of environmental risk ('institutional hazards') to deter capital inflows. Today a large number of risk ratings are available that consider a country's environmental risk from different perspectives. The major country risk-rating agencies focus on credit risk (Standard and Poor's), corruption, or overall risk (e.g. Political Risk Group's *International Country Risk Guide* (ICRG)). The World Bank also publishes a set of governance indicators which consists of an amalgamation of a number of measures published by different sources. We use the ICRG indicators. The expected relation to IFRS adoption depends on the indicator as some are positive attributes (e.g. bureaucratic quality) and some are negative (e.g. corruption). Despite some variations depending on specific characteristics of individual studies, existing research indicates that a high level of environmental risk in a country leads to lower capital inflows, especially among developing countries and countries with high risk levels.

Natural resource endowments such as oil and gas are generally believed to attract resource-seeking capital (Estrin and Meyer, 2004). However there is a counter argument to the notion that natural resources attract capital inflows. The 'Dutch disease' theory was first put forward by *The Economist* in 1977 to explain the paradox of the Dutch economy in the years after large oil deposits were discovered. As the country's oil wealth increased, overall GDP growth fell and capital inflows decreased. As a country earns foreign exchange reserves through exports of natural resources, its real exchange rate increases, making outside capital investments relatively expensive (C.W. Kiev, 2014). In addition to the actual resource endowment of a country, capital flows can also be affected by the world market prices for these resources. If the impact described does exist, it is likely to be a lagged effect, since the effect of higher oil prices needs some time to work its way through to higher government revenues. Mina (2007) found a negative relation between oil price and capital inflows into the Gulf Cooperation Council (GCC) countries, but the relation became positive once a variable for institutional quality was added to the model.

## DATA AND METHODOLOGY

The study covers political and economic characteristics of the 16 countries of the Arab Middle East North Africa (MENA) region between 1994 and 2008. Data has been obtained from the relevant United Nations Conference on Trade and Development (UNCTAD) World Investment Reports. UNCTAD is part of the United Nations system for investment and enterprise development with 30 years of data collection in these areas. UNCTAD promotes understanding of key issues, particularly matters related to foreign direct investment. UNCTAD also assists developing countries in attracting and benefiting from foreign direct investment (FDI), and in building their productive capacities and international competitiveness. "The emphasis is on an integrated policy approach to investment, technological capacity building and enterprise development" (*World Investment Report* 2009). Ratings on environmental risk factors and institutional quality for each of the years of the study for each country were obtained from the *International Country Risk Guide (ICRG)*. The *ICRG* is one of the world's most reliable commercial sources of country risk analysis and ratings monitoring 140 countries. The guide provides financial, political, and economic risk information and forecasts. The *ICRG* assigns values to the 22 indicators underlying *ICRG*'s business-oriented model for quantifying risk, examining such country-specific elements as "currency risk, political

leadership, the military and religion in politics, and corruption" (*ICRG* 2009). Other publically available data sources were used for oil and gas reserves and oil prices (British Petroleum (BP) *Statistical Yearbook* 2009), GDP figures (World Bank) and international trade statistics (World Trade Organization (WTO)). A country's gas reserves were converted into oil equivalent using the industry standard conversion ratio of 6.6 barrels of oil per 1000 cubic meters of gas, thereby arriving at one measure of each country's overall energy resource endowment. Table 1 provides key descriptive statistics on the country sample for the period under study with aggregated risk factors.

Table 1: Descriptive Statistics by Country (Aggregated Risk Factors) (Rogmans & Ebbers 2013)

| Country | Population | GDP | GDP Per Capita | Composite (1-100) | Political (1 – 100) | Economic (1-100) | Financial (1-100) |
|---|---|---|---|---|---|---|---|
| | Millions | US $ Millions | US Dollars | Average 1994-2008 | Average 1994-2008 | Average 1994-2008 | Average 1994-2008 |
| Algeria | 34.4 | 166,545 | 4,845 | 59 | 51 | 33 | 34 |
| Bahrain | 0.8 | 21,903 | 28,240 | 72 | 64 | 40 | 39 |
| Egypt | 81.5 | 162,283 | 1,991 | 63 | 58 | 33 | 34 |
| Iran | 71.0 | 286,058 | 4,028 | 60 | 56 | 31 | 32 |
| Jordan | 5.9 | 21,238 | 3,596 | 66 | 62 | 36 | 33 |
| Kuwait | 2.7 | 148,024 | 54,260 | 73 | 64 | 41 | 41 |
| Lebanon | 4.2 | 29,264 | 6,978 | 49 | 46 | 28 | 25 |
| Libya | 6.3 | 93,168 | 14,802 | 62 | 56 | 34 | 34 |
| Morocco | 32.1 | 88,883 | 2,769 | 66 | 64 | 34 | 34 |
| Oman | 2.7 | 41,638 | 15,273 | 73 | 69 | 39 | 39 |
| Qatar | 1.1 | 71,041 | 62,451 | 69 | 66 | 38 | 34 |
| Saudi Arabia | 24.6 | 468,800 | 19,022 | 71 | 63 | 39 | 39 |
| Syria | 20.6 | 55,204 | 2,682 | 61 | 60 | 32 | 30 |
| Tunisia | 10.3 | 40,309 | 3,903 | 67 | 66 | 35 | 33 |
| UAE | 4.4 | 198,693 | 45,531 | 72 | 65 | 42 | 38 |
| Yemen | 22.9 | 26,576 | 1,160 | 60 | 48 | 29 | 29 |

*This table shows economic indicators and risk factors for each sample country. Risk factors are rated from 1 to 100, with 100 being the best (most favorable).*

We develop three regression models to indicate the likelihood of a MENA country to adopt IFRS reporting. The base model includes natural resources and macroeconomic indicators, but is not adjusted for any risk factors. We then compare the base model to a second model that includes aggregated risk factors, and a third model that includes disaggregated risk factors. The general models are:

*Probability of IFRS Adoption Model:* Probability of IFRS adoption at the country level = *f* (natural resource holdings, country wealth (GDP measures), economic risk, financial risk, composite governance risk)
The specific models we test are as follows:

Base Model:

$$IFRS_j = \beta_0 + \beta_1 OilRes_j + \beta_2 OilPrice_j + \beta_3 Open_j + \beta_4 GDPgrow_j + \beta_5 GDPPC_j + \varepsilon_j \quad (1)$$

Base Model with risk factors aggregated:

$$IFRS_j = \beta_0 + \beta_1 OilRes_j + \beta_2 OilPrice_j + \beta_3 Open_j + \beta_4 GDPgrow_j + \beta_5 GDPPC_j + \beta_6 EconR_j + \beta_7 FinR_j + \beta_8 CompositeR_j + \varepsilon_j \quad (2)$$

Base Model with risk factors disaggregated:

$$IFRS_j = \beta_0 + \beta_1 OilRes_j + \beta_2 OilPrice_j + \beta_3 Open_j + \beta_4 GDPgrow_j + \beta_5 GDPPC_j + \beta_6 BureauQual_j + \beta_7 Corrupt_j + \beta_8 DemAccount_j + \beta_9 Law_j + \beta_{10} InvestProf_j + \beta_{11} GovStable_j + \beta_{12} SocioEcon_j + \varepsilon_j \quad (3)$$

Table 2 provides additional descriptive statistics for disaggregated elements of composite risk as well as overall means and standard deviations for the resource and economic variables.

Table 2: Descriptive Statistics for Disaggregated Risk Factors

| Variable | Mean | Standard Deviation |
|---|---|---|
| Openness (log) | 1.24 | 1.19 |
| Oil Price (log) | 1.65 | 0.15 |
| Oil and Gas Reserve (log) | 60.87 | 91.27 |
| Bureaucratic Quality (4) | 1.90 | 0.58 |
| Corruption (6) | 2.63 | 0.80 |
| Democratic Accountability (6) | 2.51 | 1.24 |
| Government Stability (12) | 8.41 | 2.24 |
| Investment Profile (12) | 7.09 | 2.32 |
| Law and Order (6) | 3.87 | 1.27 |
| Real GDP Growth (10) | 9.15 | 13.44 |
| GDP per Capita (5) | 3.57 | 0.52 |
| Socioeconomic Conditions | 6.00 | 1.89 |

*This table shows disaggregated risk factors with means and standard deviations for the sample countries. Indicators are shown in log form where noted. Note: Numbers in brackets represent the upper limit on the measurement scale with the lower limit set to 0.*

## RESULTS AND DISCUSSION

Our results are presented in Table 3. In general, the models perform well with adjusted $R^2$ ranging from 0.556 for the base model containing only natural resource and economic indicators to 0.743 for model 3 which contains the base model variables as well as disaggregated risk measures. Given the nature of the sample, Model 1 represents our baseline specification which includes measures on natural resources, primarily oil and gas reserves.

We also include macroeconomic controls for economic growth through GDP and also openness to trade. Our results for the base line model indicate that the larger the endowment of oil and gas in a country, the lower is the likelihood of adopting IFRS. The result is not surprising since countries with high oil and gas reserves tend to be wealthy and hence attracts more foreign investment despite the risk of lower transparency or institutional quality. The results also show that GDP, though statistically significant, does not seem to have any economic significance. The baseline model ignores the element of country risk, which could serve as an impediment for countries to improve trade or attract investment. To empirically control for risk, we use two model specifications, one of which includes composite measures of risk and the second includes disaggregated measures of risk. Our second model includes all of the variables from the baseline specification but with the additional aggregate measures which control for risk. Our results indicate that even after controlling for aggregate risk elements, the impact of higher oil and gas reserves on the probability of adopting IFRS remains negative. This further reaffirms our belief that traditionally wealthy nations may not require specific signals to attract investment. Notably, the effect of GDP on the probability of adopting IFRS remains statistically significant but the coefficient still is at 0, indicating no economic significance. Among the composite risk indices, we find that greater economic risk leads to a lower probability of adopting IFRS. This conclusion seems counter intuitive, as one of the main arguments of adopting IFRS is to reduce friction in the economic operations. This, in turn, should enable greater transparency, thus leading to positive economic outcomes for the country such as attracting more investment. However, this could be the result of a problem due to the operationalization of economic risk. To eliminate concerns regarding operationalization of the aggregated measure, we disaggregate the risk indices into individual components in model 3.

Table 3: Determinants of IFRS Adoption in the MENA Region

| | **Model 1** | **Model 2** | **Model 3** |
|---|---|---|---|
| | **Coefficient** | **Coefficient** | **Coefficient** |
| Oil and Gas Reserves | **-0.014*** ** | **-0.006*** | **-0.018*** ** |
| | **(-2.654)** | **(-1.759)** | **(-4.596)** |
| Oil Price | **0.071*** ** | **0.100*** ** | **0.119*** ** |
| | **(5.105)** | **(5.351)** | **(4.802)** |
| Openness | -0.053 | -0.166 | -0.309 |
| | (-0.204) | (-0.551) | (-1.097) |
| GDP growth rate | -0.014 | 0.009 | 0.055** |
| | (-0.675) | (0.520) | (2.172) |
| GDP per capita | 0.000*** | 0.000*** | 0.000*** |
| | (3.281) | (3.114) | (3.288) |
| Economic Risk (Comprehensive) | | -0.316*** | |
| | | (-3.656) | |
| Financial Risk (Comprehensive) | | 0.009 | |
| | | (0.087) | |
| Composite Risk Measure | | 0.211* | |
| | | (1.916) | |
| Bureaucratic Quality | | | 3.294*** |
| | | | (4.311) |
| Corruption | | | -0.661* |
| | | | (-1.901) |
| Democratic Accountability | | | 0.057 |
| | | | (0.261) |
| Law and Order | | | 0.277 |
| | | | (0.633) |
| Investment Profile | | | 0.375* |
| | | | (1.662) |
| Government Stability | | | -0.066 |
| | | | (-0.307) |
| Socioeconomic conditions | | | -0.386** |
| | | | (-2.334) |
| Constant | -4.784*** | -10.283*** | -14.229*** |
| | (-7.585) | (-2.891) | (-3.330) |
| Number of observations | 190 | 177 | 178 |
| Clustered Standard Errors | **Country** | **Country** | **Country** |
| Adjusted R2 | 0.556 | 0.662 | 0.743 |

*The estimated equations are: Base Model: (1)* $IFRS_j = \beta_0 + \beta_1 OilRes_j + \beta_2 OilPrice_j + \beta_3 Open_j + \beta_4 GDPgrow_j + \beta_5 GDPPC_j + \varepsilon_j$ *Base Model with risk factors aggregated: (2)* $IFRS_j = \beta_0 + \beta_1 OilRes_j + \beta_2 OilPrice_j + \beta_3 Open_j + \beta_4 GDPgrow_j + \beta_5 GDPPC_j + \beta_6 EconR_j + \beta_7 FinR_j + \beta_8 CompositeR_j + \varepsilon_j$ *Base Model with risk factors disaggregated: (3)* $IFRS_j = \beta_0 + \beta_1 OilRes_j + \beta_2 OilPrice_j + \beta_3 Open_j + \beta_4 GDPgrow_j + \beta_5 GDPPC_j + \beta_6 BureauQual_j + \beta_7 Corrupt_j + \beta_8 DemAccount_j + \beta_9 Law_j + \beta_{10} InvestProf_j + \beta_{11} GovStable_j + \beta_{12} SocioEcon_j + \varepsilon_j$

*Variable definitions are provided in the text. ***, **, and * indicate p-values of 1%, 5%, and 10% respectively.*

The results from Model 3 indicates that after controlling for disaggregated risk factors, the impact of oil and gas reserves on the probability of adopting IFRS remains robustly negative. The effect of GDP is also robust in terms of both statistical and economic significance. The disaggregated measures of risk confirm our earlier beliefs regarding what motivates nations to adopt IFRS. We find that an increase in bureaucratic quality leads to a higher likelihood of adopting IFRS. The explanation for this effect is intuitive. Improving bureaucratic quality leads to an improvement in the internal governance mechanisms of the country which in turn should be perceived as improving institutional quality within the country. Second, we find that higher levels of corruption lead to lower likelihood of adopting IFRS. Clearly, adopting an international standard may lead to greater transparency which may not be a desirable outcome in countries where corruption is on the higher level. Third, we find that boosting the investment profile of a country leads to a greater likelihood of adopting IFRS. Finally, we find that better socio-economic conditions lead to lower likelihood of adopting IFRS.

## CONCLUDING COMMENTS

In this paper, we examine the macroeconomic indicators which influence a country's adoption of IFRS accounting standards. We hypothesize that countries adopt high quality accounting standards to increase

the country's attractiveness to outside capital providers. Using a sample of developing countries from the MENA region, we utilize a set of regression models to test the assumption that certain macroeconomic indicators often associated with foreign direct investments are associated with the probability of adoption.

Countries adopt new accounting standards to increase the financial transparency of their capital markets and hence increase capital market inflows. Adopting new standards is costly, and if a country's government already perceives the extant reporting quality as high, or the country has adequate internally generated capital, then the benefits of converting to a higher quality financial reporting regime may be insufficient to induce a change. Our results suggest that when a MENA country has large oil and gas reserves the adoption of new accounting standards is less likely. This result suggests there is a trade-off. Traditionally oil-rich countries tend to be wealthy and firms and industries may have a natural inclination to do business with these countries as access to resources may supersede the need for high-quality institutions. Thus, these countries may not need to adopt IFRS reporting standards to signal their ability to attract investment.

On the other hand, when oil prices rise, the likelihood of adopting new standards increases. This result is consistent with the positive relationship between economic output per capita and adoption of new standards. Countries act rationally in regards to bureaucratic quality, that is, when bureaucratic quality is high, the groundwork is in place to generate the expected benefits from adopting new accounting standards. Relatedly, low levels of corruption and a favorable investment profile work in much the same way. They are necessary but not sufficient conditions to insure the returns of a strategy of improved financial reporting quality. Our results may not be generalizable to all areas or country cohorts. We suspect our results are limited to parts of the world where natural resources are high and the member country's institutional structure is evolving. Future research should continue to examine the link between developing countries institutional structure and the perceived benefits of adopting costly policy initiatives. Examples of adopting costly policy changes include new accounting standards but also financial market enhancements such as stronger corporate governance measures or enhanced environmental standards.

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