

ACCOUNTING AND CULTURAL DIMENSIONS IN EUROPE AND CIS COUNTRIES REGARDING THE ADOPTION OF IFRS FOR SMEs

Alexandra-Gabriela MARINA¹WSR: AAE-2009-2019

Abstract: *This paper assess the impact of cultural dimensions on accounting in Europe and CIS countries regarding the implementation process of IFRS for SMEs. The means chosen to achieve this purpose is to identify the cultural characteristics of the selected countries using two basic typologies of cultural values models: Hofstede's model (1980, 2010) and Gray's framework (1988). For the study were selected twelve European and CIS countries: Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Iceland, Lithuania, Kazakstan, Malta, Romania, Serbia, Slovenia and Ukraine. Each jurisdiction was analyzed for Hofstede's cultural dimensions and a similar accounting profile based on Gray's framework. Profiles for each country was examined in contrast to an independent IFRS for SMEs favourable profile recommended.*

Keywords: IFRS, IFRS for SMEs, cultural dimensions, accounting values

JEL classification: M41

Introduction

The accounting treatment applied in an economy and the requirements of users of accounting information may reflect the cultural characteristics of a country. In the literature it is stated that the dissimilarities between the accounting systems are of a cultural nature, the national accounting system is regarded as a "dependent social construction" of the type of society and the way it evolves (Feleagă and Feleagă, 2006).

The development of accounting standards is assumed to be established on a country's socio-economic environment, mainly the cultural background (McCartney, 2004).

Over time, the adoption of IFRS has been a popular topic of study, because it has been tried to identify the problems of adopting IFRS. In the literature, among the factors that prevent the adoption of IFRS have been identified the following: companies' listing status, companies ownership structure, companies' size and legal systems (Pricope, 2016). Most of the times, the topics studied regarding the adoption of IFRS were firmly related to the theories of accounting practice, where we can mention institutional theory and agency (Epstein & Jermakowicz, 2008, Khlif & Chalmers, 2015)

In order to assess the degree of difficulty existing in the countries in adopting IFRS, it is essential to determine the accounting implications of the respective country's culture, measured based on cultural values and dimensions. (Borker, 2012)

According the cultural theory there is a mutual perception, a projection of people's thought, a way of satisfying people's mental needs, a system of shared symbols and unconscious infrastructure which can influence preparers of financial statements to respond negatively or positively to regulations (Gray, 1988, Hofstede, 2001, Borker, 2013)

The paper aims to assess the impact of cultural features on accounting in Europe and CIS (Commonwealth of Independent States) countries regarding the implementation process of IFRS for SMEs. To achieve this goal, in the research paper are identified the cultural characteristics of the

¹ PhD Student Babes-Bolyai University, Cluj-Napoca, Romania,
Teaching Assistant Lucian Blaga University, Sibiu, Romania, alexandra.marina@ulbsibiu.ro
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selected countries using two basic typologies of cultural value models: Hofstede’s model (1980, 2010) and Gray’s accounting framework (1988).

Literature review

Hofstede’s cultural dimensions model

Hofstede characterises "culture" as a collective programming of the mind, very difficult to change, that differentiate a group of people from others, because changing that cultural programming is hard unless individuals move from their culture. An important environmental factor is represented by the culture because it is influencing accounting practices and management control systems (Chan, Lin and Mo, 2003). Between 1968-1972, he evolved a cultural pattern, a model consisting of four dimensions: power distance, uncertainty avoidance, individualism versus collectivism and masculinity versus femininity. Seven years later, Hofstede added a fifth dimension: long-term versus short-term orientation. In 2010, Hofstede added indulgence versus restraint as a sixth dimension, based on data analysis made by Minkov with the World Values Survey for 93 countries (Hofstede, Hofstede and Michael, 2010).

Hofstede’s cultural dimensions model is globally accepted for the measurement of the cultural dimensions of an economy. Hofstede (1984) theory proves the connection of external environmental factors, economic factors, ecological factors and institutional consequences in value creation. The author stated that the progress of companies culture is influenced by the cultural dimensions; in this case, the development of accounting systems. His book, *Cultures and Organizations Software of the Mind*, published in 1991, is the most popular book regarding this domain. In 2010 was issued a new edition, together with two co-authors, Gert Jan Hofstede and Michael Minkov.

Based on the Hofstede’s model, were identified as six measurable cultural dimensions (Table 1):

1. PDI - Power Distance
2. UA - Uncertainty Avoidance
3. IND - Individualism versus Collectivism
4. MAS - Masculinity versus Femininity
5. LTO - Long-Term Orientation
6. IVR - Indulgence versus Restraint

Table 1. Hofstede’s cultural dimensions model

Dimension	Meaning
Power Distance (PDI)	PDI measures the degree of inequality in society. Also, it can be defined as the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally. Institutions are the essential elements of society, such as the family, the school, and the community; organisations are the places where people work. The main idea of PDI is that individuals in an organised group are not equal, reflecting how the members perceive the inequality in a lower position.
Uncertainty Avoidance (UA)	UA can be defined as the extent to which the members of a culture feel vulnerable to unknown or ambiguous situations. Among other manifestations, this perception is expressed by nervous stress and by requirement for predictability: a need for written and unwritten rules.

Individualism versus Collectivism	Individualism refers to cultures in which the bonds between people are unconstrained: everyone is expected to look on himself or herself and his or her family. Collectivism as its opposite pertains to cultures in which people from birth further are integrated into powerful, cohesive in-groups, which during people's lifetime continue to protect them in exchange for absolute loyalty.
Masculinity versus Feminity	A culture is called masculine when emotional gender roles are distinct: men are supposed to be assertive, sturdy, and focused on material success, whereas women are supposed to be more modest, tender, and concerned with the quality of life. A culture is called feminine when emotional gender roles overlap: both women and men are supposed to be modest, fragile, and worried about the quality of life.
Long-Term Orientation (LTO)	LTO stands for the promotion of virtues oriented toward future rewards - in particular, perseverance and prudence. Short-term orientation, its opposite pole, stands for the development of attributes related to the past and present - in particular, respect for tradition and fulfilling social obligations.
Indulgence versus Restraint (IVR)	Indulgence stands for an inclination to tolerate relatively free gratification of basic and natural human desires related to enjoying life and having fun. Its opposite pole, restraint, reflects a conviction that such gratification needs to be curbed and regulated by strict social norms. Indulgence versus restraint, as a cultural dimension, rests on clearly defined research items that measure particular phenomena. Note that the gratification of desires on the indulgence side refers to enjoying life and having fun, not gratifying human desires in general.

Source: based on (Hofstede, Hofstede and Michael, 2010)

Hofstede's dimensions represent the most potent national culture framework in business literature, and it has inspired thousands of empirical studies (Khilif, 2016).

Kolešnik (2013) claim that the relevance of Hofstede's dimensions of national culture in accounting is the national culture's influences on the nature of accounting practices. According to Gray (1988) the most significant dimensions for accounting are the power distance, individualism and uncertainty avoidance.

Gray's Accounting Values

Gray (1988) introduces a framework extending the concepts of Hofstede's model of cultural patterns. Gray's framework examines the evolution of accounting systems by using accountants' value systems, identifying four fundamental accounting values: professionalism versus statutory, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency (Table 2)..

Table 2. Gray's Accounting Values

Values	Meaning
Professionalism versus Statutory	an inclination for the use of individual professional beliefs and the maintenance of professional self-regulation as opposed to conformity with rigid legal requirements and statutory control.
Uniformity versus Flexibility	an inclination for the enforcement of homogeneous accounting practices between companies and the consistent use of such methods over time as opposed to flexibility by the perceived

circumstances of individual companies.

Conservatism versus Optimism	an inclination for a prudent approach to measurement to manage with the uncertainty of future events as opposed to a more positive, risk-taking way.
Secrecy versus Transparency	an inclination for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach

Source: based on Gray (1988)

Data and methodology

This research paper aims to measure the impact of cultural dimensions on accounting in Central and Eastern Europe countries regarding the implementation process IFRS for SMEs. In order to achieve this aim, the cultural characteristics of in Europe and CIS countries will be identified using two basic typologies of cultural value models: Hofstede's cultural dimensions model (1980, 2010) and Gray's framework (1988).

Hofstede (1984) survey of the cultural orientations of countries was used by Gray (1988) to explain how culture can influence the development of accounting systems. Borker (2013a) used Gray (1988) accounting theory to develop a foundation to explore favourable circumstances and challenges in IFRS adoption.

According to Borker (2013a), Gray's (1988) framework represents a guideline to investigate the favourable circumstances and challenges in IFRS adoption. The researcher described that a company's accounting orientation could be identified and compared to the IFRS profile to comprehend if there are objections in IFRS adoption.

For the study were selected twelve European and CIS countries: Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Iceland, Lithuania, Kazakstan, Malta, Romania, Serbia, Slovenia and Ukraine. Each country will be analysed by Hofstede's six cultural dimensions and a similar accounting profile based on Gray's framework. The foundation for the selection was the availability of Hofstede indices for all our countries sample. Profiles for each country will be examined in contrast to an independent IFRS for SMEs favourable profile as part of a larger analysis of cultural patterns, among other influences, for a successful IFRS implementation.

The sample chosen for this research, according to the 2019 MSCI index, is part of the Frontier Markets category, where seven markets are evaluated using MSCI Frontier Markets Index and the other five markets are evaluated with MSCI Standalone Market Indexes (Figure 1). In 2019, World Bank classified these countries as high income (Croatia, Estonia, Iceland, Lithuania, Malta, Slovenia), upper-middle-income (Bosnia and Herzegovina, Bulgaria, Kazakhstan, Romania, Serbia) and lower-middle-income (Ukraine).

Figure 1. Annual Market Classification

MSCI ACWI & FRONTIER MARKETS INDEX										
MSCI ACWI INDEX						MSCI EMERGING & FRONTIER MARKETS INDEX				
MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX			MSCI FRONTIER MARKETS INDEX				
DEVELOPED MARKETS			EMERGING MARKETS			FRONTIER MARKETS				
Americas	Europe & Middle East	Pacific	Americas	Europe, Middle East & Africa	Asia	Europe & CIS	Africa	Middle East	Asia	
Canada	Austria	Australia	Argentina	Czech Republic	China	Croatia	Kenya	Bahrain	Bangladesh	
United States	Belgium	Hong Kong	Brazil	Egypt	India	Estonia	Mauritius	Jordan	Sri Lanka	
	Denmark	Japan	Chile	Greece	Indonesia	Lithuania	Morocco	Kuwait	Vietnam	
	Finland	New Zealand	Colombia	Hungary	Korea	Kazakhstan	Nigeria	Lebanon		
	France	Singapore	Mexico	Poland	Malaysia	Romania	Tunisia	Oman		
	Germany		Peru	Qatar	Pakistan	Serbia	WAEMU ²			
	Ireland			Russia	Philippines	Slovenia				
	Israel			Saudi Arabia	Taiwan					
	Italy			South Africa	Thailand					
	Netherlands			Turkey						
	Norway			United Arab Emirates						
	Portugal									
	Spain									
	Sweden									
	Switzerland									
	United Kingdom									
MSCI STANDALONE MARKET INDEXES ¹										
						Americas	Europe & CIS	Africa	Middle East	
						Jamaica	Bosnia Herzegovina	Botswana	Palestine	
						Panama	Bulgaria	Zimbabwe		
						Trinidad & Tobago	Malta			
							Iceland			
							Ukraine			

Source: <https://www.msci.com/market-classification>

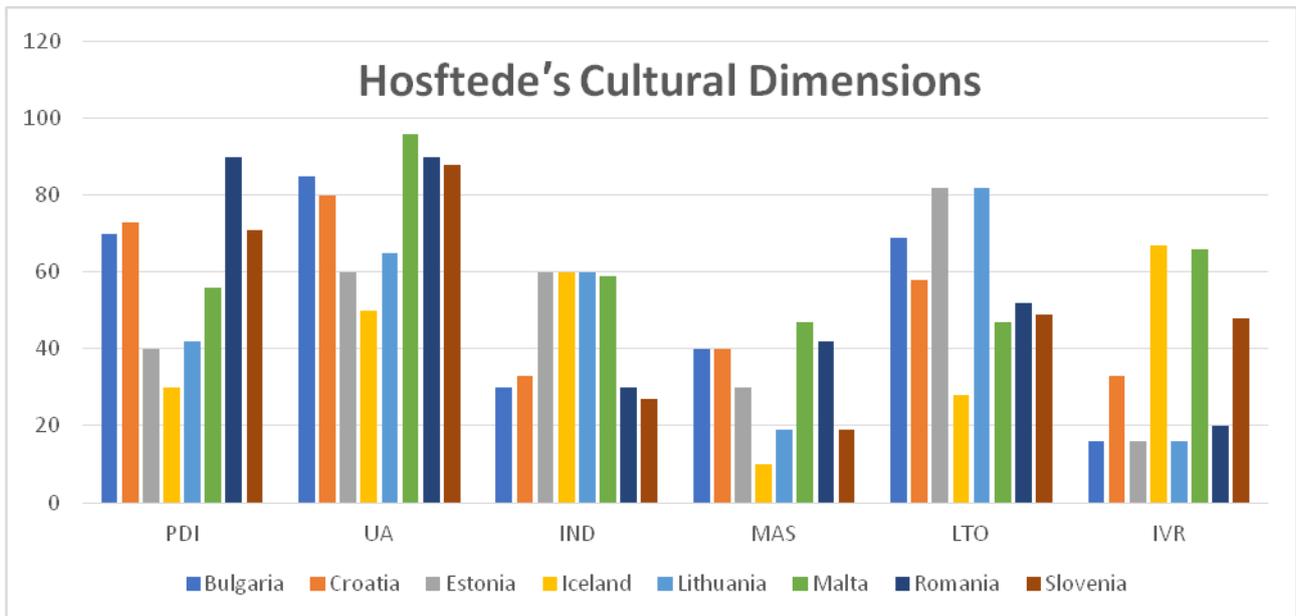
Analysis results

Hofstede's Cultural Dimensions

The paper is using the data extracted from Hofstede's research, which provide the required scores for each dimension, to analyse the European and CIS countries culture based on the six dimensions. The data was collected from the following source: Geert Hofstede, Gert Jan Hofstede, Michael Minkov – Cultures and Organizations: Software of the Mind Revised and Extended 3rd Edition, New York: McGraw-Hill, USA, 2010 and also is available on www.geert-hofstede.com.

In order to analyse the sample selected, we will exclude Bosnia and Herzegovina, Kazakstan, Serbia and Ukraine, because according to the IFRS Foundation (www.ifrs.org - Who uses IFRS Standards?) they already are using the IFRS Standards and IFRS for SMEs.

Chart 1. Hofstede's cultural dimensions assessment



Source: data collected from <http://geert-hofstede.com/countries.html>

Power Distance (PDI)

The lowest score on PDI dimension ranging from 30 to 42 (Iceland – 30, Estonia – 40 and Lithuania – 42) shows an inclination to prefer decentralisation of power, equality and decision-making. In these countries, the power is decentralised, and managers count on the experience of their team members, allowing them to affirm their beliefs and express disagreement, as well as to be involved in the decision-making process. Employees expect to be consulted based on direct and participative communication. They dislike control and attitude towards managers are informal and on a first-name basis.

The other countries had relatively high scores on PDI dimension ranging from 56 to 90 (Malta – 56, Bulgaria – 70, Slovenia – 71, Croatia – 73 and Romania – 90). These high scores show that hierarchy in an organisation is accepted, reflecting inherent inequalities, where subordinates require to be told what to do. In countries scoring high on PDI (e.g. Romania – 90) it is entirely acceptable that some people had more power than others and expected that these people also use their power but not in a negative way, creating clarity and structure for people around them.

Uncertainty Avoidance (UA)

From our sample, Iceland shows no clear preference for UA, scoring 50 points. The other seven countries incline for Uncertainty Avoidance, with scores from 60 to 96. In these countries exists an emotional need for rules, laws are adopted to avoid uncertainty, rigid codes of beliefs and behaviours are maintained, having a high intolerance of different practices and ideas.

Individualism (IND)

Bulgaria, Croatia, Romania and Slovenia have a low score on IDV ranging from 27 to 33, being considered countries with tendencies to collectivism, maintaining healthy relationships where everyone takes the blame for fellow members of their group.

The highest scores on IND ranges from 59 to 60. In these countries is a high preference for a social framework, where people are expected to take care of themselves and their families only.

Masculinity (MAS)

All eight countries (Iceland – 10, Lithuania and Slovenia – 19, Estonia – 30, Bulgaria and Croatia – 40, Romania – 42, Malta – 47) are considered feminist countries, where the people value equality, solidarity and quality of their lives. Others principal values of these countries are the tolerance towards the culture of other nations, and modesty, where communication is very diplomatic and soft.

Long-Term Orientation (LTO)

All countries sample except Iceland (28), Malta (47) and Slovenia (49), incline to long-term orientation with scores ranging from 52 to 82, having a pragmatic orientation perspective. Iceland, Malta and Slovenia are more normative in their thinking than pragmatic, concerning to establish the absolute truth. These two cultures have great respect for traditions and small focus in achieving fast results.

LTO dimension describes how each culture has to preserve some links with its past while handling the tests of the present and future. In these countries, people believe that the context, situation and time influence the truth. They have a great ability to adapt their traditions with no trouble to the changed circumstances and also great perseverance in achieving their goals.

Indulgence vs Restraint (IVR)

From our sample, Slovenia shows no clear preference for this dimension, scoring only 48 points. The high score (66-67) shows that Malta and Iceland's cultures are one of Indulgence. People classified by a high score in Indulgence generally possess a positive attitude and tend towards optimism. Also a high score indicate a willingness to accomplish their impulses and desires about enjoying life and having fun.

The other countries incline to Restraint, with scores ranging from 16 to 33, tending to cynicism and pessimism. In this type of cultures exists perceptions that their actions are restrictive regarding social rules, reflecting a belief that human desires related to enjoying life and having fun need to be curbed and regulated.

Gray's Accounting Values

Gray's framework is an extension of Hofstede's cultural dimensions, examining the development of accounting systems by using accountants' value systems, identifying four fundamental accounting values: professionalism versus statutory, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency. Gray suggests that these accounting values influence accounting systems.

According to Borker (2012), who studied Gray's framework: Professionalism versus Statutory Control refers to professional judgment and self-regulation in contrast to compliance with rigid legal requirements and legislative control. Uniformity versus Flexibility is the level of application of standardised and consistent accounting practices. Conservatism versus Optimism is a careful approach to accounting measurement in opposition to a more positive and risk-taking attitude. Secrecy versus Transparency is confidentiality and the restraint of disclosure of information, in opposition to a more transparent and publicly accountable approach.

In his paper, Gray proposes four hypotheses on the interaction between identified cultural characteristics and the development of accounting systems, the regulation of the accounting profession and perspectives towards financial management and disclosure. The following table is summarising Gray's hypotheses:

Table 3. Gray`s hypotheses

Hypothesis	Description
H1	The higher a ranking in terms of individualism and the lower the ranking in terms of uncertainty avoidance and power distance, the more likely the country is to rank highly in terms of professionalism.
H2	The higher a ranking in terms of uncertainty avoidance and power distance and the lower the ranking in terms of individualism, the more likely it is to rank highly in terms of uniformity.
H3	The higher a ranking in terms of uncertainty avoidance and the lower the ranking in terms of individualism and masculinity, the more likely it is to rank highly in terms of conservatism.
H4	The higher a ranking in terms of uncertainty avoidance and power distance and the lower the ranking in terms of individualism and masculinity, the more likely it is to rank highly in terms of secrecy.

Source: based on Gray (1988)

Conclusion

In the literature, it appears that the adoption of IFRS is easier for developing countries that have an Anglo-Saxon culture (Zeghal & Mhedhbi, 2006; Zehri & Chouaibi, 2013). At the same time, the favourable IFRS profile is that of Anglo-Saxon culture, because the emphasis is on the individual rather than on regulatory systems that force uniformity (Borker, 2012).

Based on Hofstede`s research results, the cultural dimensions that characterise the economies with IFRS profile are a low level of power distance, a high level of individualism, an average to high level of masculinity, an average to low level of uncertainty avoidance, a low level of long-term orientation and a high level of indulgence.

Borker (2012) used as a point of reference and comparison the following IFRS favourable profile Table 4.

Table 4. IFRS Favourable Accounting Value Profile

Gray`s hypotheses	IFRS Favourable Profile
H1	Professionalism
H2	Flexibility
H3	Optimism
H4	Transparency

Source: based on Borker (2012)

To achieve results in the implementation of IFRS for SMEs, we will extrapolate the characteristics of the IFRS favourable profile to the IFRS for SMEs favourable profile. Also, to be able to analyse the trend of cultural dimensions among the countries selected for the sample, each country profile was compared to an independent IFRS for SMEs favourable profile proposed.

Starting from the four hypotheses of Gray's framework and the favourable profile of IFRS (Borker, 2012), the following are hypothesised (Table 5)

Table 5. Hypotheses based on Gray's framework

Hypothesis	Description
H1	The higher, a culture is ranking in terms of professionalism and the lower in terms of statutory control, the more likely the culture is to rank highly in terms of IFRS for SMEs adoption.

H2	The higher, a culture is ranking in terms of flexibility and the lower in terms of uniformity, the more likely the culture is to rank highly in terms of IFRS for SMEs adoption.
H3	The higher, a culture is ranking in terms of optimism and the lower in terms of conservatism, the more likely the culture is to rank highly in terms of IFRS for SMEs adoption.
H4	The higher, a culture is ranking in terms of transparency and the lower in terms of secrecy, the more likely a culture is to rank highly in terms of IFRS for SMEs adoption.

Applying Gray’s four hypotheses to our countries sample, we have the following results:

Table 6. Results of Gray’s Framework

Countries	H1	H2	H3	H4
Bulgaria	Statutory Control	Uniformity	Conservatism	Secrecy
Croatia	Statutory Control	Uniformity/Flexibility	Conservatism	Secrecy
Estonia	Professionalism	Flexibility	Optimism	Transparency
Iceland	Professionalism	Flexibility	Conservatism/Optimism	Transparency
Lithuania	Professionalism	Uniformity	Conservatism/Optimism	Transparency
Malta	Statutory control	Uniformity	Conservatism	Secrecy
Romania	Statutory control	Uniformity	Conservatism	Secrecy
Slovenia	Statutory control	Flexibility	Conservatism	Secrecy

Source: adapted of Borker (2012)

The interpretation of the obtained results takes into account the differences between countries in terms of accounting values, which can lead to different directions of development of the accounting systems (Borker, 2012).

In terms of Hofstede’s cultural dimensions, in the selected sample, only a few countries partially meet the characteristics of the IFRS favourable profile. These countries are Estonia, Iceland and Lithuania. Regarding Gray’s accounting values, from these countries only Estonia corresponding to the IFRS favourable profile.

Based on the results of the analysed countries for each cultural dimension and each associated accounting value, the following is obtained, namely Estonia corresponding to the favourable IFRS for SMEs profile. Despite the results, none of the two countries applies IFRS standards for SMEs according to the IASB (www.ifrs.org), but this analysis shows that the country is prepared and can easily accept the changes that could come with the implementation of IFRS for SMEs.

For a smooth transition from the national accounting system to the IFRS for SMEs, each economy must have the necessary tools to prepare (reporting, management, suitably trained staff). At the same time, this transition must be carried out gradually in order to have sufficient time for professional accountants to understand the new concepts so that they can develop their accounting judgment and apply them without difficulty.

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