FACTORS INFLUENCING THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): EVIDENCE FROM IRAQ

RASOOL SALMAN MOHAMMED ABDULLAH

MASTERS OF SCIENCE (INTERNATIONAL ACCOUNTING)

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By

RASOOL SALMAN MOHAMMED ABDULLAH

(817827)

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ABSTRACT

The purpose of this study is to examine the adoption level of the international financial reporting standards (IFRSs) in Iraqi companies. Data in the form of descriptive financial results taken in the year 2015 of 32 companies listed on Iraqi stock exchange were used in this study. It is found that the level of IFRS adoption in Iraq is less than 50%. Regression result indicates a positive and significant relationship between IFRS with the firm size and net profit and board size. However, the effect of foreign ownership on the adoption of IFRS in the Republic of Iraq is discovered to be insignificant.

Keywords: IFRS adoption, Iraq, Firm size, Net profit, Board size and firm foreign ownership.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji tahap penggunaan piawai pelaporan kewangan antarabangsa (IFRS) dalam syarikat tersenarai di Iraq. Kajian ini menggunakan data untuk satu tahun kewangan 2015 daripada 32 syarikat yang disenaraikan di bursa saham Iraq sebagai sampel. Hasil kajian mendapati tahap pemakaian piawai pelaporan kewangan antarabangsa (IFRS) di Iraq kurang daripada 50%. Hasil regressi menunjukkan hubungan siknifikan yang positif di antara pemakaian IFRS dengan saiz syarikat, keuntungan bersih dan saiz lembaga pengarah. Namun begitu, pemilikan asing didapati tidak siknifikan dengan pemakaian IFRS di Iraq.

Kata kunci: IFRS, pemakaian, Iraq, saiz syarikat, keuntungan bersih, saiz lembaga pengarah dan pemilikan asing.

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CHAPTER ONE

1.0 INTRODUCTION

This chapter displays thesis overview which consists of seven sections. First section presents the background of study. The second section highlights the problem statement while the third and fourth sections include the research objective and research questions. The next section illustrates the significance and scope of this study. The last section describes the whole organization of study.

1.1 Background of the Study

International Accounting Standards Board (IASB) has developed accounting conceptual framework in order to provide recognition, measurement, presentation and disclosure of requirements relating transactions and events that are reflected in the financial statements of businesses (Adetoso & Oladejo, 2013). A financial statement should provide information about the financial position, performance and changes of an entity in a standardized and accurate form for investors, regulators, financial analyst and other users for economic decisions (IASB Framework) making. Accounting standards are a set of rules that companies should comply with when preparing and presenting financial reports of an entity in order to ensure uniformity of the standards across the market. Companies listed on stock exchanges must publish financial statements in accordance with the relevant accounting standards (Hung & Subramanyam, 2007).

Accounting standards aim at providing creditors and investors with relevant, reliable and timely information consistent with IASB accounting conceptual framework for the preparation and presentation of financial statements (Outa, 2011). Accounting quality is the extent to which financial statement information reflects the underlying economic situation of an entity (Chen, Tang, Jiang, & Lin, 2010). The concept of accounting quality is based on IASB Framework with two fundamentals and four enhancing qualitative characteristics.

The two fundamental quality characteristics are relevance and faithful representation, while enhancing qualities are comparability, verifiability, timeliness and understandability (IASB framework, 2015). The key elements and assumption are that with these qualitative characteristics, financial statement is of better quality than those that do not adopt the International Financial Reporting Standards (IFRS).

The rapid growth of international markets and globalization of financial markets and businesses across the world has necessitated financial reports to be prepared in accordance with the national accounting standards (Local-GAAP). This however can no longer fulfill the requirements of the international investors and multinational companies in making global comparisons of the information contained in the financial statement (Terzi, Oktem, & Sen, 2013). Financial reports prepared purely based on the national accounting standards may place multinational corporations at the disadvantage position, because investors find it difficult to ascertain the content of the financial statement (Zeghal & Mhedhbi, 2006). The existence of the financial reporting standards, therefore, can serve as the benchmark for the firm's owners since the owners are divorced from controlling activities of the business (Kasum, 2011).

The introduction of the high quality financial reporting standards was initiated formally when the International Accounting Standards Committee (IASC) was formed by professional accounting bodies from sixteen different countries across the world in 1973 (Ezeani, & Rotimi, 2012). In 2001, the body was replaced by the International Accounting Standards Board (IASB) which has developed accounting standards and related interpretations which is commonly referred to as the International Financial Reporting Standards (IFRS). The aim of comparable standards is to converge and harmonize financial statements into a single set of high quality financial information transactions in preparation and presentation of financial report of business entities across the globe (Edogbanya & Kamardin, 2014). The goal is to ensure more acceptance among investors, regulators, auditors, policy makers and financial analysts through a comparable and unique relevant information approach that is relevant in a timely manner for making financing and investing decisions (Sunder, 2002).

The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, which is useful for economic decision making (IASB, 2012). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions which will enhance overall market efficiency (IASB, 209; IASB, 2012). Although both the FASB and IASB stress the importance of high-quality financial reports, one of the key problems found in prior literature is how to operationalize and measure this quality. Because of its context-specificity, an empirical assessment of financial reporting quality inevitably includes preferences among numerous constituents.

At the present time, many countries have changed their accounting standards and introduced the International Financial Reporting Standards (IFRS). The International Financial Reporting Standards (IFRS) was introduced for the first time in 2005. The European Union companies were the pioneer to prepare their financial statements by following IFRS. The key purposes of IFRS are to enhance the transparency of financial statements, provide easiness to access international capital market, improve financial reporting quality and enrich financial information disclosure (Bala, 2013).

Since the inception of IFRS, many countries include the European Union (EU), Australia, Hong Kong and Asia Pacific started to adopt its concept in preparing their financial reports. Approximately more than 115 countries in the world have adopted IFRS including the developed and developing countries (Chebaane and Othman, 2014). India, china and Japan are among the emerging countries that adopted IFRS in 2011(jean and Stolowy, 2008). The Middle East countries have also given the attention to adopt IFRS. In 2014, Iraq initiated IFRS implementation in its different major sectors which has contributed high level in the GDP of the country.

Iraq has dual accounting system in the country for different companies. Up to date, only listed companies in Iraq have adopted IFRS whereas the non-listed companies and government entities still under the influence of Unified Accounting system (Hassan, Rankin, & Lu, 2014). The decision to implement IFRS in the listed companies of Iraq is the result of coercive pressures from the western and international agencies that provide aid to them including the World Bank and International Monetary Fund (IMF). Besides, investors, regulators and professional bodies have emphasized the intention to change the accounting system and replace it by IFRS due to the economic and social development and political uncertainties (Houqe, Easton, & van Zijl, 2014).

In 2003, the Iraqi shifted its economic system from the centrally planned system to the open market and is known as high level open market in Arab region (Looney, 2004). The basic reason for the change was to reconstruct the country's war-torn economy and recession. During the Ba'ath regime, the Iraqi oil industry structure especially had started to become weak. Oil industry of Iraq has been known as the second largest oil reserved industry of the world after the Saudi Arabia and is an attraction for business globally (Ibrahim, Stanton, & Rodrigs, 2014). Subsequently, Iraq has the ever-increasing importance for oil and energy sector all around the world and has contributed high in global economy.

Currently, Iraq has the capacity to reduce the world energy crisis because it is producing 3% of oil globally. Thus, investors show their interest in the natural resources and support the infrastructure of Iraq. Both private and foreign owners of the natural resource companies changed the legislations for investment, and in 2004 foreign investors entered into the open investment in Iraqi listed companies. Now Iraq's economy has the potential to recover from the war effects by implementing IFRS which has a more transparent system for all financial reporting in both local and foreign companies (Bova & Pereira, 2012).

There are many challenges faced by the countries when adopting IFRS in that it has different performance figure from the traditional GAAP and similarly, firms with local accounting standards also face cultural differences during IFRS adoption. The IFRS adoption offers many benefits for companies in providing clear financial report such as, improvise accounting information, enhance transparency, and decrease inaccuracy in the information given on the capital cost (Madawaki, 2012). Moreover, it provides facility and transparency for cross border transactions. The IFRS adoption enhances the development of the countries at both local and global levels (Hassan, Rankin, & Lu, 2014).

There are some factors including firm size, net profit of companies and governance which show significant influence on IFRS adoption in both foreign and local companies. The adoption level of IFRS in Iraq varies from one company to another.

1.2 Problem Statement

Iraq started to adopt IFRS in 2014 when the World Bank and IMF placed coercive pressure for the adoption (Ibrahim, Stanton, and Rodrigs, 2014). Both agencies provide aid to Iraq therefore Iraq is facing the war and recession effects on its economy. It needs to recover all effects by having strong financial resources (Deloitte, 2013).

According to Ibrahim, Stanton, and Rodrigs (2014) the adoption level of IFRS varies from one company to another they requested for a transparent financial system. The uncertain situation of Iraq's economy also demanded for a strong financial system due to the involvement of IFRS in companies. Companies with high net profit have high level of IFRS adoption in Iraq than others. On the other hand, the study by Byard, Li, and Yu (2011) of many investors in Iraq.. There are some factors that influence the adoption level describe that the ratio of IFRS adoption is found very less in companies with low profit income in developing countries.

Similarly, the firm size is considered as another factor which shows significant impact on the firm's IFRS adoption level. The study by Chand, Cummings and Patel (2012) examined the relationship between IFRS adoption and firm size and they found that in adoption. Similarly, net profit of companies also has significant effect on IFRS adoption developing as well as developed countries, firm size shows significant effect on IFRS by firms. Dholakia (2012) finds a positive significant effect of net profit on IFRS accounting system adopted by companies.

Furthermore, the companies' boards of directors are influential over the adoption of IFRS. If they issued an instruction to adopt IFRS at high level, it is compulsory for the companies to comply. According to Chand, Day and Patel (2012) the board size has a great value to members are more conscious about their financial matters. They expect transparent and clear picture of adopt IFRS by companies. It is considered as most important factor because board financial statements from the management. It is claimed that IFRS adoption level is different in local and foreign companies (Hassan, Rankin, & Lu, 2014).

Previous studies on IFRS adoption have been conducted mostly on developed countries and only a few studies were carried out in the developing (Hassan, Rankin, & Lu, 2014; Ibrahim, Stanton, and Rodrigs, 2014). There is a need to study the It is important because developing countries require development of markets in the context of IFRS is an urgent need for developing countries such as Iraq to attract investors at local and foreign levels to ensure there is a flow of foreign capital into the country. It is also adoption the trust of investors on their accounting and financial systems.

This study attempts to shed light on factors that could enhance Iraqi companies after the adoption of IFRS. So far only a fraction of Iraqi listed companies has started to comply with the adoptions of IFRS since 2014. There is a need to realize the adoption of IFRS in all Iraqi companies.

1.3 Research Objectives

There are two research objectives as stated below:

1. To determine the adoption level of IFRS in Iraqi listed companies.
2. To examine whether factors include firm size, net profit, board size, foreign ownership companies do affect the adoption of IFRS in Iraqi listed companies.

1.4 Research Questions

The research questions are as follow:

1. What is the adoption level of IFRS in Iraqi listed companies?

2. What is the implication of firm size, net profit, board size, foreign ownership companies on IFRS adoption in Iraqi listed companies?

1.5 Significance of the Study

This research is significant for both developing and developed countries. This study explains the importance of IFRS at global and local levels. The decision in the adoption of IFRS provides judgement of benefit which is found to be more than the cost of IFRS adoption itself. Additionally, this study also provides the attention on factors which could be more influential on IFRS adoption level especially in Iraq context. This study suggests Iraq to enhance IFRS adoption level to attract more investors since Iraq has the potential to capture foreign investors to invest in its natural resources.

The research contributes some important discussion on the importance of IFRS adoption system which could attract foreign investors. Their investment is of outmost important for it could ultimately enhance the economic growth in the developing countries (Zeghal and Mhedhbi, 2006).

1.6 Scope and Limitations of the Study

According to the World Bank report, the number of countries adopting IFRS is increasing. In this regards, this research focuses on the accountants' perception on the adoption of IFRS in Iraqi companies. Also this study determines to discover factors which could affect the adoption of IFRS in Iraq. Hence, this study aims to examine the adoption of IFRS at different levels and its affective factors by considering 32 companies operating throughout 2015.

The research on the adoption levels of IFRS can be monitored both at a company and country levels; the present study focuses on Iraqi listed companies. This study also examines factors influencing the adoption level of IFRS. The scope is limited to only company level because the decision to adopt by the public organization and even private firms lies on the government.

1.7 Organization of the study

The thesis is divided into five chapters. Chapter one discusses background of study, problem statement, research questions, research objectives, significance of study and scope of study.

Chapter two provides review of prior literatures on IFRS adoption and discusses empirical findings which encompass financial reporting and regulatory framework in Iraq, the benefits of adopting IFRS and promoting factors for countries to adopt IFRS.

Chapter three describes framework and methodology of the research. It presents hypotheses, research design, and measurement of variables, data collection method and techniques used. Chapter four highlights results and discussion on the findings of study. Lastly, chapter five concludes the study by providing contributions and recommendation of study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Many studies on the adoption of IFRS has been conducted in the developed countries (Camodeca, Almici, & Brivio 2014; Khanagha 2011; Shehzad, & Ismail 2014; Trabelsi & Trabelsi 2014) and very few in the developing countries. Some research findings discover that the countries that have adopted IFRS managed to have a system with transparence and satisfactory condition (Chiha, Trabelsi, & Hamza, 2013; Ragab, & Omran, 2012 ; Vijitha & Nimalathasan, 2014; Bao, 2004; Mohammed & Lode, 2015).

This chapter discusses basic literatures with the background related to prior researches. Here the researcher discusses meaning and principals involved in IFRS, origin of IFRS, and professional positions on adoption and non-adoption of IFRS, as well as discussion on factors which have influenced the adoption of IFRS. The adoption of IFRS is useful for developing countries (Mohammed & Lode, 2015) because it provides them with efficient and standardized framework of quality accounting and principles.

2.1 Overview of the Accounting Standards

More often than not, the development of accounting standards is determined by the existence and availability of professional accounting bodies in the country, particularly where the popular accounting law system is practised (Gyasi, 2010). Accounting Standards are said to be an authoritative declaration issued by legally recognized professional accountancy bodies in order to eliminate discrepancies in the accounting practice; they are meant to be the customs and norms of accounting policies and practices to dictate how financial statements should be prepared and presented in corporate annual reports (Bhagaban, Shil & Pramanik, 2009). For the standard setting process to be effective, it requires openness, independence, and neutrality (Christine, Dustan, & Stanley, 1999).

In a study by Jeppensen (2009), it is stated that accounting standard setting activity involves four distinct principles that need to be applied namely, the expertise principles, principle of representation, principle of user orientation, and participation principle. He added that, it is only when expertise is applied that actors in the standard setting activity are considered as neutral; when principle of representation is observed, actors in the standard setting process are considered to be perfect representatives, especially in the case of political process where decision has to be adopted by simple majority; the application of user orientation principle allows users of the standard to indirectly influence accounting standard setting process by expressing their opinions through representatives or experts; and lastly accounting setting activity may also be structured based on the principle of participation where users of the standard are allowed to directly get involved in the standard setting activity (Japanese, 2009).

The study by Ochoa (2009), asserts that, more often than not, accounting standard setting is designed under complex regulatory system, which makes compliance difficult unless forceful enforcement mechanism is applied. However, the claim by Ochoa (2009), is contrary to the situation in accounting standard setting in Iraq, but in line with studies by Gyasi (2010); Japanese (2009); Christen et al. (1999).

2.2 History of Accounting in Iraq

Historically, accounting in Iraq was developed through the first law issued which is Law No. 60 in 1943. In 1972 the unified accounting system was applied to the general establishments for ginning and textiles and in 1972 its application became mandatory to all productive projects. In 1973, it was applied to the Ministry of Industry. In 1977 a decision was issued to apply it to the Ministry of Agriculture and Agricultural Reform and eventually it was applied to all economic projects. Financial Control Court is the entity responsible for the application of a unified accounting system (Tahla, 1997).

The formation of the Iraqi Accountants and Auditors Association in 1971 has contributed a lot in the accounting and auditing development in Iraq, through the issue of instructions for the organization of accounting in Iraq. It has a basic role in identifying profession and its ethics. It also has opened the door for training coarsest for accountants and auditors which aimed at elevating professional efficiency among members of the Association. The role of the Association goes beyond this when private companies are obligated to submit copies of final accounts to the Association to ensure that the accounts were prepared in accordance with the prevailing instructions relating to organization of accounting profession (Almustawfi, 1966).

During the past four decades, Iraq had undergone unstable circumstances, which has deprived it from experiencing developments that occurred to the accounting profession and thus, resulted in Iraq lagging behind other nations. Due to this, Iraq has continued to use local accounting systems instead of the modern systems, in addition to the shortage of international accounting standards application that appeared during the 1970s of last century. With all these developments, the unified accounting system is seen as unable to meet the contemporary requirements of the accounting profession (Najar, 2007).

2.3 International financial reporting standards (IFRS)

2.3.1 The concept of IFRS

The concept of IFRS can be referred as accounting standards introduced by IASB (Ball, 2006). The IASB, established in 2001, is a self-governing organization located in London, UK. Prior to this, IASC, a body established in 1973, has issued "international standards" for accounting, with agreement from professional bodies' accountancy, including Germany, Australia, France, Canada, Mexico, Japan, the Netherlands, Ireland, the US and the UK. Up until year 2000, these standards were known as the IASs.

In the late 1997, IASC recognized the significance to achieve a convergence between local accounting standards and IASs. In December 1998, the IASC issued a paper containing final recommendations. In November 1999, IASC established a new standards-setting body known as IASB, and from April 2001, the IASB has been undertaking the role of issuing international standards, rules and regulations.

The IASB enjoys better funding, and is more independent than its predecessor, the IASC. The issued standards by the IASB are known as the "IFRS", although they still identify (accept as legitimate) the prior rules (IASs) issued by IASC the former setter standard (Bhattacharjee, 2009). The IFRS adoption means that the local accounting rules are set aside in favors of the IFRS. The European Commission (EC) in 2000 suggested that by 2005, all companies listed in EU countries must fully apply IFRS and should no longer has local European or US based standards (Nobes & Parker, 2008).

2.3.2 Comparability and Convergence

According to Zeff (2007), comparability of accounting refers to how investors or others can compare company's financial statements existing in a various country by using different accounting rules and methods. This leads investors to face difficulty when they want to invest in a company, especially in multinational enterprises.

The term “convergence” means that there are two or more things, and how these can be integrated into one. Previously it was known as harmonization, a procedure to improve comparability between national standards and IASs. It is not a process to achieve identical standards, but instead comparable standards that become analogous over time (Thomas, 2009).

Convergence means differences reduced in accounting standards worldwide by selecting the best global practice available or if none is obtainable, create new standards by modifying the national standards. Converging the best national and international standards could result in the adoption of current best global practices available. Nobes and Parker assert (2008) that the decision to gradually change the rules of national accounting to IFRS could be called "convergence".

2.3.3 Benefits of and Obstacles to Convergence

The IFRS brings about several advantages to both internal and external users, such as regulators, shareholders, and finance professionals as well as local and international investors (Thomas, 2009). According to L Street, Gray, and Bryant (1999), the benefits of IFRS adoption are: (i) it improves investors’ capacity to make better decisions; (ii) it reduces the costs of consolidating financial reporting; (iii) it improves and enhances international investment; and (iv) it increases the efficiency of capital markets worldwide.

Tyrrall et al. (2007) mentioned other advantages of IFRS adoption: (i) it increases financial statement quality; (ii) it eliminates the costs of developing local standards; and

(iii) it improves domestic and international financial markets. Aljifri and Khasharmeh (2006) claim that the major benefit of adopting international reporting standards, like IFRS, is to enhance financial statements and consensus comparability between the preparers and financial statements users.

Zeghal and Mhedhbi (2006) stress that, international standards harmonization enhances financial information quality and improves accounting information comparability within the international regulation. Jacob and Madu (2009) review and evaluate academic literature on the quality of IFRS. They found that IFRS explains high standards qualities of a single set which can improve financial reporting. One example of the quality of IFRS is when the SEC made a proposal that all public companies of the United States are required to file their financial statement according to IFRS.

Cai and Wong (2010) attempt to examine the effect of IFRS on global capital market integration and relationship between IFRS adoption and subsequent integration of capital markets among developed countries. They focused on eight countries which have been divided in two groups: countries which have adopted IFRS (, Germany, France, UK and Italy) and countries which have not (Canada, Japan, Russia, the US). Their results show that countries adopting IFRS seem to reduce the diversity of accounting practice, making it easy to move capital across these countries.

Meanwhile, many researchers have been concerned about the drawbacks of IFRS adoption, particularly for developing countries. Tyrrall et al. (2007) indicate that there are four main difficulties in the implementation of IFRS in Kazakhstan: (i) the IFRS do not cover some accounting problems in Kazakhstan; (ii) lack of understanding of IFRS and guidelines from the Kazakh’s regulatory bodies on IFRS implementation; (iii) the absence of IFRS translation to Russian and Kazakh languages; and (iv) the adoption of IFRS is expensive due to the cost of staff, accountants, and managers trainings.

Mir and Rahaman (2005) debate that the difficulty in the international standards adoption is not caused by the content of the accounting standards, but it has more to do with the adoption process itself. According to researchers, a crucial part in the process of adoption is communication. In Bangladesh, the lack of consultation and effective communication on the part of the government and the SEC has hindered the level of compliance.

Chand and White (2007) state that the failure on the adoption of IFRS in the Fiji Island is due to its small number of companies with only 16 listed on the Fiji Stock Exchange. This has affected the opportunity for the Fiji Stock Exchange to go into fair value accounting.

2.3.4 IFRS Adoption in Iraq

The decision to adopt International Financial Reporting Standards (IFRS) at the national level is predominantly an economic decision. IFRS adoption aims to enhance transparency, quality, and comparability; characteristics necessitated to support international business and extend globalization. However, there is little empirical evidence to support this view, as extended research presents conflicting results (Chua & Talor, 2008; Judge, Li, & Pinsker, 2010).

Exploration of IFRS adoption has, for the most part, lacked theoretical foundation (e.g.Al-Akra, Ali, & Marashdeh, 2009; Hope, 2003) and most often been conducted at corporate level, and only a few at the national (Judge et al., 2010). In recent years Iraq has undergone significant changes in its economic, political, and financial environments. The Iraqi economy moved from a centrally planned to a free market economy in 2003 and became, arguably, the most open economy in the region (Looney, 2004).

The Iraqi government is keen to reinvigorate the economy and encourage direct foreign investment, primarily through joint partnerships with local entities. In particular, they are focusing on alliances with other countries in the Arab League to enhance the region (Republic of Iraq National Investment Commission). The potential impact of the government's plans for the economic growth and infrastructure rehabilitation is to establish alliances with international entities on the accounting system and IFRS adoption (Hassan, Rankin, & Lu, 2014).

The primary reason for this change was to provide Iraq's economy with financial resources essential to its recovery from the war and decades of recession, particularly after the weakening of oil industry infrastructure during the Ba'ath regime (Jones, 2004). Two main factors have led to an increasing focus on Iraq by governments and business globally. First, Iraq's oil reserves are believed to be second only to Saudi Arabia (Shubber, 2009). Consequently, Iraq has a very important role to play in the global economy, particularly with the ever-increasing demand for oil and energy. Iraq currently accounts for almost 3% of global oil production, with the capacity to help alleviate world energy shortfalls. Second, investors have started to show strong interest in Iraq, particularly in the natural resources sector and its supportive infrastructure.

In 2004, legislation was amended to allow both private and foreign ownership of natural resource companies for the first time, and to open investment in Iraqi listed companies to foreign investors. Currently, Iraq has a dual accounting system. While IFRS is adopted only for the listed companies, the Unified Accounting System is required for the non-listed and government entities. The decision to adopt IFRS for the listed firms came about from the coercive pressures from both western forces and international aid agencies such as the World Bank and the International Monetary Fund. It is also predicted that to ensure continual economic development, normative and mimetic pressures from investors, regulators, and professional bodies will result in the need for continual change to the accounting system and a move towards IFRS adoption for all entities in Iraq.

While the economic and political situations in Iraq may not be identical to other nations, much of the experience in Iraq is anticipated to be useful to others in the region. The international aid agencies put pressures on those nations seeking financial assistance from them to improve their accounting regimes. Less developed countries, such as Algeria and Iran, for instance, can benefit from an understanding of the alignment necessary between accounting and governance systems to attract foreign investment (Hassan et al., 2014).

2.4 Factors Promoting Countries to Adopt IFRS

The progress of a company in a country plays a serious role in IFRS adoption in many developing countries (Chamisa, 2000; Najjar, 2007). According to Najjar (2007) firm size affects the adoption or non-adoption of IFRS in these countries. In the same vein, Tucker et al. (2002), discover that when firm size is mismatched with foreign and global principles, adoption of IFRS may be impossible. In a similar study by Rahaman and Zaman (2005) on the international accounting standards adoption in Bangladesh, it is found that political firm size has a positive role to play in IFRS adoption for the purpose of developing accounting and auditing standards. Belkaouni (2004), conducted a study in Kazakhstan, also discovers that small and large size firms' decision has a significant role to play in the adoption of IFRS. Similarly, Joshi and Rarnadhan (2002) and Xiao (2004) find that firm size plays a positive role in IFRS adoption in the countries. They attest that firms which complied with IAS are larger and more diversified internationally. Wong-Boren and Chow (1987), and Meek, Roberts, and Gray (1995) recognize that IFRS compliance is significantly related to the company's listing status and company's size. A statistically significant relationship is also found between the degree of preparedness for IFRS application and companies with larger turnover (medium sized companies as opposed to the smalls) (Moschidis & Floropoulos, 2004; Aljifii et al., 2006). It is argued that listed companies on the stock exchange are most prepared for IFRS application comparatively. Similarly, medium-sized corporations are more ready than the small ones, previous studies proceed that company attributes such as firm size, internationality, and capital need are related with the international standards adoption (Ashbaugh, 2001; Bradshaw & Tarca, 2004; Miller, 2004; Hung & Subramanyam, 2007).

Company's net profit has shown positive effects on IFRS adoption in developing countries (Nobes, 2000). Wong (2004), in a study conducted in Turkey, finds that net profit is account as main militating challenge against IFRS adoption. Also in a similar study by Street (2002), it is discovered that the low net profit on IFRS practice and principles might make it very difficult for the respective country to adopt IFRS.

In contrast to Street (2002), Judge et al. (2010) reveal that the net profit of a company is a predictive factor onto what degree the adoption of IFRS standards can be made. In the transitional and developed economies, Dholakia (2012) shows that there are different levels of IFRS adoption due to the different net profits of different companies. Supporting this notion that links the net profit with the adoption of IFRS, Guler, Guillen, and Machpherson (2002) find that the net profit of a company will determine the adoption of international quality standards. Dow and Karunaratn (2006) discover that the net profit of companies which have adopted the international standard shows higher trade flows. Hassan's (2008) document that shows how pressures normative growing from generally rising net profit level in general and from the international accounting professions influence in particular, has stimulated Egypt to move away from the domestic to international accounting standards. Besalet (2000) study in the Middle East reveals that some developing countries within the developing economies and oil rich countries with open capital market require IFRS adoption.

In contrast, Ahrnad and Nicholls (1994), Gray and Street (2002), Glaum and Street (2003), and Ustundag et al. (2009), find no relationship between IFRS adoption and corporation size. This finding is well supported by Ustundag et al. (2009) when his work finds that small and medium size of a company does not influence IFRS adoption. However, Ahmad and Nicholls (1994), Gray and Street (2002), and Street and Glaum (2003) findings are in contrast with the findings as stated above (Aljifri et al., 2006; Raffournier et al., 2010; Patel, 2010).

The interpretive relation between board size and accounting policy options has been explained in the literature (Ball & Foster, 1982). A study by Raffournier et al. (2010) in Romania discovers that the larger the size of the corporation's board, the higher the possibilities of IFRS adoption. In Germany, Patel (2011) indicates that firm's board size takes a positive influence in IFRS adoption. Russell et al. (2008), also show that the size of corporation board plays a direct bearing towards IFRS adoption, and that corporation board size affects IFRS adoption significantly. Raffournier and Dumontier (1998) proceed with Swiss data study when they find that the size of a company has a significant influence for the company to comply voluntarily with the International Accounting Standards (IAS).

In Australia, several commentators from the Company Institute Directors (AICD, 2004), argued on IFRS adoption when they assert that smaller firms would be at the disadvantage if they were to adopt IFRS compared to larger corporations primarily due to resources constraints. However, Andrew (2005) detects that small companies would be expected to see no positive influence on their financial situation after the adoption of IFRS. Similarly, Goodwin and Ahmed (2006), using data from 135 small firms listed on the Australian Stock Exchange, managed to detect more than half of the small firms with no change in equity or net income after the adoption of IFRS, and there is a positive relationship between number of modification to equity and net income with corporation size. Interestingly, their research also found that IFRS has increased the net income for small- and medium-sized corporations, equity has increased (decreased) under IFRS for small (large) firms.

Small companies experiment higher surplus (loss) variability than medium-sized or large companies under IFRS. Arbeitskreis (2003) showed that, IFRS is directed primarily at the consolidated financial reports of listed companies . It is argued that the cost they have to incur to have higher quality reporting might not outweigh the benefits gained due to the considerable complexity of standards and high expertise which is necessary to correctly apply and interpret the IASB standards.

Taylor and Chua (2008) also detect that a well progressing capital market encourages positively the IFRS adoption. Another study conducted in the South Africa by Kinsey (2006), found that capital market affects the firms to reduce the investment arising from the capital market as well as adoption of IFRS. In a related study conducted in Portuguese, Cray (2008) discovered that the international capital market especially those with big revenue need to adopt IFRS. A1-Basteki (2006) also found that cooperation among gulf council will open up quick development in capital market and they could put pressure on the government which will lead to IFRS adoption.

Stahl, WeiRenberger, and Vorstius (2004) surveyed motives that drive certain German corporations to adopt IFRS or US GAAP rather than German GAAP. Questionnaires were distributed to a sample of 359 corporations (Neuer & DAX100 Market) and received 81 responses. The results mentioned that the change to IFRS or US GAAP is motivated by the expectation of earning standing in the capital markets, achievement of information improved supply, and investors' internationalization. Tarca (2004) also used marking theory to explain why companies approach international capital markets by adopting IFRS. The study disclosed that international standards adoption could signal market participants that the company is committed to present more information to investors, absorbing international capital listing or infusion on foreign stock exchanges. Kang and Hope Jin (2006), argue that countries with relatively immature or closed capital markets are less likely to converge to a higher accounting standard because those countries do not supply framework of infrastructural for international investors to generate sensible earning, Their study shows that countries with greater access of capital market for foreign investors are more likely for IFRS adoption. Hope et al. (2006) are of an opinion that adoption of IFRS is significantly related to the accessibility of local capital markets.

From these studies emerging the evidence that not all companies could really be interested in IFRS because of the mixed results and their specific finance, their size and operating peculiarities. Most of these studies are either carried out in the Europe, the US, Australia or the Asian axis, and very few studies were conducted in the Middle East, let alone Iraq. As such, this study is aimed at bridging the gap between Iraq and other developing countries where most factors that may promote the perceived adoption of IFRS were not tested. This study will cover different regions entirely to examine factors that would influence the perceived adoption of IFRS with special emphasis on the Iraqi listed companies.

2.5 Reviews of Related Literature

This section includes previous research review done in the same area to show the relationship of political influence, knowledge level, size of corporation and capital market with the perceived adoption of IFRS.

2.5.1 Adoption of IFRS and Firm Size

Firm size plays a significant role in IFRS adoption, especially if there are huge transactions, exports and imports and contracts among local and foreign companies. Companies can be divided into several sizes: big, medium and small, depending on several factors, such as capital, geographic location, number of employees, amount of sales, number of shareholders, etc.

There is no specific definition of Total assets worldwide. In the EU, the small, and medium sized enterprises (SMEs) are defined, as enterprises which have no more than 250 employees with no more than € 50 million turnover, no more than € 43 million balance sheet and no more than 25% of enterprise shares owned by another enterprise (Hauser, 2005).

Several researches have investigated the impact of total assets on IFRS adoption. Most of these studies have found that total assets significantly influence IFRS adoption. Senyigi (2014) conducted his research in Turkey which shows that corporation size positively and significantly influences IFRS adoption. His result indicates that large companies have the responsibility to provide more information, similar to prior studies which assert that large corporations are generally, able to assume the additional disclosure costs and those small businesses are not willing to provide more financial information like the large enterprises. In other words, the availability of financial resources in large companies is allocated for IFRS adoption.

Nobes and Perramon (2013) examined the accounting policy choices prepared within the IFRS' annual reporting by small listed companies in five countries. They find high significant differences between the policies of small and large corporations in Australia. They also find that small firms make more homogeneous choices compared to large companies.

Gassen and Sellhorn (2006) show that voluntary adoption of IFRS by German firms is affected by corporation size. Apparently, IFRS adoption is attractive, especially for young companies that went public in the mid-1990s. Khasharmeh and Aljifri (2006) conducted a research in the United Arab Emirates and the finding indicates that there is a significant effect on the level of IASs adoption based on the total assets in the United Arab Emirates.

On other hand, some studies have found that total assets have no significant influence on IFRS adoption. Demir and Bahadir (2014) conducted their research in Turkey; their results reveal that corporation size does not significantly explain the variations in IFRS adoption, contrary to what has been predicted. This is strongly supported by Morris et al. (2013) when they show there is no significant impact of total assets on IFRS adoption in Australia. Similarly, Matonti and Iuliano (2012) show that firm size is not significantly and positively related to IFRS adoption in Italy. However, some other studies show positive relationship indicating that corporation size has a significant effect on IFRS adoption.

2.5.2 Adoption of IFRS and Net profit

Choi and Meek (2011) mentioned that when firms have a higher net profit they will demand for a more progressing accounting information system. Accounting standards and practices are now becoming more complex; it therefore needs competent and skilled accountants to apply and understand these standards and practices which later will determine the net profit of the firm. Firm with the less net profit may find that adopting IFRS will be more expensive compared to firms with higher net profit. Obviously, net profit is positively related to IFRS adoption.

Several researchers have conducted studies on the influence of net profit on IFRS adoption and find that net profit has a positive effect on IFRS adoption. El-Firjani and Faraj (2014) discovers that the majority (nearly 70%) of the interviewees in their research believed that the increasing number of qualified accountants, particularly graduates from abroad, has contributed to this significant impact on IASs adoption in Libya.

Zehri and Chouaibi (2013) undertook a research on 74 developing countries of which 37 have adopted IFRS and the others have not. Their results present that net profit has a positive and significant impact on whether or not to adopt IASs in developing countries. Others have found that the higher the net profit, the higher the firm's intention to adopt IFRS. Moqbel, Charoensukmongkol, and Bakay (2013) conducted their research in the US and find the connection between the perceived intention to adopt IFRS and the net profit which is significant and positive.

Öztürk and Ergun (2012) conducted their research in Sarajevo in the Bosnia Federation and Herzegovina, the result show that the net profit is a significant factor for IFRS adoption and its implementation. Companies with well-educated staff are more adoptable to the implementation process of IFRS. The finding of Chand, Cummings, and Patel's (2012) research conducted in Australia indicate that the net profit has a significant impact on the judgment of firms when interpreting and implementing IFRS.

Additionally, Chand, Day, and Patel (2008) conducted their research in four countries namely Australia, Fiji, Papua New Zealand and New Guinea and they find that net profit and experience of professional accountants are major factors in the implementation of accounting practice. Hence, it is crucial to provide training for accountants, especially in the developing countries so that the interpretation of standards of accounting can be applied uniformly.

Al-Shammari et al., (2008) conducted their research in the GCC member states and find that the lack of experience of professional accountants, training and low wages to attract more experienced accountants are the causes that contribute to the weak IFRS adoption. Moreover, Zeghal and Mhedhbi (2006) find from groups selected from 2003 IASB web whereby 32 countries have adopted IASs and another group of (32) countries have not, indicates that net profit positively and significantly (at 10% level) influence IASs adoption. Hence, it is argued that the higher the net profit in the firm, the greater the adoption of IASs.

2.5.3 Adoption of IFRS and Board size

Several researches have investigated the impact of the main board size on the perceived adoption of IFRS. Most of these studies have found that main board size has a significant influence on the perceived adoption of IFRS. Johnson and Hicks (2012) show that the probability of assuring strict implementation of accounting and reporting standards may be affected by unstable authoritarian forms of main board size. Al-Shammari, Brown, and Tarca (2008), who conducted a research on Gulf Cooperation Council (GCC) countries, find there is a lack of commitment from the main board size at a policy level to implement accounting standards.

Hope, Jin, and Kang (2006) further support the view that countries which are more prone to IFRS adoption can generate high income of their capital markets for international investors. As such, IFRS can be considered as a way to develop disclosure accounting systems and board size and to integrate national markets with global markets. In so doing, the economic growth can be accelerated. In order to develop financial reporting quality, IFRS adoption by a country is a significant step.

Mir and Rahaman (2005) posit that board size has a significant influence on IFRS adoption. The Bangladeshi government's attempt to bring credibility to foreign investors needs greater accountability activities with lending/donor agencies. The government aims to develop accounting and auditing practices by adopting IFRS.

Zezhong Xiao, Weetman, and Sun (2004) find that board size has an influence on accounting system especially in developing economies. The Chinese authorities tried to develop their accounting standards in convergence with IASs. Ozu and Gray (2001) note that the current legislations have been driven to the international standards introduction in Japan's accounting system. Hence, the board size plays a positive role in IFRS adoption.

Zehri and Chouaibi (2013) conducted a research on 74 developing countries, where 37 adopted IFRS and the others did not. Their results show that the board sizes positively (but not significantly) influence developing countries' decision to adopt IFRS.

2.5.4 Adoption of IFRS and Multinational Ownership

The role of multinational ownership is to enhance economic qualification by channeling money from those who have money to those who do not. Others have defined capital market as a market for securities (debt or equity), whereby both governments and business companies can increase long term funds, for more than one year. Collection of short-term funds is by other markets (such as the money market) (Woepking, 1999).

Capital market is defined as the market where individuals, corporations, and even governments have more funds, than they need (because they have saved some of their revenue). They transfer those funds to companies, individuals, or even governments who have a deficit or no more funds (because they spent more than they earned). Most capital markets comprise of two markets: stock market and bonds market.

Different studies have investigated the influence of multinational ownership on IFRS adoption. Most of these studies have found that multinational ownership has a significant influence on IFRS adoption. El-Firjani and Faraj (2014) find that more than 80% of the interviewees in their survey believed that the involvement of foreign companies in the Libyan market has a significant influence on the adoption of IASs in Libya.

Morris et al. (2013) find that multinational ownership positively and significantly determines IFRS adoption in Australia. Gyasi (2010) shows that (91%) of his respondents moderately agreed, or very highly agreed, with the affirmation that IFRS adoption in Ghana is significantly, and positively affected by the existence of capital markets.

Zeghal and Mhedhbi (2006) assert that a group of 32 countries selected from 2003 IASB website which adopted IAS and a second group of 32 countries which did not, claim that the existence of a multinational ownership has a positive significant impact on IASs adoption. For this reason, developing countries that are improving their capital market will continue to adopt IASs.

On the other hand, Zehri and Chouaibi (2013) who undertook a research on 74 developing countries of which 37 adopted IFRS and the others did not, find that multinational ownership has a positive but not significant influence on IFRS adoption.

2.6 Underpinning Theories

This section provides discussions on the theories that will support the variables of the study. This includes Institutional theory.

2.6.1 Institutional Theory

The IFRS adoption is analyzed and discussed under the institutional theory. The background ideology of this theory used to develop the exploratory process framework and variables affecting IFRS standard change implementation. Set in institutional economic and especially Old Institutional Economics (OIE) which allows for the characterization of accounting as rules and routines (Burns & Scapens, 2000), the background ideology is a necessary starting point for understanding the concepts dealt with in the change process and the forces which are at play in the change process.

The context of institutional theory, as developed by the researcher Robert W. Scapens in

1994, is the understanding of institutions as “a way or thought or action of some prevalence or permanence, which is embedded in the habits of a group or the customs of a people” (Burns & Scapens, 2000).

Using this definition, the researchers draw an understanding of accounting processes as being rule-based, or based on how things should be done, and routine-based, highlighting how things are actually done. Routinization involves the concept of the formulation of rules to mutually acceptable ways of compliance, ending with routines. These rules and routines are at the heart of the institutional process framework developed by the researchers for management accounting change. Although IFRS standard changes are based on the principle-based set of accounting standards, their implementation into the working processes of a company can also be argued to be subject to a process of institutionalization as defined by Burns and Scapens (2000).
To comply with the new standards, “observable, recurrent activities and patterns or interaction characteristics of a particular setting” must be defined and carried out. These form the “scripts or modalities” of the institutional framework, which mean the rules and routines. (Burns & Scapens, 2000) As most management accounting change research has concentrated on what is management accounting change as an outcome rather than how it becomes that outcome (i.e. the process), the main advantage of the institutional process framework is laying out a backdrop for “describing and explaining analytical concepts used for interpretive case studies of management accounting change” (Burns & Scapens, 2000). This means that the framework elaborates on the fundamental characteristics and terminology of the process rather than operational constructs, and is not a detailed process framework. For purposes of the research, the framework is used as a means for understanding and describing the processes that must

take place behind the scenes of tangible observation. It builds on the statement by Burns and Scapens (2000) that the framework can be used for studying different organizational process changes.

IFRS standard changes can be interpreted as conscious, rational changes in the context of dichotomy: it is a formal, consciously intended change (Burns & Scapens, 2000). They provide the change principles for process a, and the formation of rules and routines comprise a large part of the work and process steps involved with IFRS standard changes. Processes b and c include conscious actions to enact the changes, while process d includes the stage in which the rules and routines of the new IFRS standard change become a routine part of reporting and the institutions are the "taken for granted" assumptions that the actors undertake. The existing routines and institutions shape the selection and implementation process of the new IFRS standard change, meaning that the changes are path-dependent.

Understanding the current process in the organization is thus necessary for understanding the changes that need to be made. When the new rules and routines become the unquestionable form of management control, they can have said to be institutionalized (Burns & Scapens, 2000). In this regard, management accounting and financial accounting are similar fields of research. The reasons for choosing institutional theory as a basis for development of the exploratory process framework include its applicability to changes where an external force drives the change. In addition, institutional theory is fitting for change management situations where individuals think in terms of institutional commitments, meaning that individuals see answers as being "right" only if they sustain their ideas of institutional thinking. (Burns & Scapens, 2000; Lundqvist et al., 2008).

For IFRS standard changes, the IFRS standards themselves, the role of the IASB and the accounting policies and other choices within the organization all represent examples of institutional thinking. In addition, companies usually have an Accounting Manual that describes the rules and routines of the organization for reporting and which embodies an institution. The framework is intended to give a holistic understanding of management accounting change in Burns and Scapens' (2000) paper, and involves a deep and holistic understanding of the organization in question and its current processes.

As such it is applicable to this exploratory research paper, which develops a framework for the implementation process for IFRS standard changes through a deep case study of one company and allows for a thorough understanding of the current processes of the firm. Although many researchers have developed the framework after Burns and Scapens laid it out as a basis for research in 2000 (Johansson & Siverbo, 2009), the original process framework is most fitting to be used as a foundation for this exploratory research paper. This is due to the fact that the research paper at hand takes the framework to a new direction: it fundamental principles in management accounting research to synthesize a framework to be used within the financial accounting academic field of study on IFRS standard changes. It is also important to distinguish between evolutionary and revolutionary change. Whereas the initial adoption of IFRS standards is a revolutionary change for most companies, IFRS standard changes can be interpreted as evolutionary changes.

Revolutionary changes are radical changes to existing routines that challenge current institutions. Evolutionary changes, on the other hand, change over time and include random elements, systematic forces and inertial forces providing continuity. Evolutionary change can be understood as referring to slow, gradual changes or seen as the underlying outcome and change process for all changes in management (and financial) accounting (Burns & Scapens, 2000; Johansson & Siverbo, 2009)

A conventional approach to management accounting practices has included the contingency-based view which states that the appropriate design of how to implement a management control system is influenced by the context within which the firm operates. In other words, contingency theory assumes that the external and internal environments of a system or the firm have a strong impact on the performance of the company. Systems have to adapt to the context of the firm, and organizations where the internal features are best matched with the demands of the change will achieve the best level of implementation.

2.7 Chapter Summary

This chapter presents previous studies which will put forth sources of study with different views. Iraqi accounting history on how dependent and independent variables been studied by previous researches is discussed as well. Contextually, the following chapter discusses and shows the framework of the research along with the hypotheses developed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter demonstrates research methodology of study which explains data and ascertains method for analysis to test hypothesis. This chapter comprised of research framework, hypothesis development, variable measurements, data and sample, analysis technique and statistical tool, technique for diagnostic tests, descriptive analysis and operational definitions of each variable.

3.1 Research Framework

According to Hassan, Rankin, & Lu (2014) the adoption of IFRS in Iraq is introduced based on institutional theory. The theory reflects on the position of country's economy and discusses challenges for countries which attempt to change their local accounting standard system to IFRS. This theory also provides opportunities for IFRS adoption. Besides, the institutional theory facilitates countries to adopt IFRS alongside their local and traditional accounting reporting methods.

This study has taken IFRS adoption as the dependent variable while firm size, net profit, board size and Foreign ownership company as the independent variables. There are prior studies on the relationship between factors affecting IFRS adoption and IFRS adoption level. According to Dholakia (2012), firm size and net profit show significant influence on firms' IFRS adoption level. Additionally, numbers of board member also have positive relationship with IFRS adoption (Johnson & Hicks, 2012). The adoption of IFRS fluctuates according to the decisions of board members while the level of adoption by local companies differs from that of foreign. The adoption of IFRS is higher in the multinational or foreign companies as compared to the local because they are more conscious about financial reporting transparency to attract investors. The following figure exhibits the relationship between the influencing factors and IFRS adoption in Iraq:

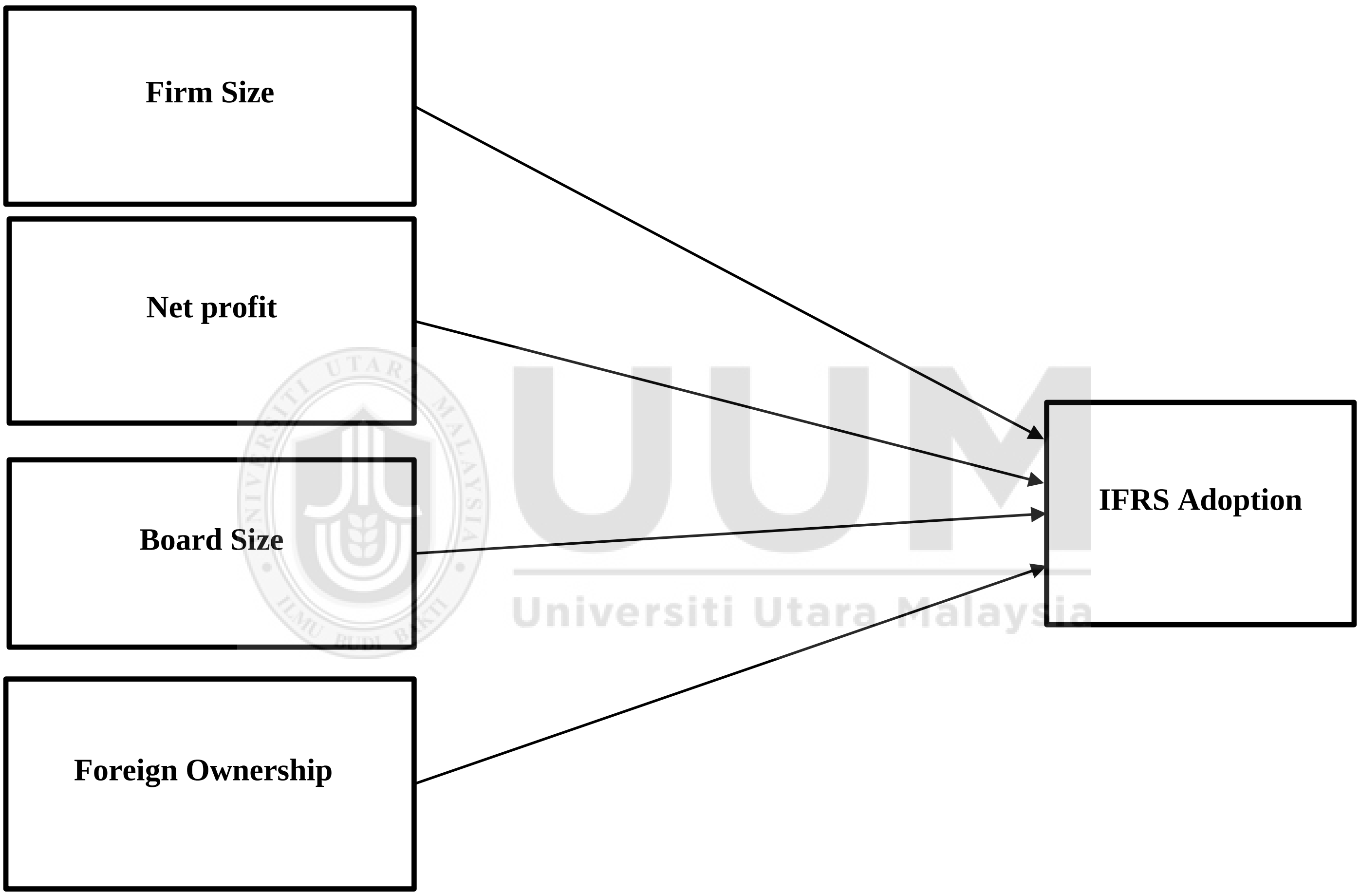

Figure 3.1 ***Factors affecting IFRS adoption: Evidence from Iraq***

3.2 Hypothesis Development

This study focuses on factors affecting IFRS adoption in Iraq. There are many studies on IFRS adoption using different context but only few studies conducted in the context of Iraq. IFRS brings about several advantages to both internal and external users, such as the regulators, shareholders, and finance professionals as well as the local and international investors (Thomas, 2009). L Street, Gray, and Bryant (1999), assert that IFRS adoption contributes a number of benefits namely (i) it improves investors' capacity to make better decisions; (ii) it reduces costs of consolidating financial reporting; (iii) it improves and enhances international investment; and (iv) it increases capital markets efficiency worldwide.

By the same token, many researchers have been concerned with the drawbacks of IFRS adoption, particularly for developing countries. Tyrrall et al. (2007) indicate that there are four main difficulties in the implementation of IFRS in Kazakhstan: (i) IFRS does not cover some accounting problems in Kazakhstan; (ii) lack of understanding of IFRS and guidelines from the Kazakh regulatory bodies on IFRS implementation; (iii) absence of IFRS translation to Russian and Kazakh languages; and (iv) adoption of IFRS is expensive due to the cost of staff, accountants, and managers recruitments.

3.2.1 Firm Size and IFRS Adoption

In many developing countries, the progress of a company plays a serious role in IFRS adoption (Chamisa, 2000; Najar, 2007). Najar (2007). It is argued that firm size affects the adoption or non-adoption of IFRS in developing countries. In the same vein, Tucker et al. (2002), discover that when the firm size mismatches the foreign and global principles, the adoption of IFRS may be impossible. In a similar study conducted by Rahaman and Zaman (2005) on international accounting standards adoption in Bangladesh, it is found that firm size influence has a positive role to play in IFRS adoption for the purpose of developing accounting and auditing standards. Belkaouni (2004), conducted a study in Kazakhstan, also discovers that small and large size firm's decision has a significant role to play in the adoption of IFRS instead of Kazakhstan Accounting Standards (KAS). Joshi and Rarnadhan (2002) find that political influence has a positive role to play in IFRS adoption encouraging companies to follow IFRS.

Some studies have found that total assets have no significant influence on IFRS adoption. Demir and Bahadir (2014) conducted their research in Turkey while, Morris et al. (2013) in Australia and their findings reveal that corporation size does not significantly explain any variations in IFRS adoption, contrary to what has been predicted .Meanwhile, Matonti and Iuliano (2012) claim that firm size is not significantly and positively related to IFRS adoption in Italy. Nevertheless, another study shows that corporation size has a significant effect on IFRS adoption. In light with the above studies reviewed related to the firm size and international financial reporting standard, this study hypothesizes that

H1: *There is a significant effect of firm size on IFRS adoption in Iraq listed companies.*

3.2.2 Net profit and IFRS Adoption

Several researchers have conducted studies on the influence of net profit on IFRS adoption and find that net profit has a positive effect on IFRS adoption. El-Firjani and Faraj (2014) discovers that the majority (nearly 70%) of the interviewees in their research believed that the increasing number of qualified accountants, particularly graduates from abroad, has contributed to this significant impact on IASs adoption in Libya.

Zehri and Chouaibi (2013) undertook a research on 74 developing countries of which 37 have adopted IFRS and the others have not. Their results present that net profit has a positive and significant impact on whether or not to adopt IASs in developing countries. Others have found that the higher the net profit, the higher the firm's intention to adopt IFRS. Moqbel, Charoensukmongkol, and Bakay (2013) conducted their research in the US and find the connection between the perceived intention to adopt IFRS and the net profit which is significant and positive.

Öztürk and Ergun (2012) conducted their research in Sarajevo in the Bosnia Federation and Herzegovina, the result show that the net profit is a significant factor for IFRS adoption and its implementation. Companies with well-educated staff are more adoptable to the implementation process of IFRS. The finding of Chand, Cummings, and Patel's (2012) research conducted in Australia indicate that the net profit has a significant impact on the judgment of firms when interpreting and implementing IFRS.

Additionally, Chand, Day, and Patel (2008) conducted their research in four countries namely Australia, Fiji, Papua New Zealand and New Guinea and they find that net profit and experience of professional accountants are major factors in the implementation of accounting practice. Hence, it is crucial to provide training for accountants, especially in the developing countries so that the interpretation of standards of accounting can be applied uniformly. In line with the above mixed results documented by several researches, the researcher hypothesized that

H2: *There is a significant effect of net profit on IFRS adoption in Iraq listed companies.*

3.2.3 Board Size and IFRS Adoption

Johnson and Hicks (2012) indicate that the probability of assuring strict implementation of accounting and reporting standards may be affected by unstable authoritarian forms of main board size. Al-Shammari, Brown, and Tarca (2008), who conducted a research on Gulf Cooperation Council (GCC) countries, discover that there is a lack of commitment from the main board size at the policy level to implement the accounting standards.

Mir and Rahaman (2005) posit that board size has a significant influence on IFRS adoption. The Bangladeshi government's attempt to bring credibility to foreign investors needs greater accountability activities with lending/donor agencies. The government aims to develop accounting and auditing practices by adopting IFRS.

Zezhong Xiao, Weetman, and Sun (2004) find that board size has an influence on accounting system especially in developing economies. The Chinese authorities tried to develop their accounting standards in convergence with IASs. Ozu and Gray (2001) note that the current legislations have been driven to the international standards introduction in Japan's accounting system. Hence, the board size plays a positive role in IFRS adoption. Based on these reviewed literature, the study hypothesizes that

H3: *There is a significant effect of board size on IFRS adoption in Iraq listed companies.*

3.2.4 Foreign Ownership and IFRS Adoption

Different studies have investigated the influence of Foreign ownership on IFRS adoption. Most of these studies have found that Foreign ownership has a significant influence on IFRS adoption. El-Firjani and Faraj (2014) find that more than 80% of the interviewees in their survey believed that the involvement of foreign companies in the Libyan market has a significant influence on the adoption of IASs in Libya.

Morris et al. (2013) find that multinational ownership positively and significantly determines IFRS adoption in Australia. Gyasi (2010) shows that (91%) of his respondents moderately agreed, or very highly agreed, with the affirmation that IFRS adoption in Ghana is significantly, and positively affected by the existence of capital markets.

Zeghal and Mhedhbi (2006) assert that a group of 32 countries selected from 2003 IASB website which adopted IAS and a second group of 32 countries which did not, claim that the existence of a multinational ownership has a positive significant impact on IASs adoption. For this reason, developing countries that are improving their capital market will continue to adopt IASs.

On the other hand, Zehri and Chouaibi (2013) who undertook a research on 74 developing countries of which 37 adopted IFRS and the others did not, find that multinational ownership has a positive but not significant influence on IFRS adoption. Consequently on these reviewed literature, the present study hypothesizes that

H4: *There is a significant effect of foreign ownership on IFRS adoption in Iraq listed companies.*

3.3 Measurement of Variables

For better understanding, this study displays measurements of variables as shown in table 3.1:

Table 3.1

Measurement of Independent and dependent variable

Variable	Measurement	Employed by
IFRS Adoption	% of Adoption Level	(Abdullah, Evans, Fraser, and Tsalavoutas, 2015)
Firm Size	Amount of total assets	(Agyei-Mensah, 2013)
Net Profit	profit after working expenses	(Nimalathasan & Valeriu, 2010; Das, 2015)
Board size	No. of board members	(Abor & Fiador, 2013)
Foreign ownership	Ownership companies	(Hasan, Rankin & Lu, 2014)

IFRS index of 12 items on the basis of Abdullah, Evans, Fraser, and Tsalavoutas (2015) has been used in this study in order to measure the extent of international financial standard, particularly in companies' annual reports. The adoption of IFRS items is mentioned above the cash flow statement because companies follow any financial standard for developing cash flow statement. It ensures the IFRS quality; scoring and disclosure indexes of reporting items will be computed using the un-weighted disclosure index. An un-weighted approach is applied, whereby a company is awarded 3 if all the items were adopted, 2 if sufficient items were adopted and 1 if the majority of the items were not adopted. The following is the table for the measurement of IFRS adoption level in percentage:

Table 3.2

IFRS Adoption Level Measurement

No.	Standards	Name of reporting Standard	Measurement
1	IFRS 1	First-time Adoption of International Financial Reporting Standards	Equal '1' if the company follows this standard and '0' otherwise.
2	IFRS2	Share-based Payment	Equal '1' if the company follow this standard and '0' otherwise
3	IFRS 3	Business Combinations	Equal '1' if the company follow this standard and '0' otherwise
4	IFRS 4	Insurance Contracts	Equal '1' if the company follow this standard and '0' otherwise
5	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Equal '1' if the company follow this standard and '0' otherwise
6	IFRS 6	Exploration for and Evaluation of Mineral Resources	Equal '1' if the company follow this standard and '0' otherwise
7	IFRS 7	Presentation of financial statements	Equal '1' if the company follow this standard and '0' otherwise
8	IFRS 8	Operating Segments	Equal '1' if the company follow this standard and '0' otherwise
9	IFRS 10	Consolidated Financial Statements	Equal '1' if the company follow this

			standard and ‘0’ otherwise
10	IFRS 11	Joint Arrangements	Equal ’1’ if the company follow this standard and ‘0’ otherwise
11	IFRS 12	Disclosure of Interests in Other Entities	Equal ’1’ if the company follow this standard and ‘0’ otherwise
12	IFRS 13	Fair Value Measurement	Equal ’1’ if the company follow this standard and ‘0’ otherwise

3.4 Data Collection

This study used secondary data which were collected from Data Stream database, Iraq SEC (security Exchange and commission) official website and companies’ official websites. The data collected were on total assets, total net profit, number of board members and Foreign Ownership in year 2015.

3.5 Sampling

This study has taken Iraqi listed companies for consideration. There are a total of 83 companies in Iraq but only a total of 32 that use IFRS system for reporting and accounting were involved. It is based on data available in 2015.

3.6 Analysis Technique

To test hypothesis, this study used linear regression method alongside correlation analysis and descriptive statistics.

3.6.1 Descriptive Statistics

Descriptive statistics was conducted in order to condense and summarize data to a concise and more meaningful manner that facilitate clear insight. The techniques of descriptive statistics employed in this research include mean, standard deviation, minimum and maximum value. Soderstrom and Sun (2007), Barth et al., (2008), Chua et al., (2012) and Dimitropoulos et al., (2013) used the same technique in analysis data generated for their respective research work.

3.6.2 Correlation Analysis

Correlation analysis is utilized in this study to measure the strength of relationship between variables in order to mitigate the effect of multicollinearity among variables as suggested by many research scholars. This study used Pearson product-moment coefficient in order to explain the magnitude of the relationship between variables. Statistical significant level of ($p < 0.05$) was adopted as the benchmark in order to determine the strength of the relationship.

3.6.3 Regression Analysis

Multiple regressions were conducted on all models adopted or adapted from the previous studies in order to examine the relationship between variables in the models. The analysis was conducted to identify whether the independent variables will be able to predict or influence the behavior of the criterion (dependent) variables in all of the above constructed models. In order to achieve this, the study subscribed all assumptions of multiple regressions namely, sample size, linearity, and multicollinearity as violation of any one or more of the assumptions that may lead to a biased statistical result. The use of multiple regression is the tradition of accounting researches in the area of assessing impact, so this study, like any other previous studies such as Ahmed et al., (2013) Barth et al., (2008) Capkun et al., (2013) Dimitropoulos et al., (2013) Gjerde et al., (2008) Houqe et al., (2014) Ismail et al., (2013) and many more studies believes that regression analysis conducted on the constructed equation is the best estimate of dependent variable based on the behavior of the independent variables.

3.7 Statistical Tool

This study used Statistics Packages for Social Science (SPSS) version 20.0. to analyze data by following regression technique.

3.8 Regression Diagnostic Test

There are four assumptions for regression analysis which indicate the suitability of data for the technique. These include:

3.8.1 Identification of Outliers

When the observations are totally different from the other observations then they are identified as outliers. This is possible during data entry level because when the data were not entered carefully, strange values may appear (Hair, Black, Babin, Anderson, & Tatham, 2006). Tabachnick & Fidell, (2007) argue that these outliers create problem and make the results questionable.

3.8.2 Normality Test

For the regression analysis, it must be assured that data are normal and fit as per model. This study selects the normality plots to check the normality of data which was proposed by Hair, Anderson, Tatham, & Black, (2010). Besides, this study will also employ histogram to validate normality of data.

3.8.3 Linearity Testing

The rationale behind the testing of linearity is to examine linear association between dependent and independent variables, which is also found on the concept of correlation as prescribed in linear relationship; thus, it becomes vital in the regression analysis (Hair et al., 2010).

3.8.4 Identification of Multicollinearity

Multicollinearity is “the inter-correlation of the independent variables” (Hair et al., 2010). Hence, it could exist if there is a high correlation among the independent variables in the regression model.

The identification of multicollinearity raises the issue of opposite results than actual. This study used variance inflation factor (VIF) to identify the Multicollinearity issue among the independent variables.

3.9 Variances Operational Model

The operational model for this study is mentioned in followings:

$Y_i = \alpha 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mathcal{E}_i$

$$\textbf{IFRS} \quad = \quad \alpha 0 + \beta 1\ FS + \beta 2\ NP + \beta 3\ BS + \beta 4\ FOWN + \varepsilon$$

Here,

- **IFRS = IFRS Adoption Level**
- **FS = Firm Size**
- **NP = Net profit**
- **BS = Board size**
- **FOWN = Foreign ownership companies**
- **Ɛ = Error term**

3.10 Operational Definitions

Following are the operational definitions of each variable:

- **IFRS adoption**

This study used level of IFRS adoption for IFRS adoption. IFRS adoption level is mentioned on the official websites of companies and on the annual financial reports of companies (Ibrahim, Stanton, & Rodrigs, 2014).

- **Firm Size**

This study used size of firm as firm characteristic which is formulated by the natural logarithm of total asset (Bhaduri, 2002; Gaud et al. 2005).

- **Board Size**

This study measured board size by taking the number of all board members of companies (Abor & Fiador, 2013).

- **Net Profit**

The actual profit is when working expenses is excluded in the calculation of gross profit that has been paid (Nimalathasan & Valeriu, 2010).

- **Company Foreign Ownership**

This study identified variable value ‘0’ for local and ‘1’ for foreign companies’.

3.11 Summary of the chapter

This chapter discusses the theoretical framework of study. Hypotheses were also developed in this chapter. In order to meet the overall research objectives, this study adopted a quantitative research methodology. A sample of 32 firms (by market capitalization) listed on the Iraqi Stock market in the year 2015 was selected to see the impact of board size, net profit, firm size and company type as the independent variables on IFRS adoption level which is the dependent variable. Descriptive and multiple regression analyses were used to test the hypotheses in this study.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.0 Introduction

This chapter discusses analysis of data. The collected data were analyzed to empirically prove the objectives of the study. It provides justification for hypothesis. This chapter is prepared by following the research methodology which is mentioned in chapter three. To achieve the objective of this study, linear regression technique and descriptive statistics were adopted.

4.1 IFRS adoption level by Iraqi listed companies:

To achieve the first objective of study, there was data description of IFRS adoption level in percentage of 32 companies. When the companies adopted all the 12 standards, it means it is 100 %. In other cases, the percentage varies if the companies adopted 1 standard, 2, 3, or 4 hence, the percentage varies accordingly (Abdullah, Evans, Fraser, and Tsalavoutas, 2015). Iraq approved the adoption of IFRS in 2014 and implemented it starting year 2015 and up to date there are few standards adopted in Iraq as table 4.1. Mostly the companies adopt and implement maximum of 4 standards of the international financials.

Table 4.1

IFRS adoption level

No.	Company Name	IFRS Related	IFRS Adopted	IFRS adoption level (%)
1	Bank of Baghdad	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
2	Commercial Bank of Iraq	8 (IFRS 2,3,7,8,10,11,12,13)	4 (IFRS 7,10,12,13)	50%
3	Credit Bank of Iraq	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
4	Ashur International Bank	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
5	Gulf Commercial Bank	8 (IFRS 2,3,7,8,10,11,12,13)	4 (IFRS 3,7,10,12)	50%
6	Iraqi Middle East Investment Bank	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
7	United bank for investment	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	50%
8	Investment Bank of Iraq	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
9	Kurdistan International Bank	8 (IFRS 2,3,7,8,10,11,12,13)	2 (IFRS 3,7 ,10,12)	50%
10	Iraqi Islamic Bank	8 (IFRS 2,3,7,8,10,11,12,13)	4 (IFRS 3,7 ,10,12)	50%
11	National Islamic Bank	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10, 13)	38%
12	Sumer Commercial Bank	8 (IFRS 2,3,7,8,10,11,12,13)	4 (IFRS 3,7 ,10,12)	50%
13	National Bank of Iraq	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 2,7,10)	38%
14	Trans Iraq Bank for Investment	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
15	Union Bank of Iraq	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	

				38%
16	Elaaf Islamic Bank	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
17	Al-katim com. for Telecom	5 (IFRS 3,5,7,10,13)	3 (IFRS 5,7,13)	40%
18	Asiacell	5 (IFRS 3,5,7,10,13)	3 (IFRS 5,7,13)	40%
19	Al-Ahliyah for Insurance	6 (IFRS 3,4,7,8,10,13)	3 (IFRS 4,7,13)	50%
20	Dar Al-Salam for Insurance	6 (IFRS 3,4,7,8,10,13)	3 (IFRS 4,7,13)	50%
21	Modern for Animal & Agricultural Production	7 (IFRS 3,5,7,8,10,11,13)	3 (IFRS 7,8,13)	43%
22	Middle East for Fish Marketing	7 (IFRS 3,5,7,8,10,11,13)	4 (IFRS 5,7,8,13)	57%
23	Dar Es Salaam Investment Bank	8 (IFRS 2,3,7,8,10,11,12,13	4 (IFRS 3,7,10,12)	50%
24	Baghdad Soft Drinks	7 (IFRS 3,5,7,8,10,11,13)	4 (IFRS 3,7,8,13)	57%
25	AL-Batek Financial Investment	8 (IFRS 2,3,7,8,10,11,12,13	3 (IFRS 7,10,12)	38%
26	Al-Mansour Pharmaceuticals Industries	7 (IFRS 3,5,7,8,10,11,13)	3 (IFRS 7,8,13)	43%
27	Modern Sewing	7 (IFRS 3,5,7,8,10,11,13)	3 (IFRS 7,8,13)	43%
28	Iraqi For Tufted Carpets	7 (IFRS 3,5,7,8,10,11,13)	4 (IFRS 5,7,8,13)	57%
29	North Bank	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%
30	Modern Chemical Industries	7 (IFRS 3,5,7,8,10,11,13)	4 (IFRS 5,7,8,13)	57%
31	Babylon Bank	8 (IFRS 2,3,7,8,10,11,12,13)	3 (IFRS 7,10,12)	38%

32	Mosul Bank For Development & Investment	8 (IFRS 2,3,7,8,10,11,12,13)	4 (IFRS 3,7,10,12)	50%

4.2 Descriptive Analysis

Quantitative tool was used in this study in order to identify the level of IFRS adoption in Iraqi companies, examine or summarize the important behavior of the research data with the intention to organize and present them in a more logical or meaningful form. Table 4.2 presents the Minimum, Maximum, Mean and standard deviations for the whole test. It is observed that four variables of five have a high mean value ranges from 44.7188 to 12.3824 with standards deviation of 7.05615,0.87536 ,9.323 and 1.32551 for international financial reporting standards (IFRS) , firm size (FS), net profit (NP), and board size (BS) respectively while Foreign ownership (FOWN) has less level of variation (mean = 0.2188, sd = 0.42001).

Table 4.2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
IFRS	**32**	**38.00**	**57.00**	**44.7188**	**7.00799**
FS	32	11.14	13.91	12.3824	0.75293
NP	32	6.44	13.70	10.6516	2.01060
BS	32	5.00	9.00	7.0000	1.13592
FOWM	32	0.00	1.00	0.2188	0.42001
Valid N (listwise)	32				

Note: (IFRS): international financial reporting standards, **(FS)** :firm size, **(NP)** :net profit, **(BS) :**board size, and **(FOWN):** Foreign ownership.

Table 4.2 above illustrates descriptive statistics for IFRS adoption and firm size, net profit, board size, and foreign ownership used in this study.

The results show that firm size is the most influential factor that determine IFRS adoption (mean = 12.3824). This is followed by net profit (mean = 10.651) and board size (mean 7.00). In the meantime, foreign ownership (mean =0.2188) shows less influential factor.

The mean of IFRS adoption is 44.72; it means less than 50% of companies adopted IFRS. This finding is consistent with the previous study conducted by Zakari (2014).

4.3 Pearson Correlation

Pearson Correlations analysis was used to explain the level by which one variable is related to another (Asteriou & Hall, 2007). This study begins by measuring the relationship between IFRS and firm size, net profit, board size, and foreign ownership. Consequently, correlation analysis was utilized to explore the independent variables' relationship as this would help in estimating numerous models, which will discover no relationship in circumstances where the correlation estimation is 0. On the other hand, correlation of ± 1.0 means perfectly negative or positive relationship. Zero (0) is for no relationship and one (1) means a perfect relationship. In addition, relationship is seen as small where $r = \pm 0.30$ to ± 0.49 and where $r \geq 0.50$ the relationship strength is thought to be substantial (Hair et al., 2010). Table 4.3 presents correlation between variables.

Table 4.3

Correlations

		IFRS	FS	NP	BS	FOWM
	Pearson Correlation	1	.504**	.647**	.462**	.263
IFRS	Sig. (1-tailed)		.002	.000	.004	.073
	N		32	32	32	32
	Pearson Correlation		1	.400*	-.001	.170
FS	Sig. (1-tailed)			.012	.498	.176
	N			32	32	32
	Pearson Correlation			1	.270	.146
NP	Sig. (1-tailed)				.068	.213
	N				32	32
	Pearson Correlation				1	.270
BS	Sig. (1-tailed)					.067
	N					32
	Pearson Correlation					1
FOWM	Sig. (1-tailed)					
	N					

**. Correlation is significant at the 0.01 level (1-tailed).

*. Correlation is significant at the 0.05 level (1-tailed).

Table 4.3 shows that correlation between firm size (FS), net profit (NP) , board size (BS) and international (IFRS) indicates a positive correlation with the value of 0.263 (26%). Therefore, the above analysis financial reporting standards (IFRS) is strongly positive with correlation values of 0.504 , 0.647 and 0.462 representing (50%) , 65% and 46% respectively, while foreign ownership(FOWN) with the international financial reporting standards forecasts the absence of multicollinearity problem since there is no statistically strong relationship greater than 80% among the variables (Pallant, 2010).

4.4 Regression Assumptions

Research model was tested using regression analysis. However, before regression analyses were conducted, assumptions of regression analyses were checked on all variables. The assumptions are outliers, normality, linearity and multicollinearity (Coakes & Steed, 2003; Hair et al., 2010).

4.4.1 Outliers

Hair et al.(2010, p. 64) define outliers as "observations with a unique combination of characteristics identifiable as distinctly different from the other observations." There are several methods to check outliers and for the purpose of this study, standardized residual and Cook's distance were used. This method is commonly used to detect any outliers. Observation with high standardized residual has the potential to be influential outliers.

Results in Table 4.4 show maximum and minimum values of 1.40 (max) and -2.257(min) .These standardized residuals do not exceed ±3 as suggested by Tabachnick & Fidell (2007) which means that there were no outliers in the data; thus the basic assumption was met.

In addition, to check whether cases have any excessive influence on the model as a whole, the value of Cook's Distance was checked and cases with value more than 1 indicates a potential problem (Tabachnick & Fidell, 2007). In this study, the results show that the maximum values of Cook's Distance is 0.279 thus, based on these statistics, no potential problem found in the data.

Table 4.4

Residuals Statistics [a]

	Minimum	Maximum	Mean	Std. Deviation	N
Std. Residual	-2.257	1.401	0.000	.933	32
Mahal. Distance	0.454	**9.316**	3.875	2.364	32
Cook's Distance	0.000	**0.279**	0.038	0.059	32

a. Dependent Variable: IFRS

4.4.2 Tests for Normality

Normality was checked by means of multiple regressions. This assumption is concerned about data distribution, and can be examined through either statistical or distribution ± 2. Thus, normality assumption was fulfilled. A histogram is another approach used to check the assumption of normality (Hair et al., 2010). Under this method, graphical methods such as skewness and Kurtosis values, histogram of residual plots or normal probability plot of the regression (Tabachnick & Fidell, 2007). Normality exists when skewness and kurtosis ratios are ± 2 at the significance level of 0.05 (Hair et al., 2010). The results in Table 4.5 show that all ratios of skewness and Kurtosis were between normal normality is said to be assumed if the data distribution followed diagonal line (Hair et al., 2010). The normality of each variable is shown in Table 4.5. In addition, graphs based on predicted residuals were used to check normality assumption such as standardized normal probability plot (normal p-p plot) and Histogram of residuals as shown in Figure 4.1. The result met the normality assumption which means that the data set have no serious violation of normality assumption; therefore, it is assumed that data are normally distributed.

Table 4.5

Testing for Normality

Variables		Statistic
IFRS	Skewness	0.471
	Kurtosis	-1.264
FS	Skewness	0.362
	Kurtosis	-0.666
NP	Skewness	-0.705
	Kurtosis	-0.696
BS	Skewness	0.000
	Kurtosis	0.449
FOWM	Skewness	1.429
	Kurtosis	0.039

Note:- **(IFRS):** international financial reporting standards, **(FS)** :firm size, **(NP)** :net profit**, (BS)** :board size, and **(FOWN):** Foreign ownership

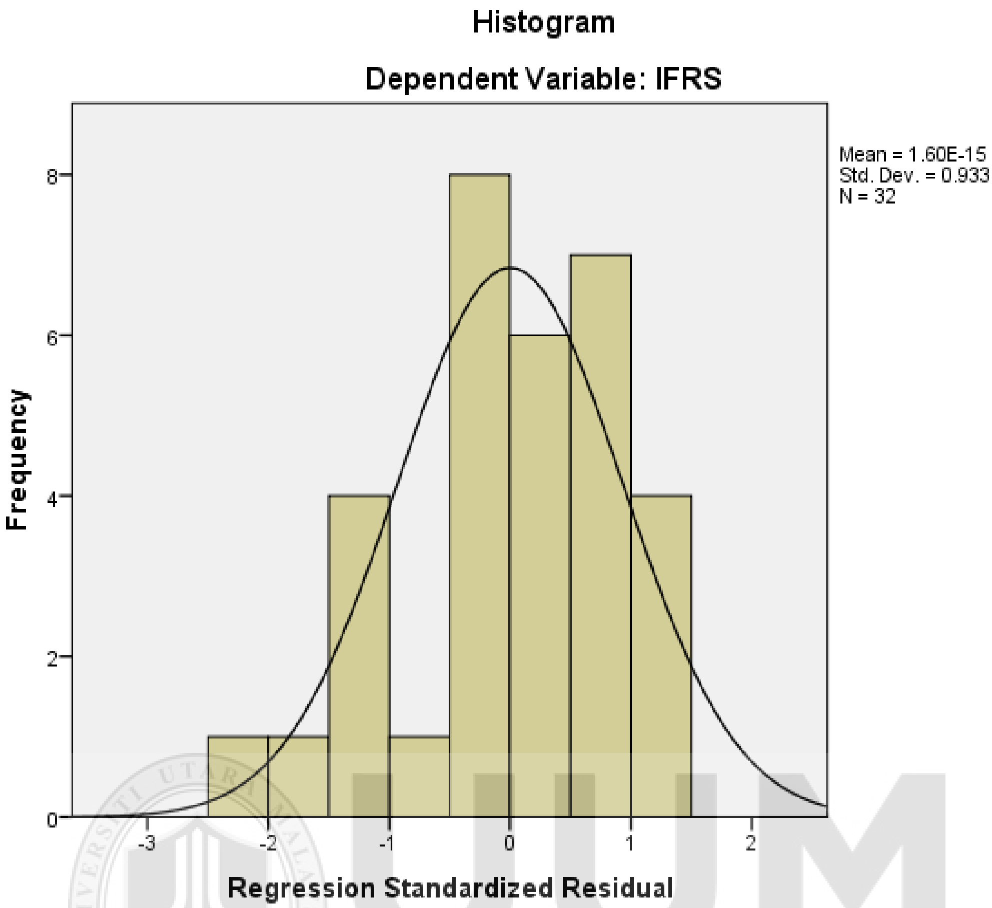

Figure 4.1
Normality Assumption

4.4.3 Linearity

Linearity of variables depicts relationship between variables in a straight line (Tabachnick & Fidell, 2007). This assumption is evaluated by using analysis of residual plots as proposed by (Hair et al., 2010). The results of the plot diagrams, as portrayed in Figure 4.2, show no evidence of nonlinear pattern to the residuals in the shape. Thus, the assumption of linearity was met. Based on this, it is assumed that there are no significant data problems with respect to regression assumptions.

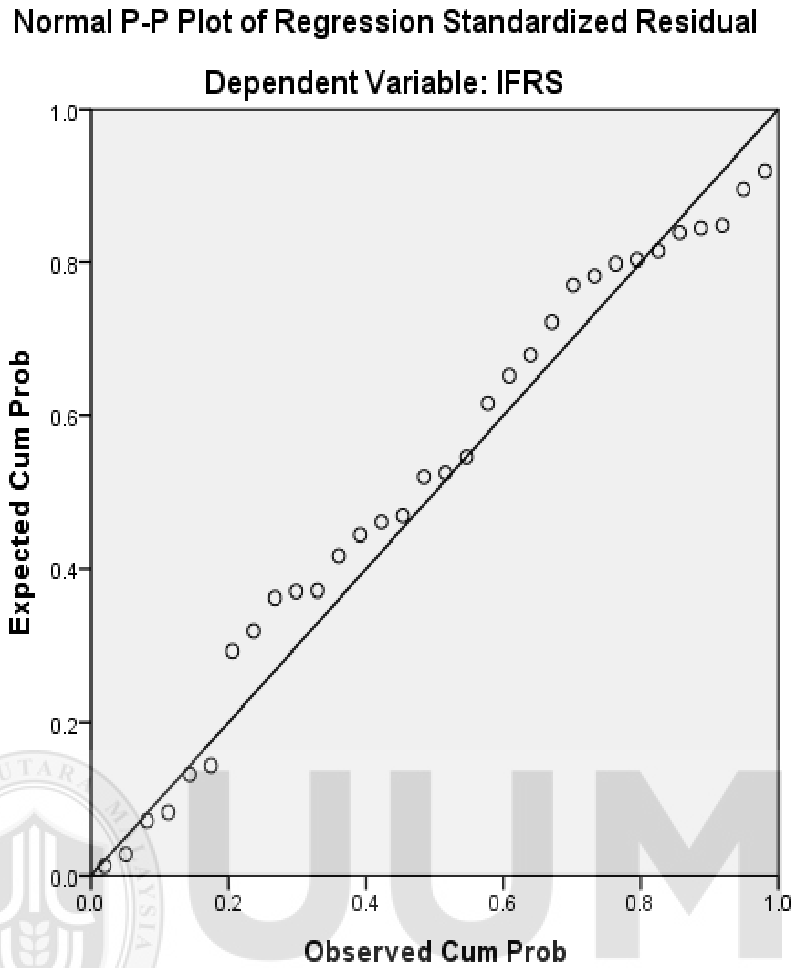

Figure 4.2 *The normal P-P Plot*

4.4.4 Tests of Multicollinearity

Variance Inflation Factor (VIF) test was carried out to examine the existence of high collinearity between independent variables. In other words, whether two or more variables are measuring the same thing or variables is independent of one another. VIF result of 10 and above means high collinearity, which requires urgent solution. When the test of multicollinearity discovers the presence of collinearity, it means a strong relationship between independent variables exists. Hair et. al. (1995) state one variable's effect could be managed by the other. A common procedure for multicollinearity that one of the various methods to check for the existence of correlation among the independent variables is through multicollinearity test that explains the level by which estimation and analysis is the use of variance inflation factor for each independent variable (Healy, 2002).

Table 4.6

Coefficients [a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	FS	0.806	1.241
	NP	0.767	1.304
	BS	0.850	1.176
	FOWM	0.898	1.114

Note:- **(IFRS):** international financial reporting standards, **(FS)** :firm size, **(NP)** :net profit, **(BS)** :board size, and **(FOWN):** Foreign ownership

In a circumstance whereby VIF is more than 10, it means that the variables are highly interrelated which incite a multicollinearity problem (Greene, 2008). Along with this, multicollinearity test using VIF as displayed in Table 4.6 above discovers non-existence of multicollinearity problem because the VIF for every independent variable is the independent variables. Therefore, each variable is proven to be independent in explaining less than the threshold value of 10, likewise the mean VIF value is reported as 1.187 far less than < 10. Accordingly, the study concludes that there is no issue of multicollinearity among the dependent variable.

4.5 Multiple Regressions Analysis

This study used standard regression analysis technique as the statistical method to inspect the relationship technique which occurs among dependent variable which is IFRS adoption and independent variables including firm size, net profit, board size and company foreign ownership. This is commonly used in a situation whereby the research is aimed to predict a single continuous dependent variable independent variable (Genser et al., 2007). The result of regressions analyses model is shown in Table 4.7.

Table 4.7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.777[a]	0.604	0.546	4.72258

Note:- .(IFRS): international financial reporting standards, **(FS)** :firm size, **(NP):** net profit **, (BS) :**board size, and **(FOWN):** Foreign ownership

Table 4.7 above shows R Square as 0.604, which indicates that the independent variables explains 60% changes to IFRS; while other variables outside the study scope accounts for 40%. The study further used one-tailed test to confirm the earlier stated hypothesis and evaluate the relationship among variables using t-value estimation for significance level as suggested by previous literature, where a t-value greater than 1.645 means the hypothesis should be accepted and hence significant relationship is established (Kumar, Talib & Ramyah, 2013; Lind, Marchal & Wathen, 2013). Based on the adjusted R Square of 0.546 (55%), it can be established that less than half of relationship with IFRS can be described by this study's four independent variables.

Table 4.8 shows the relationship between IFRS adoption level and firm size, net profit, board size and foreign ownership. The result indicates that the relationship between IFRS adoption and firm size is positively significant at 5% with t-value (2.435). This result is consistent with the findings of Senyigi (2014) and Nobes and Perramon (2013) which show that firm size is positively associated with IFRS adoption among listed companies in Turkey and Australia respectively.

In the same vein, the relationship between IFRS adoption and net profit is positively significant with t value of (3.017).This result is consistent with the findings of Moqbel et al. (2013) and Öztürk and Ergun (2012) which report that net profit is associated positively with IFRS among listed companies in USA and Bosnia respectively.

In addition, the result shows that the relationship between IFRS and board size is positive and significant at 1% level with t –value (0.335). This result is consistent with the findings of Al-Shammari, Brown, and Tarca (2008) and Mir and Rahaman (2005).

However, the result for foreign ownership is found insignificant to IFRS adoption. This result is contrary with the findings of El-Firjani and Faraj (2014) and Morris et al. (2013) which reveal that foreign ownership is associated positively with IFRS among listed firms in Libya and Australia respectively.

In a nutshell, the findings of this study evidence that firm size, net profit, and board size have positive significant influence on IFRS adoption .However, foreign ownership is insignificant on IFRS adoption in Iraq. Thus, the hypothesis H1, H2 and H3 are supported.

Table 4.8

Regression results for IFRS Adoptions

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	-23.258	15.599		-1.491	0.148
	FS	3.055	1.255	0.328	2.435	0.022
1	NP	1.453	0.482	0.417	3.017	0.006
	BS	2.066	0.810	0.335	2.551	0.017
	FOWM	0.925	2.131	0.055	0.434	0.668

a. Dependent Variable: IFRS

b. **(IFRS):** international financial reporting standards, **(FS)** :firm size, **(NP)**: net profit , **(BS)** :board size, and **(FOWN):** Foreign ownership.

4.6 Summary

This chapter explains statistical results of data analysis. Specifically, descriptive statistics test for multicollinearity, normality, pearson correlation analysis and Multiple Regressions Analysis were presented. Inclusively the findings show that firm size, net profit and board size have positive significant influence on IFRS adoption, but foreign ownership shows insignificant relationship on IFRS adoption in Iraq.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.0 Introduction

This chapter discusses results of study with the remaining part of it discusses the finding's summary, including theoretical contributions, practical contribution and policy implications which are discovered in this study. It also includes limitations and recommendations.

5.1 Discussion

The study examines factors influencing IFRS adoption in Iraqi listed companies. The finding of this study shows that IFRS adoption level in Iraqi listed companies is less than 50%. The low level might be due to the fact that the adoption of IFRS in Iraq is still in its infancy stage. It was only approved in 2014 and the implementation started in 2015. As such, it is found that only 32 companies have adopted IFRS whilst other local companies are still in the process of adopting it.

This study has considered factors including firm size, net profit, board size and company foreign ownership as having the effect on IFRS adoption in Iraqi companies. 32 companies which have adopted IFRS in Iraq in 2015 were involved as the sampling in this study.

The regression result indicates that IFRS adoption is positively significant with firm size, net profit and board size. These findings are in line with the study conducted in

Turkey and Australia by Senyigi (2014) and Nobes and Perramon (2013) which show that firm size has important role in triggering the adoption level of IFRS instead of using unified accounting system.

This result is also similar with the study conducted by Moqbel et al. (2013) and Öztürk and Ergun (2012) which reveals that net profit is associated positively with IFRS adoption among the listed companies in USA and Bosnia respectively.

In terms of board size, the result is aligned with Al-Shammari, et al. (2008) and Mir and Rahaman's (2005) which assert that board size has an effect on the level of IFRS adoption.

However, foreign ownership shows insignificant relationship on IFRS adoption in Iraq. This might be due to the political instability in Iraq which has distracted local investors to invest. Nevertheless, Iraq has the capacity to reduce the world energy crisis because it is producing 3% of oil globally. Hence, the investors have shown their interest in the natural resources and supportive infrastructure industries of Iraq. Both private and foreign owners of the natural resource companies have changed the legislations for investment and the foreign investors entered into the open investment in Iraqi listed companies during 2004. Now Iraq has the potential to recover its economy from the war affects by implementing IFRS which is a more transparent system for all financial reporting in both local and foreign companies.

5.2 Theoretical and Practical Contribution of the Study

Recently, more than 120 countries have adopted IFRS alongside the local standards. As mentioned earlier, most research about IFRS adoption has been conducted in developed countries; only a few studies have been reported in developing countries.

This study aims to improve the level of IFRS adoption in Iraq as well as to extend the literature and provide recommendation regarding IFRS adoption in Iraqi companies.

Besides theoretical contribution, this study may also have practical implications to the policy-maker and companies' stakeholders, especially shareholders and investors in Iraq. It may help investors, owners of companies as well as public interest, to understand the concept of IFRS and the benefits of the adoption.

It may also encourage investors, owners of companies as well as policy- makers, to either adopt IFRS, or prepare a plan to converge their local accounting standards to IFRS. Moreover, this study may also help policy-makers to understand factors influencing IFRS adoption in Iraqi. This will assist them in policy planning controlling and enforcing the companies to follow IFRS.

The finding of this study is important for the Iraqi government in supporting the adoption of IFRS. The government should build confidence and competencies among parties related to the adoption of IFRS. The government must make plans to establish a capital market in the near future to encourage foreign investors to invest in Iraq and attract global institutions such as the International Monetary Fund and the World Bank to invest in the Republic of Iraq.

5.3 Limitations of the Study

The results of this study which have been presented earlier have some limitations. One of the limitations is that this study has only considered Iraqi listed companies. Another limitation is that the sample of this study is very small due to the small population. The reason for the small sample is that IFRS adoption started in Iraq during 2014 and until the date the data were collected there are only 32 foreign and listed companies have initiated the adoption. Furthermore, this study covered only companies which have been listed in Iraq.

5.4 Recommends for Future Research

This study offers some recommendation for future research. It is worth to highlight that there are numerous factors that influence the adoption of IFRS in Iraq.

As this study only involved some 32 listed companies, future study may include non-listed companies as well as their sampling. Future studies may also examine government polices as another affective factor in IFRS adoption. Further, future study might look at factors in the capital market such as the corporate governance practices in the companies.

5.5 Conclusion

The discussion on IFRS adoption is an on-going process. There are numbers of countries which have adopted IFRS and the trend is increasing. The findings of this study show that the level of IFRSs adoption in Iraqi listed foreign companies is still low. This study finds that firm’s size, net profit, and board members size do affect the adoption level of IFRS in Iraq.

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