UNIVERSITI PUTRA MALAYSIA

MEDIATING EFFECT OF INSTITUTIONS AND MODERATING EFFECT OF CULTURE ON THE RELATIONSHIP BETWEEN IFRS ADOPTION STRATEGIES AND ACCOUNTING QUALITY

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By

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Thesis Submitted to Putra Business School, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirements for the degree of Doctor of Philosophy

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February 2020

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In recent years, the International Accounting Standards Board (IASB) has highlighted the importance of full adoption more than just convergence of accounting standards. While full adoption of IFRS eliminates accounting differences by allowing only the IFRS standards' applications, convergence concentrates on certain major differences within the standards and differences in the enforcement levels. These differences, despite small ones, lead to significant impact on reported performance that hinders the objective of having globalized uniform standards. Examining the variations in IFRS adoption as reported by the IASB in its jurisdiction profiles has proven to be a paramount important since jurisdictions are described by the IASB to have employed different IFRS implementations which falls within the so-called enforcement strategy and modification strategy. Given the lack of research in this area, the present research attempts to address the gap by examining the relationship between IFRS enforcement and modification strategies and accounting quality across different jurisdictions around the world. Besides, the diversities in institutional settings such as the quality of institutional and cultural dimension, lead the study to further investigate the mediating effect of institutional quality on the relationship as well as the conditional effect of culture on the relationship between the different IFRS adoption strategies and accounting quality. Using the dynamic system of Generalised Method of Moments (GMM) estimation technique as the primary method of analysis, the study converts firm-level data on accounting quality which is based on 8836 listed firms in 35 developed and developing countries that adopted IFRS, into country-level data to reduce heterogeneity. The sample covers a period of 2013 to 2017, representing the stable years following the world global financial crisis and reflecting the years in which IFRS jurisdiction profiles are available. The findings suggest that IFRS enforcement and modification strategies are statistically significant in reducing discretionary accruals. Similarly, the adoption of IFRS with enforcement and modification has been found to be positively associated with timely loss recognition and value relevance. The results also show that both strategies have given significant positive impact on accounting quality by reducing the discretionary accruals at a higher magnitude, more than the increasing effect of timely loss recognition and value relevance. It is worth noting that the efforts made for IFRS enforcement strategy affect discretionary accruals and timely loss recognition more than the IFRS modification strategy. In terms of the indirect effects, the study reveals that institutional variables, especially the voice and accountability, government effectiveness, regulatory quality and control of corruption mediate the relationship between IFRS adoption strategies and the quality of accounting across countries, corroborating previous expectations. Furthermore, the effects of IFRS enforcement and modification on accounting quality vary with power distance, uncertainty avoidance, institutional collectivism, and future orientation. These indicate complementarities in which the effect of IFRS adoption strategies on the quality of accounting information depends positively on cultural variables. The current research involves numerous implications for policymakers, investors, and managers. It provides insightful information to understand the variations in IFRS enforcement and modification and their effects on accounting and the rule of the institutional environment and cultural dimensions within this relationship.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PENGARUH STRATEGI PENERAPAN IFRS TERHADAP KUALITI PERAKAUNAN, KESAN MEDIASI INSTITUSI DAN KESAN MODERASI KEBUDAYAAN KE ATAS HUBUNGAN

Oleh

ABDULLAH HAMMAD ALHAMMAD

Februari 2020

Pengerusi : Asna Abdullah Atqa, PhD
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Dalam beberapa tahun kebelakangan ini, Lembaga Piawaian Perakaunan Antarabangsa (IASB) telah menekankan pentingnya penerapan penuh lebih daripada sekadar penumpuan piawaian perakaunan. Sementara penerapan penuh IFRS menghilangkan perbezaan perakaunan dengan hanya membenarkan aplikasi piawaian IFRS, penumpuan tertumpu kepada perbezaan utama tertentu dalam piawaian dan perbezaan di tahap penguatkuasaan. Perbezaan ini, walaupun kecil, membawa kesan yang signifikan terhadap prestasi yang dilaporkan yang menghalang objektif untuk memiliki piawaian seragam global. Kajian variasi penerapan IFRS seperti yang dilaporkan oleh IASB dalam profil bidang kuasanya telah membuktikan kepentingannya di mana pengaruh bidang kuasa seperti yang dijelaskan oleh IASB menggunakan pelaksanaan IFRS yang berbeza termasuk dalam istilah strategi penguatkuasaan dan strategi pengubahsuaian. Oleh kerana terdapat kekurangan kajian di dalam bahagian ini, kajian ini berusaha mengatasi jurang tersebut dengan memeriksa hubungan antara strategi penguatkuasaan IFRS dan pengubahsuaian dan kualiti perakaunan di pelbagai bidang kuasa di seluruh dunia. Selain itu, kepelbagaian dalam pengaturan institusi seperti kualiti institusi dan dimensi budaya, telah membawa kajian ini untuk menyiasat lebih jauh tentang pengaruh mediasi kualiti institusi terhadap hubungan tersebut serta pengaruh bersyarat budaya terhadap hubungan antara strategi penerapan IFRS yang berbeza dan kualiti perakaunan. Menggunakan sistem dinamik kaedah anggaran Generalized Method of Moments (GMM) sebagai kaedah analisis utama, kajian ini menukarkan data peringkat firma ke atas kualiti perakaunan, yang dikumpulkan daripada 8,836 firma tersenarai di 35 negara maju dan membangun yang menerapkan IFRS, kepada data peringkat negara untuk mengurangkan heterogeniti. Sampel ini meliputi tempoh 2013 hingga 2017, yang mewakili tahun-tahun stabil selepas krisis kewangan global dunia dan yang mencerminkan tahun-tahun yang ada dalam profil wilayah IFRS. Hasil kajian menunjukkan bahawa strategi penguatkuasaan dan pengubahsuaian IFRS adalah

signifikan secara statistik dalam mengurangkan akruan budi bicara. Begitu juga, penerapan IFRS dengan penguatkuasaan dan pengubahsuaian telah didapati terkait secara positif dengan pengiktirafan kerugian tepat waktu dan relevansi nilai. Hasilnya juga menunjukkan bahawa kedua-dua strategi tersebut telah memberikan kesan positif yang signifikan terhadap kualiti perakaunan dengan mengurangkan akrual budi bicara pada magnitud yang lebih tinggi, lebih daripada kesan peningkatan pengiktirafan kerugian tepat waktu dan relevansi nilai. Perlu diingat bahawa usaha yang dilakukan untuk strategi penguatkuasaan IFRS mempengaruhi akrual budi bicara dan pengiktirafan kerugian tepat waktu lebih daripada strategi pengubahsuaian IFRS. Dari segi kesan tidak langsung, kajian menunjukkan bahawa pemboleh ubah institusi, terutama suara dan kebertanggungjawaban, keberkesanan pemerintah, kualiti peraturan dan kawalan rasuah menjadi penghubung mediasi dalam hubungan antara strategi penerapan IFRS dan kualiti perakaunan di seluruh negara, yang menguatkan harapan sebelumnya. Selanjutnya, kesan penguatkuasaan dan pengubahsuaian IFRS terhadap kualiti perakaunan berbeza-beza dengan jarak kuasa, penghindaran ketidakpastian, kolektivisme institusi, dan orientasi masa depan. Ini menunjukkan pelengkap di mana pengaruh strategi penerapan IFRS terhadap kualiti maklumat perakaunan bergantung secara positif kepada pemboleh ubah budaya. Kajian semasa melibatkan banyak implikasi terhadap pembuat dasar, pelabur, dan pengurus. Ini memberikan maklumat mendalam untuk memahami perbezaan dalam penguatkuasaan dan pengubahsuaian IFRS dan kesannya terhadap perakaunan dan peraturan persekitaran institusi dan dimensi budaya dalam hubungan ini.

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I certify that a Thesis Examination Committee has met on 18 February 2020 to conduct the final examination of Abdullah Hammad Alhammad on his thesis entitled " Mediating Effect of Institutions and Moderating Effect of Culture on the Relationship between IFRS Adoption Strategies and Accounting Quality" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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Declaration by graduate student

I hereby confirm that:

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Declaration by Members of Supervisory Committee

This is to confirm that:
- the research conducted and the writing of this thesis was under our supervision;
- supervision responsibilities as stated in the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) were adhered to.

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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AASB	Australian Accounting Standards Board
ARSB	New Zealand Accounting Research and Standards Board
ASB	UK Accounting Standards Board
CSA	Canadian Securities Administrators
CESR	Commission of European Securities Regulators
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FASB	USA Financial Accounting Standards Board
FSA	Financial Services Agency in Japan
HKICPA	Hong Kong Institute of Certified Public Accountants
IAS	International accounting standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
SEC	Securities exchange Commission
UK	United Kingdom
US GAAP	United States Generally Accepted Accounting Principles
USA	United States of America
WESP	World Economic Situation and Prospects
WGI	Worldwide Governance Indicators
WDI	World Development Indicators
WCI	World competitiveness Indicators

CHAPTER 1

INTRODUCTION

1.1 Introduction

Since the promulgation of the International Financial Reporting Standards (IFRS) in the last two decades, there are ongoing debates and unresolved discussions on the matter, ranging from convergence of local standards to IFRS (Barth, Landsman, & Lang, 2008; Callao & Jarne, 2010; Craig & Rodrigues, 2007; Morais & Curto, 2009; Perera & Baydoun, 2007; Qu & Zhang, 2010), full adoption of IFRS (Ahmed, Neel, & Wang, 2013; Assenso-Okofo, Ali, & Ahmed, 2011; Chen, Tang, Jiang, & Lin, 2010b; Iatridis, 2010), enforcement and compliance of countries adopting IFRS (Cascino & Gassen, 2015; Tsalavoutas, Evans, & Smith, 2010; Wang, 2014) and the issue of modification of IFRS standards (Felski, 2017; Isidro & Raonic, 2012; Obradovic, 2014; Othman & Kossentini, 2015; Samaha & Khlif, 2016). The academic research has seen continuing developments in those issues where researchers have now started to deliberate on the issue of adoption in full as opposed to convergence to IFRS (Anagnostopoulou, 2017; Capkun & Collins, 2018; Sidney J Gray, Nagata, Nakamura, & Ozu, 2019; Hao, Sun, & Yin, 2019; Mora, Sarmiento, & Mayorga-diaz, 2019).

In the same bandwagon, the IASB has also highlighted the importance of full adoption more than just convergence of accounting standards (Mackintosh, 2014). Even though the full adoption and convergence of IFRS shared the same goals, they clearly differ in some aspects (IASB, 2018). While full adoption of IFRS eliminates accounting differences by allowing only the IFRS standards issued by the IASB, convergence concentrates on certain major differences within the standards or differences in the enforcement level (Alon & Dwyer, 2014; Felski, 2017; Othman & Kossentini, 2015; Samaha & Khlif, 2016; Zehri & Chouaibi, 2013)1. These differences, despite small ones, may lead to significant impact on reported performance that hinders the objective of having globalized uniform standards across countries to improve accounting quality and enhance comparability of financial statements (Mackintosh, 2014). Besides, it is a fact that some significant accounting differences do exist and will continue to exist although they have never been presented in the convergence projects (IASB, 2018).

Since its establishment in 2001, the International Accounting Standards Board (IASB), an independent and a non-profitable organization, has been seen as the forerunner in introducing high-quality accounting standards, such as the IFRS. Despite it being compared with the US GAAP standards which are regarded as a more comprehensive set of rules and guidelines, the IFRS are always recognised as principles-based and flexible set of standards (L. Doukakis, Kapellas, & Siougle,

[1] These major differences within the standards are explained under section 1.2.2 contemporary issues in IFRS adoption among nations and appendix B.

2017; Lopes, Cerqueira, & Brandão, 2010; Samaha & Khlif, 2016; Uwuigbe, Uyoyoghene, Jafaru, Uwuigbe, & Jimoh, 2017). These attributes, essentially and in reality, allow countries to have choices under the convergence project to use different approaches to IFRS applications by adding several alternatives when they regulate the reporting standards (Felski, 2017; Othman & Kossentini, 2015; Pownall, Grace Wieczynska, 2011).

In essence, researchers have argued that this flexibility is important when adopting one set of standards on a global scale because of the variations in countries' internal environmental factors (Cieslewicz, 2014; Felski, 2017; Obradovic, 2014; Pawsey, 2017). However, others believe that this flexibility will result in less financial statement comparability, which is one of the major goals of IFRS implementation (Christensen, Hail, & Leuz, 2013; Rodríguez García, Cortez Alejandro, Méndez Sáenz, & Garza Sánchez, 2017; Yip & Young, 2012). It is also the mission of IASB to produce standards that bring transparency, comparability, accountability and efficiency to capital markets around the world (Hoogervorst, 2015).

This matter has become a great concern to all when more and more countries in the world have volunteered or compelled to apply IFRS for various reasons (Christensen et al., 2015; Felski, 2017; Obradovic, 2014). Almost no one is willing to be left behind in the globalization of the accounting standards. The variations that comes with the convergence project in many jurisdictions result in the capturing of the IFRS implementation strategies in the body of academic research, known as the enforcement strategy and the modification strategy (Alon & Dwyer, 2014; Felski, 2017; Othman & Kossentini, 2015). These strategies stem from the problems of convergence versus full adoption where enforcement strategy refers to the effective mandating of IFRS for all listed firms (M. Abdullah, Evans, Fraser, & Tsalavoutas, 2015; Ahmed et al., 2013; Christensen et al., 2013; Yip & Young, 2012) and modification refers to any amendments to the IFRS standards in terms of modifying, adding or eliminating any reporting requirements (EY, 2018; Felski, 2017; Obradovic, 2014; Othman & Kossentini, 2015). Given the different strategies applied by different countries, the question of what is their impact on accounting quality heightened in its importance.

It is also vital to note that the process of IFRS implementation in the early years of convergence or adoption has been taken not to be part of the IFRS enforcement and modification strategies within this study since the research is conducted many years after the IFRS introduction in the respective jurisdictions. Equating the process of IFRS implementation with these strategies would be going off the track since the study focuses on the different adoption strategies chosen by each jurisdiction years after their first application (Felski, 2015; Maradona & Chand, 2017; Obradovic, 2014; Pownall, Grace Wieczynska, 2011).

Besides the issue of adoption strategies, it is also important to admit the fact that variations among IFRS adopted countries still exist, particularly, in terms of the intended accounting outcomes as a result of IFRS adoption, which suggests that the adoption of IFRS is not enough to reflect these intended effects (Cardona, González,

& Ríos-Figueroa, 2014; Christensen et al., 2015; Halabi & Zakaria, 2015; Laupe, 2018; Nnadi & Soobaroyen, 2015).

For instance, the World Competitiveness Indicators (WCI) provided by the World Economic Forum in 2018 indicate the existence of high level of variance in the strength of accounting and auditing system, transparency, investors' protection level corporate governance quality, and the quality of the institutions among IFRS adopted jurisdictions. Figure 1.1 shows these fluctuations despite the fact that those countries are adopters of IFRS. This brings up the question of how precise and to what extent are the IFRS adoptions in these countries. It also questions whether the institutional settings in the countries affect these outcomes. In essence, the institutional settings across countries can be formally represented by the institutional quality and informally affected by culture dimensions (Cieslewicz, 2014; Fearnley & Gray, 2015; Houqe & Monem, 2016; Lewellyn & Bao, 2017; Owusu, G. M., Saat, N. A. M., Suppiah, S. D. K., & Siong, 2017).

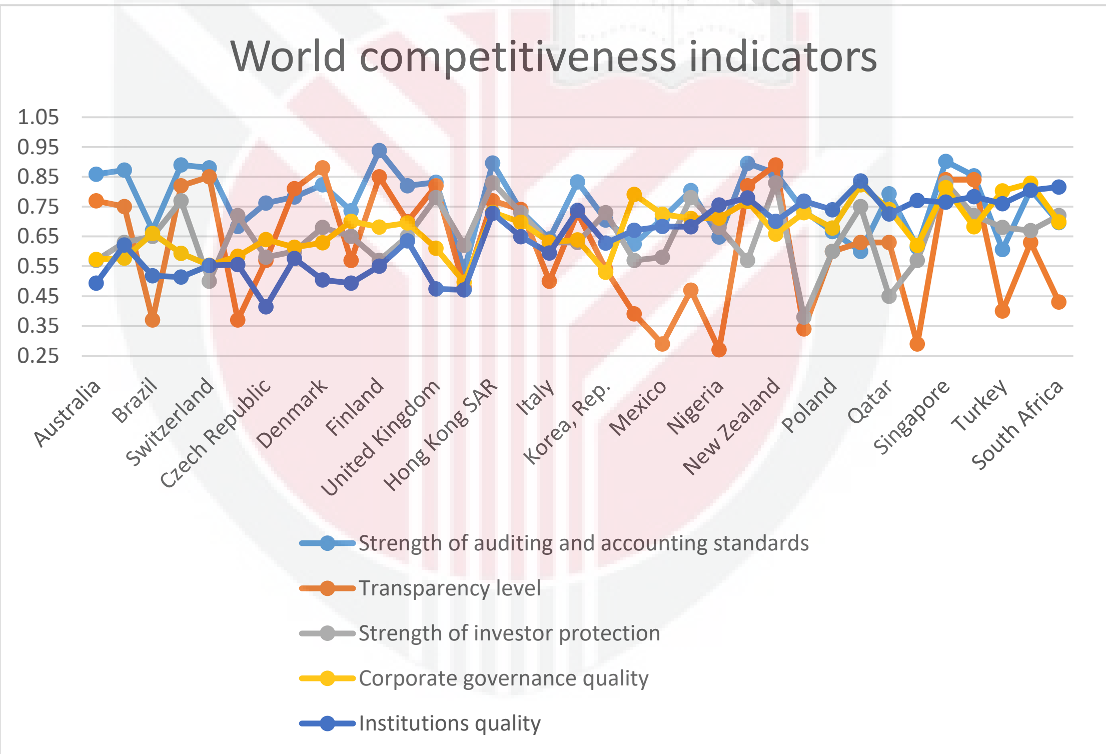

Figure 1.1 : World competitiveness indicators
(Source: World Economic Forum, 2018)

Based on above arguments, since each country has its own IFRS adoption strategy and inherently unique institutional settings, it is rather difficult for the IASB to declare that IFRS adoption alone would bring faithful representation and other intended outcomes to the financial statements. Thus, research in these areas is very much needed to help organization such as IASB in coming up with the best suggestions for IFRS implementation strategy, within the given institutional settings of each jurisdictions. As such, this study builds two important research questions; First, what are the potential consequences on the countries' outcomes, particularly, the accounting quality of the different implementation of IFRS? Second, to what extent do institutional settings influence the relationship between different IFRS adoption strategies and accounting quality?

The adoption of IFRS has been discussed from different perspectives in terms of accounting quality and other economic indicators at variety of levels, including firms and jurisdictions (Ahmed et al., 2013; Anagnostopoulou, 2017; De George, Li, & Shivakumar, 2016; Jang, Lee, Seo, & Cheung, 2016; Martínez-Ferrero, 2014). Previous efforts of research mostly focused on the implications of IFRS adoption on accounting quality in general and extensively on the firm-level effects of IFRS adoption. However, the present study attempts to investigate the consequences of different IFRS adoption strategies namely, enforcement and modification strategies, on the accounting quality across countries. Moreover this study clarifies and distinguishes the role of institutional quality and the conditional effect of cultural dimensions on the relationship between IFRS adoption strategies and accounting quality.

The accounting quality measures chosen are discretionary accruals, timely loss recognition and value relevance. Although there are many other measures and instruments to determine the level of accounting quality, it is believed that these three measures portray the highest and most significant above all other measures because they are frequently utilized in accounting quality research since decades ago (Ahmed et al., 2013; Christensen et al., 2015; Dimitropoulos, Asteriou, Kousenidis, & Leventis, 2013; Tang, Chen, & Lin, 2016). They are also considered to be the most appropriate, and reflective of the issues in question. Both discretionary accruals and timely loss recognition are accounting based measures. Discretionary accruals reflect the common measure of earnings management, which is regarded as the most significant negative outcome to be addressed in financial reporting (Dayanandan, Donker, Ivanof, & Karahan, 2016; Lewellyn & Bao, 2017). The timely loss recognition, on the other hand, reflects the importance of conservatism, a concept that is upheld by the IASB in recent years (A. A. Abdullah & Mohd-Saleh, 2014; Chan, Hsu, & Lee, 2015) and is very much engrained in IFRS standards (IFRS conceptual framework, 2018). Finally, the value relevance, which is one of the market based measure of accounting quality, is reflective of the value of the financial statements borne by the market players in the form return to equity (Oraby, 2017; Rodríguez García et al., 2017). These three measures are believed to be sufficient in explaining the impact of IFRS adoption strategies and institutional settings on accounting quality and are appropriate for comparing with findings in prior IFRS studies.

1.2 Overview of IFRS Adoption Strategies

In 2013, the International Accounting Standards Board (IASB) created the International Financial Reporting Standards (IFRS) jurisdiction profiles to explain how most countries adopted IFRS and whether they did so by adopting or converting to IFRS. The profiles were based on a global survey which represented the local implementation of IFRS in various national jurisdictions of each country. The respondents of the survey were the authorized professional body of accounting in each nation which decided to use IFRS.

Each country jurisdiction's profile specifies whether the country adopts IFRS or converges to IFRS. Some jurisdictions adopt the convergence policy by having both IFRS and local standards, or the US GAAP standards such as Switzerland and Japan

There are also jurisdictions which adopt IFRS by having the local standards and IFRSs converged into one but with some modifications. Some jurisdictions follow the convergence approach to gradually move towards IFRS while others adopt convergence as a more or less permanent strategy with no stated intention of moving towards full adoption (IFRS, 2018).

According to the IASB, these adoption methods are considered as strategies decisions since they are based on strategic responses with clear plans and specific time-tables driven by the interplay of transnational pressures and resource dependency at the national levels (IASB, 2018). These elements in the jurisdiction profiles explain in details how IFRS are being implemented differently among countries which adopted IFRS (Alon & Dwyer, 2014; Othman & Kossentini, 2015). In essence, it explains the extent of IFRS application whether IFRS are required or permitted, and the method of endorsement to reflect the uses and amendments of the IFRS standards in the particular jurisdiction.

The flexibility provided by IASB allows countries to implement IFRS with different adoption strategies. There are four different categories of IFRS implementation based on the extent of the application and the method of endorsement within the jurisdictions. The first category of IFRS implementation requires the use of only IFRS standards as issued by IASB. This category sees Qatar and South Africa as examples of jurisdictions that have taken the first category approach. The second category requires the use of IFRS standards only but is given permission to have some modifications. This includes Australia, Hong Kong, and Malaysia. The third category of jurisdictions permits the use of IFRS standards along with some modifications like Japan. The last category permits IFRS standards without modifications such as the Switzerland. These different four approaches are available to jurisdictions to decide (Dvořák & Libor, 2015; Felski, 2017; Hope, Jin, & Kang, 2006; Obradovic, 2014; Othman & Kossentini, 2015; Pacter, 2014).

Figure 1.2 below shows more than 122 countries (indicated by the blue-color shades) have either adopted or converged IFRS in their financial markets. Until 2018, the IFRS jurisdiction profile indicate that these jurisdictions require most or all publicly listed companies to adopt IFRS by applying different strategies. Those requiring IFRS adherence for listed companies include 14 of the G20 countries (Zahid & Simga-Mugan, 2019). Similarly, some developing countries have adopted IFRS or are in the process of IFRS adoption for their listed firms. For instance, Indonesia decided to converge its domestic standards to IFRS, while Thailand has taken actions to adopt IFRS. The countries which do not enforce IFRS are Switzerland, Paraguay, Japan, Argentina, Nicaragua, Panama, Guatemala, and Bolivia. In other words, these firms can choose to apply or not to apply IFRS. Uzbekistan requires IFRS for non-listed companies, while Bhutan is going to enforce IFRS from 2021. Apart from the jurisdictions which apply IFRS, there are 22 jurisdictions (indicated by the white-color shades) which have decided not to adopt IFRS at all, including China, Egypt, India, Macao SAR, the United States, and Vietnam (see https://www.ifrs.org/use-around-the-world/). All of these IFRS adopters jurisdictions are listed in Appendix A, and they are classified by their IFRS adoption strategies.

Figure 1.2 : IFRS foundation around the world
(Source: www.ifrs.org, 2018)

Having said this, it is believed that the way countries implement IFRS can have a direct or indirect influence on accounting quality, whether large or small. Those four categories of jurisdictions reflect two different adoption strategies; One, the countries that require adoption of IFRS as the only standards and those which permit the use of IFRS or other acceptable standards reflect the enforcement strategy, and two, the countries that adopt IFRS with modifications and those which adopt IFRS without modifications reflect the modification strategy. IFRS enforcement strategy has several similar meanings which include required or mandatory adoption (Ahmed, Neel, & Wang, 2013; Anagnostopoulou, 2017; Cai, Rahman, & Courtenay, 2014; Pownall, Grace Wieczynska, 2011; Yip & Young, 2012). Going back to the IFRS jurisdiction profile, the questions asked from the professional accounting body in each nation is whether all or some domestic companies, whose securities are traded in a public market, are required or permitted to use IFRS in their consolidated financial statements (IASB, 2018).

The modification strategy, on the other hand, is generally regarded when jurisdictions amend the IFRS standards to suit the local requirements. In the IFRS jurisdiction profiles, each jurisdiction is required to answer questions whether the countries have eliminated any accounting policy options permitted by IFRS and/or made any modifications to disclosure requirements, representation, and measurements under their convergence plan (IASB, 2018). Figure 1.3 below shows the categorization of the jurisdictions which adopted IFRS. Each category consists of two subcategories. Figure 1.3a shows proportions of IFRS adopters with or without enforcement, while figure 1.3b shows proportions of IFRS adopters with or without modifications. Out of 122 jurisdictions which adopted IFRS, 112 (92%) of them have implemented IFRS with enforcement (mandatory/required), while the remaining 10 (8%) jurisdictions have adopted IFRS without enforcement (voluntary/permitted). In contrast, 63 (52%) jurisdictions require the use of modified IFRS (adapted/ partial adoption) whereas 59 (48%) jurisdictions adopt IFRS without modifications (full adoption). In another perspective, out of the 122 jurisdictions 57 jurisdictions under the full adoption group while the rest of the categories are within the convergence group[2].

A quick note of those different adoption strategies would give some reflections of the motives and domestic requirements of each jurisdiction. Some countries which have existing strong legal environment may opt for the strategy that permit the use of IFRS and other local standards or the US GAAPS, while other jurisdictions which have domestic requirements may opt for IFRS adoption with modifications. All these different adoption strategies may provide further insights about the gaps in the transparency, reliability, the level of the investors' protection for the countries, and consequently the accounting quality (Christensen, Hail, & Leuz, 2013; Dayanandan, Donker, Ivanof, & Karahan, 2016; Shima & Yang, 2012; Van Tendeloo & Vanstraelen, 2005). To this point, it is important to note that the distinguished approach to IFRS implementation (as mention is Section 1.1 above) of either full adoption versus convergence would have more jurisdictions falling into the convergence side rather than the full adoption side.

[2] These categorisations are illustrated in appendix A.

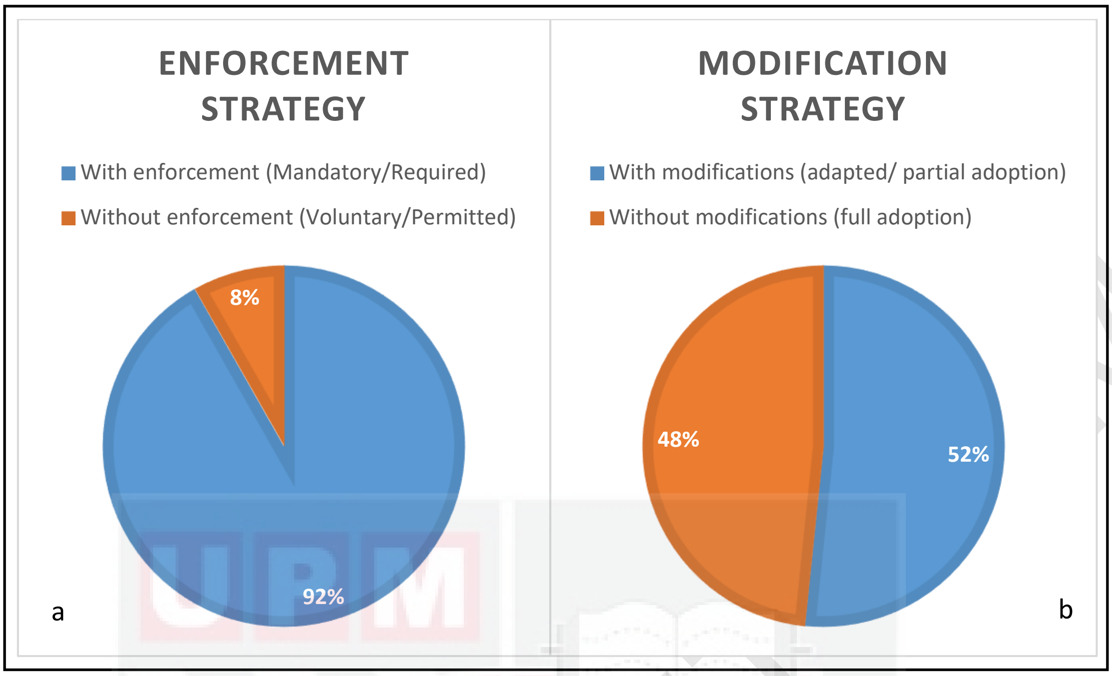

Figure 1.3 : Adoption strategies:
(Source: www.ifrs.org, 2018 and author's calculation)

1.2.1 Harmonization vs Naturalistic facts in accounting

International pressures to improve the comparability of accounting, and different interests and needs of a wide range of institutional settings and cultures, result in differences in accounting environment. (Cieslewicz, 2014; Felski, 2017; Houqe & Monem, 2016; Lewellyn & Bao, 2017; Shaw, 2015). Researchers believe that variations in the international accounting practices represent a great disadvantage among stakeholders (Ball, Li, & Shivakumar, 2015; Cascino & Gassen, 2015; De Franco, Kothari, & Verdi, 2011). There are four important issues in respect to comparisons between the harmonization and naturalistic facts of international accounting practices (Felski, 2017; Shima & Yang, 2012).

First, different foreign languages or different cultural meanings behind certain expressions in accounting standards lead to confusion and misunderstanding (Wehrfritz & Haller, 2014). For example, the term 'stock' in the North American context is associated with ownerships and shares, whereas it means merchandise or inventory in some other countries. The different views of conceptions are a continuous problem which needs a long time to be solved. The issue is not all about words, but it is about who will convince the other with the right words and the right explanation; otherwise, modifications will appear (Felski, 2017).

Second, different ways or opinions on the classification of financial information are another problem (Cascino & Gassen, 2015; Fearnley & Gray, 2015). For example, income statements in the US are presented in multiple-steps which break down important expense categories, such as the cost of sales. In another country, like for example, Germany, income statements classify the cost of sales as expenses based on types rather than functions (Elbakry, Nwachukwu, Abdou, & Elshandidy, 2017). This might result in modifications or rejections of the international standards.

Third, institutions require different levels of disclosure (Guan, Pourjalali, Sengupta, & Teruya, 2005; Houqe & Monem, 2016). Regardless of the progress made in the international standards, disclosure levels still vary between countries. The variances among large institutions and investors in the USA, Japan and other nations result in different areas that need special attention such as segmental statistics, strategies of asset valuation, foreign operational disclosures, frequency and completeness of period in-between records, description of capital expenses, hidden reserves and unstable balance sheet items (Felski, 2017; Lewellyn & Bao, 2017).

Fourth, different measurement concepts also constitute a problem (Wehrfritz & Haller, 2014). When financial documents are prepared based on different standards, measures, and tools, they cause confusion among analysts when the later compare the documents and make cross-border investment decisions (Dayanandan et al., 2016; Felski, 2017). For instance, the British confectionary company Cadbury reported under IFRS profits of $690 million in 2009. However, it reported only $594 million in profits under the US Generally Accepted Accounting Principles (GAAP) with almost 14% lower. Similarly, Cadbury's return on equity was 14% under IFRS while 9% under GAAP which is five per cent lower than it was under IFRS. Such differences are large enough to change the quality of accounting outcomes (Sherman & Young, 2016). Another recent example, when Twitter reported a GAAP net loss of $521 million in 2015, it also reported a net positive income of $276 million under the IFRS (non-GAAP earnings measures). In both cases, the significant difference in reporting profits and losses underscores the subjectivity of financial reporting. It causes a huge difference in the decisions made according to these reports. These examples clearly show that the use of different standards can lead to different accounting outcomes.

The other main reasons that pressured different jurisdictions across countries to adopt IFRS are the Enron case which took place in 2001 and the global financial crisis of 2008 (Samaha & Khlif, 2016; Zehri & Chouaibi, 2013). First, the Enron case caused the loss of public trust in accounting professions by many stakeholders and forced regulators around the world to improve accounting information. For example, most of the European Union (EU) member countries converted their standards to IFRS in 2005 as an effort to improve their faithful representation of the financial statements (Pownall, Grace Wieczynska, 2011; Zeghal, Chtourou, & Fourati, 2012). Moreover, the global financial crisis in 2008 has again resulted in a huge impact on the prices per share and public confidence in the quality of the accounting information which encouraged the remaining countries to adopt IFRS standards.

The reasons mentioned above motivated the IASB to issue one internationally accepted accounting standards to harmonize accounting outcomes (Chen, Tang, Jiang, & Lin, 2010a). However, differences in languages, disclosures, and different accounting measurements and standards make it hard for users of financial statements to draw a complete comparison apple to apple between companies in different nations in the global market. This can only be resolved through a high international level of standards enforcement without allowing any country to modify them (Cascino & Gassen, 2015). Additionally, the subjectivity in reporting due to the use of different rules among different countries has resulted in glaringly opposite outcomes from profit to loss and vice versa. This situation will subject the profession of accounting in the jeopardy of losing its meaning, especially in increasingly globalizing markets.

1.2.2 Contemporary Issues in IFRS Adoption among Nations

There is a common expectation that IFRS adoption will eliminate the differences in accounting outcomes and significantly enhance the comparability between firms in various countries which previously followed different accounting standards. However, there are several reasons which explain why IFRS adoption might have a limited effect on comparability. Firstly, since IFRS are considered to be more principles-based standards, financial statements that are reported under IFRS could be adversely affected by managerial discretions (Halabi & Zakaria, 2015; Laupe, 2018; Vito, Mafhood, & Bozec, 2017). Secondly, since the IASB does not have the authority to impose compliance with IFRS in countries, there are critical international variations related to IFRS adoption and practices (Cascino & Gassen, 2015; Felski, 2017; Obradovic, 2014; Samaha & Khlif, 2016). Finally, uniform accounting standards alone might not necessarily result in comparable accounting outcomes due to the differences in institutional and cultural aspects across countries (Ahmed, Neel, & Wang, 2013; Cieslewicz, 2014; Laupe, 2018; Lewellyn & Bao, 2017).

For example, in the European Union, the European Financial Reporting Advisory Group (EFRAG) was formed by a committee to assist in the development of accounting standards. According to Ernst & Young report about the IFRS adoption by the European Union IFRS standards and amendments and endorsed by the EU made on 31 December 2018, IFRS 10[3], IFRS 14[4] and IFRS 17[5] have not been endorsed, although both IFRS 9[6] and 15[7] were expected to be endorsed after 1 January 2018 (EY, 2018). In addition, eight amendments that have not yet been endorsed by EFRAG, although they were expected to be endorsed on their effective date of January 1, 2018[8] (www.efrag.org). Also it had been realized that among EU member

[3] IFRS 10 for the sale or contribution of assets between an investor and its associate or joint venture, the EU-effective date: indefinitely

[4] IFRS 14 which is Regulatory Deferral Accounts EU-effective date : Postponed indefinitely

[5] IFRS 17 which is about the Insurance Contracts EU-effective date: 1 January 2021

[6] Amendments to IFRS 9: Prepayment Features with Negative Compensation EU-effective date 1 January 2019

[7] IFRS 15 which is about the Revenue from Contracts with Customers EU-effective date: 1 January 2018

[8] These amendments includes Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions, Amendments to IFRS 4: Applying IFRS 9 Financial Instruments, Amendments to IAS 40: Transfers of Investment Property, IFRS11 for Previously held interest in a joint operation , IFRS 16 Leases , IFRS 17 Insurance Contracts, Amendments to IFRS 10 for Sale or Contribution of

countries, Switzerland was the only one which did not require IFRS. Thus, it can be concluded that the different adoption strategies of enforcement and modifications may affect the accounting quality differently.

In Australia, there were some changes in the adoption of IFRSs. The Australian Accounting Standards Board (AASB) has modified 19 standards that are significantly difference from the IFRS issued by the IASB. Most of these modifications were additional disclosures' requirements or elimination of some alternatives in disclosure. For example, IFRS 12 gives the choice for the company to disclose the relationship between accounting profits and tax profits, whereas AASB eliminates this choice and restricted the proper presentation. These modifications were meant arguably to provide additional disclosure requirements, to improve the quality of the financial reporting, and to remove potential ambiguity (IFRS jurisdiction profiles, 2018).

Another example for a country that has different adoption strategies is New Zealand. The New Zealand Accounting Research and Standards Board (ARSB) has converted the accounting standards to IFRS Standards. However, thirteen of the IFRS standards have been modified, and some have been renamed to be equivalent to IFRS standards. Additionally, there are multiple New Zealand disclosure requirements involving three standards for the summary of the financial statements' disclosures, and additional appendices to the New Zealand-equivalent IFRS 4 for the insurance contracts. The ARSB specified that gaps may exist in international standards, and the local GAAP still applies to complement these gaps (IFRS jurisdiction profiles, 2018).

Similarly, both the Hong Kong Institute of Certified Public Accountants (HKICPA), and the jurisdiction profile of Hong Kong required firms to either report using the Hong Kong Financial Reporting Standards which are identical to IFRS with some additional disclosure requirements or IFRS Standards as issued by IASB. Although, Hong Kong Financial Reporting Standards contain wording identical to the equivalent IFRS Standards, the additional disclosure requirements are expected to provide a true and fair value to enhance the faithful representation of financial statements (PWH, 2017). Consequently, the HKICPA issued a report that explained the differences between IFRS and Hong Kong Financial Reporting Standards (IFRS jurisdiction profiles, 2018).

The Financial Services Agency (FSA); which endorsed each standard in Japan, specified a few of the criteria to permit the adoption of IFRS for listed and unlisted firms as modified by the FSA. Nonetheless, IFRS were still not permitted for stand-alone application onto the financial statements of listed or unlisted firms. According to IFRS jurisdiction Japanese profile of February 2014, 34 firms started using IFRS or announced a plan to start using it (IFRS jurisdiction profiles, 2018). The convergence under the Japanese jurisdiction differed from other countries because it requires that use of IFRS must go through specific processes and requires legally authorized

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Assets between an Investor and its Associate or Joint Venture and IFRS13 for Measuring an associate or joint venture at fair value.

permission. All of these processes represent the unique institutional factors which are believed to be important to improve the quality of accounting in Japan.

In Canada, the application of IFRS started in 2011 for both rate-regulated entities and investment companies. The Canadian Securities Administrators (CSA) gave investment companies the option to either use the Canadian GAAP or IFRS until 1 January 2014. Rate-regulated entities were given the same option until 1 January 2015 (IFRS jurisdiction profiles, 2018). Moreover, the CSA provided an option for the companies which register in the Securities and Exchange Commission (SEC) to apply the US GAAP instead of the Canadian GAAP. The CSA announced that the rate-regulated entities that were not registered with the US SEC might ask their Principal Provincial Regulator for an extension of their exemption from the requirements to adopt IFRS until 2019. According to the CSA, these options have been given to these entities as Canadian GAAP standards are also considered as high quality accounting standards.

It is argued that jurisdictions which did not enforce IFRS, or in effect, modified the IFRS, made more specific, and purposeful amendments for the purpose of meeting the needs of their local environments. They intended to make these amendments because of the expectation that alternative enforcement requirements and modifications might result in deviations from reporting under IFRS if they were done solely for economic purposes. If they expected no differences, then the enforcement and modifications would not be necessary. Australia was a good example where the main modifications were the addition of disclosures and the elimination of some options. Some countries chose not to implement several IFRS standards. For instance, IFRS 9, which is meant for hedge accounting where it includes a new general hedge accounting model, has not been recently adopted by some of the convergence jurisdictions (including EU, Singapore, and Pakistan). This has caused risks of critical differences among prepared financial statements in countries that have implemented IFRS 9 and those that have not implemented it.

1.3 IFRS adoption strategies and accounting quality

Accounting quality has paramount importance for policymakers and stakeholders because it plays a significant and effective role in economic features in different countries. These economic consequences, which include macroeconomic and microeconomic characteristics, directly affect the cost of capital and capital flows in each country (Isidro & Raonic, 2012). In addition, local and international markets can also be affected by accounting quality because good accounting numbers are critical for improving liquidity, corporate transparency, and market efficiency (Ball, 2013). Furthermore, accounting quality promotes economic development in terms of increasing the confidence of local and international investors, improving the integration and connectivity of global financial markets, and attracting foreign investments, particularly in its stock markets (Othman & Kossentini, 2015). Thus, accounting quality becomes an important measure for its essential roles in the economy and society.

To better understand the accounting quality consequences when a certain jurisdiction chooses to adopt IFRS strategies, such as enforcement and modification, it is important to comprehend the reasons behind the development of different ways of adoption. The IASB has indicated that IFRS are high quality standards that aim at providing better transparency and disclosure quality of financial statements. Additionally, it has stated that IFRS can lead to greater consistency and reliability to the financial statements in various jurisdictions.

To understand accounting quality aimed by the IASB, numerous scholars have attempted to measure the quality of the adopted standards through evaluating the information produced by the companies which follow the standards. The common measurements of accounting quality include earnings management, timely loss recognition, and value relevance. Earnings management refers to managers' ability to manipulate financial reporting by structuring their transactions to mislead stakeholders about the economic performance of the company (Dayanandan et al., 2016; Lewellyn & Bao, 2017; Ugrin, Mason, & Emley, 2017; Uwuigbe, 2016). Timely loss recognition refers to the degree to which the accounting earnings reflect economic losses (as measured by returns of negative stocks) and economic gains (as measured by returns of positive stocks) (Chan, Hsu, & Lee, 2015; Dimitropoulos, Asteriou, Kousenidis, & Leventis, 2013; Jayaraman, 2012). Value relevance is the explanatory power of accounting variables for predicting security returns (Dasilas & Thessaloniki, 2016; Elbakry, Nwachukwu, Abdou, & Elshandidy, 2017; Vito et al., 2017). Thus, there has been a significant attempt to identify how well accounting information are correlated to stock market performance.

While questions of enforcement dominate the extant literature, little is known about the effect of modification on accounting quality. Some studies documented an improvement in accounting quality after IFRS adoption, indicating that countries adopting IFRS have significantly improved their accounting quality (Borker, 2013; Fernandez, 2015; Othman & Kossentini, 2015). Generally, studies on IFRS adoption after 2005 explain the importance of uniformity and comparability of the IFRS (Barth et al., 2008; Morais & Curto, 2009; Perera & Baydoun, 2007; Tyrrall, Woodward, & Rakhimbekova, 2007). In the years between 2010 to 2015, studies mostly focused on the impact of mandated IFRS and how it affects the accounting outcomes (Ahmed et al., 2013; Chan et al., 2015; Christensen et al., 2013; Horton, Serafeim, & Serafeim, 2013; Lopes et al., 2010). Recently, academic studies started to highlight the importance of these standards in details, other factors within the nations that may affect the relationship and the economic consequences of IFRS adoption (L. Doukakis et al., 2017; Felski, 2017; Jun, 2019; Kouaib & Jarboui, 2017; Lewellyn & Bao, 2017; Othman & Kossentini, 2015; Owusu, G. M., Saat, N. A. M., Suppiah, S. D. K., & Siong, 2017). In particular, the impacts were more pronounced when the enforcement strategy was employed (Ahmed et al., 2013; Cascino & Gassen, 2015; Halabi & Zakaria, 2015; Horton et al., 2013). Nevertheless, these studies did not answer the question whether full IFRS adoption with enforcement or enforcement with modifications would improve the accounting quality (Ahmed et al., 2013; Aubert & Grudnitski, 2011; Christensen et al., 2015; Dimitropoulos et al., 2013; Felski, 2017;

Othman & Kossentini, 2015; Uwuigbe, Uyoyoghene, Jafaru, Uwuigbe, & Jimoh, 2017).

Previous research efforts intensively focused on enforcement strategy and neglected the modification strategy. This can be attributed to the timing element as the latter needs an adequate time to understand how different jurisdictions adopted the standards which are principles-based. Once IFRS adoption takes place by a certain jurisdiction, the time required to understand the standards is subject to examination through countries' institutions and cultures which are believed to play an important role in adopting the strategy appropriately. Hence, research on the impact of IFRS modification strategy on accounting quality lags behind and it is considered essential to be understood along with enforcement strategy adopted by different jurisdictions. In addition, it is believed that now is the right time to study this issue given that many years have lapsed since IFRS were first implemented in many jurisdictions in the world.

Previous studies have examined the full adoption of IFRS whether it is mandatory or voluntary, assuming that IFRS is an ideal accounting system because of the perceived stability and ability to operate at the same rate of quality in all countries, across all cultures, and among various systems of jurisdictions across different economies. IFRS enforcement strategy is found to interact with the internal environments, thus enhancing the accounting information (Barth, Landsman, & Lang, 2008; Chen, Tang, Jiang, & Lin, 2010; Hassan, Rankina, & Lu, 2014; Masoud, 2016; Othman & Kossentini, 2015). In contrast, other studies argued that the adoption of IFRS with modifications would give better results in accounting quality (Felski, 2017; Obradovic, 2014; Samaha & Khlif, 2016; Tsunogaya, Hellmann, & Scagnelli, 2015). Some other researchers even believed that accounting quality was not necessarily improved with IFRS adoption (Christensen et al., 2015; Halabi & Zakaria, 2015; Irina-doina, 2015; Palea, 2013).

The divergent opinions regarding the adoption of IFRS strategies and their effects on accounting quality motivated this study to empirically investigate whether they have different impacts on accounting quality. To date, the degree to which modification under IFRS adoption strategies can implicitly explain an improvement in accounting quality remains ambiguous. In addition, the joint impact of enforcement and modification strategies on accounting quality has not been explored yet (M. Abdullah, Evans, Fraser, & Tsalavoutas, 2015; Ahmed et al., 2013; Bonetti, Magnan, & Parbonetti, 2016; Chan et al., 2015; Christensen et al., 2013; Wang, 2014). To the best of the researcher's knowledge, the prior studies have mainly focused on IFRS enforcement strategy.

Moreover, numerous studies have been conducted to assess the factors within the adoption of IFRS in different jurisdictions around the world. These factors are considered important to provide a comprehensive picture of the impact of different IFRS adoption strategies on accounting quality (Al-Akra, Jahangir Ali, & Marashdeh, 2009; Maradona & Chand, 2017; Mashayekhi & Mashayekh, 2008; Oraby, 2017;

Tyrrall, Woodward, & Rakhimbekova, 2007). Despite the fact that prior studies have identified several internal environmental factors, including institutional factors and cultural values which affected IFRS adoption in different sectors and across different nations, they are done without the inclusion of different adoption strategies, namely enforcement strategy and modification strategy.

1.4 Institutional settings and accounting quality

Adopting accounting standards in a country and implementing them depend on its national culture and institutional settings. For example, in certain countries dissatisfaction towards pioneer powers (such as British or French) has changed through history to the point that questionable activities are considered suitable as long as they are approved by the legislature (i.e., jurisdiction). This attitude can be expressed in terms of lack of care about adhering to laws which result in struggling with regulatory efforts. Besides, the professional status of accountants is not the same all over the world, and this treatmnet leads to accounting implications, even though IFRS has been formally adopted.

The variation in the appreciation of accountants as professional people, as well as regulators, can be attributed to cultural and structural reasons, and they are unlikely to change simply by introducing a new set of accounting principles (Cieslewicz, 2014; Han, Kang, Salter, & Yoo, 2010; Lewellyn & Bao, 2017). Knowing the right person will allow one to pay a bribe and get away with less than perfect implementation of the rules. A country may have the legacy of Karl Marx's influence and may resist accounting requirements that tend to seize control of the state. In some nations, the population and the institutions perceive law and professional guidelines as more flexible than in other nations (Laupe, 2018; Zehri & Chouaibi, 2013). Similar transactions may receive different accounting treatments across different nations, because of certain cultural and institutional reasons (Alon & Dwyer, 2014; Cieslewicz, 2014; Felski, 2017). This may occur by the deliberate avoidance of elements of such standards, or it can occur unintentionally by the method of applying accounting standards based on concepts in one's own frame of reference.

Institutional settings of a country can be formal and informal. Formal institutional settings can be reflected by political stability, government effectiveness, regulatory quality, rule of law, control of corruption, and voice and accountability. On the other hand, informal institutional settings are cultural influences like power distance, uncertainty avoidance, future orientation, and institutional collectivism (Fearnley & Gray, 2015). Thus, the institutions settings of a country can underpin, promote and control the accounting structure. Accounting for a country is formally dependant on the characteristics of the institutional quality of the nation such as the degree to which corruption is regulated, the rule of law, and the policy effectiveness. The informal institutions settings such power distance, and uncertainty avoidance have the framework and strengthening is required for accounting to work efficiently.

1.4.1 Institutional quality

Institutional quality measures the different factors which represent the political, regulatory, bureaucratic, and legal institutions of a nation. Institutional systems play a significant role in explaining the consistency of accounting after the adoption of IFRS. Specifically, regulations and legal systems can vary widely between jurisdictions. As a result, variations in the implications of IFRS implementation and the consistency of accounting started to develop.

When there is a competitive environment, quality control is substantially required to tackle issues related to trade, labor, taxation and others. In terms of accounting, regulation of the public accounting firms' independence, sensitive standard setting, and supervision of lending and capital raising are examples of regulatory consistency applicable to the accounting of a country (Bonetti, Magnan, & Parbonetti, 2016; Jun, 2019). Moreover, the degree to which those in power can bend accounting rules, further points to the importance of the effectiveness of government within a country. Additionally, accountants' professional certification can be conditioned by the success of civil service. The rule of law is considered important for accounting systems because it represents the degree to which contracts can be assumed to be followed, laws can be relied upon, and property rights are protected (Fearnley & Gray, 2015; Jun, 2019; Mustapha, Ku Nor Izah Ku, & Ahmad, 2017; Zehri & Chouaibi, 2013).

Regulation of corruption involves many implications on accounting. For accountants, corruption means putting oneself in positions where one is supposed to conceal and justify suspicious behavior away. Corruption requires the dressing up of financial documents and the concealment of short cuts taken in manufacturing or construction, breaches of environmental or health regulations, or illegal conveyance of land. Manipulating accounting records for those purposes means reducing transparency and increasing ambiguity (Houqe & Monem, 2016; Lewellyn & Bao, 2017; Nurunnabi, 2015).

Increases in timely details come with free media. Freedom of speech enables input not only within organizations but also between accountants and the entities which provide the framework within which accounting works. Increasing expectations of public officials' accountability also lead to increased expectations of accurate and truthful accounting. Furthermore, political stability and absence of violence are prerequisites for a functioning accounting in a country. In severe political uncertainty, for example, accountants may be forced to take steps to preserve political relationships that could bring their accounting into question.

1.4.2 National Culture

Culture is an output of the socialization process, and it becomes constructed in the long-term memory. It has significant universal influences on perceptions, sentiments, inspirations, conducts and interactions. It is be transmitted from one generation to another and appears to be taken for granted that it finds expressions in social norms and decisions. Individuals are consciously or unconsciously influenced and controlled by culture, and this is manifested in their actions. Based on these cultural features, the national culture is supposed to have a direct impact on accounting.

For instance, Greece tends to be high on power distance and low on avoidance of ambiguity compared with other European countries such as Germany, France, Switzerland, the United Kingdom and Austria. With high power distance, the privileged can do what they wish and preserve their rights and while low avoidance of ambiguity makes compliance with law less important. The Greek institutions have been criticized for not being honest in reporting, and those in authority were criticized for not forcing them to do so. Portugal, Italy, and Spain, which are subject to financial pressures, also rank low on uncertainty avoidance and high on power distance, compared to other European nations (Aggarwal & Goodell, 2014; Ugrin, Mason, & Emley, 2017; Ward & Lowe, 2017). Archival researchers like Andre and Andrei (2012) noted that while accounting in Europe seemed to have changed generally, European nations continue to stand out as anomalies in an unusual way.

Future-oriented cultures have adequate capacity and ability to deal with all possible contingencies. Further, they can devise potential target states, achieve goals and build strategies to reach the future they aspire to. Their efficient planning and future arrangement are expected to consider accounting. The impact of future orientations can be observed in developed institutional environments, such as stable transport infrastructures and financial systems. Institutional collectivism can affect the level of administrative control, as well as the desire to exercise it. Managers from strongly collectivist cultures are more likely to respond to the needs of a wide number of stakeholders in a corporate environment and take responsibility not just for themselves and their business, but for their society at large.

Accordingly, the novelty of this research not only lies in studying IFRS's impact on accounting quality using international evidence but also in considering the joint impacts of IFRS enforcement and modification strategies on accounting quality, along with institutional variables. Moreover, the study expands our understanding about the moderating effects of culture on the relationship between IFRS adoption strategies and accounting quality. Though the paramount importance of cultural dimensions is readily acknowledged, the extent to which the effects of IFRS adoption strategies on accounting quality vary with the level of culture which have been previously ignored in this research area.

Some studies have shed light on how culture influences the implementation of IFRS (M. Abdullah, Evans, Fraser, & Tsalavoutas, 2015; Borker, 2013; Laupe, 2018; Ward & Lowe, 2017). Others examined the impacts of institutional factors as mediating the relationship between cultures and accounting quality (Cieslewicz, 2014), while other research investigated the link between IFRS enforcement strategies and accounting information (Cascino and Gassen, 2015). The current research extends both of our understanding regarding different IFRS adoption strategies and their implications on quality of accounting and provides fresh insights about the moderating effects of culture in the relationships between IFRS adoption strategies and accounting quality. Further, this study also explores how institutional factors have mediating effects on linkages between IFRS adoption strategies and accounting quality.

A number of empirical studies revealed that countries adopting IFRS achieved high-quality accounting information. Consequently, these countries attracted substantial capital inflows. Accordingly, Chen et al. (2010) stated that the adoption of IFRS in EU countries improved their accounting quality. This suggested that EU's culture and the level of institutional quality both play a significant role in the improvement of accounting quality. Given the discussions above, this study will fill the gap in the lack of prior studies on the mediating role of institutional quality in the association between accounting quality and different IFRS adoption strategies. Additionally, this study will also fill the gap on the lacks of empirical support corroborating the moderating role of culture in the effects of IFRS adoption strategies on quality of accounting.

1.5 Problem Statement

Professional bodies in accounting would argue that better quality accounting practices would result in higher investment efficiency and resource allocation decisions by investors, governments and suppliers of finance. This consistency would be captured in the performance information reported to stakeholders by firms (Ecker, Francis, Kim, Olsson, & Schipper, 2006). This is because accounting figures used in the analysis of ratios, for example, have an impact on the investor's estimation of the firm's outlook. High quality accounting information, among other things, can influence investment management decisions, capital allocation and, ultimately, a firm's economic competitiveness (Akisik, 2013; Martínez-Ferrero, 2014).

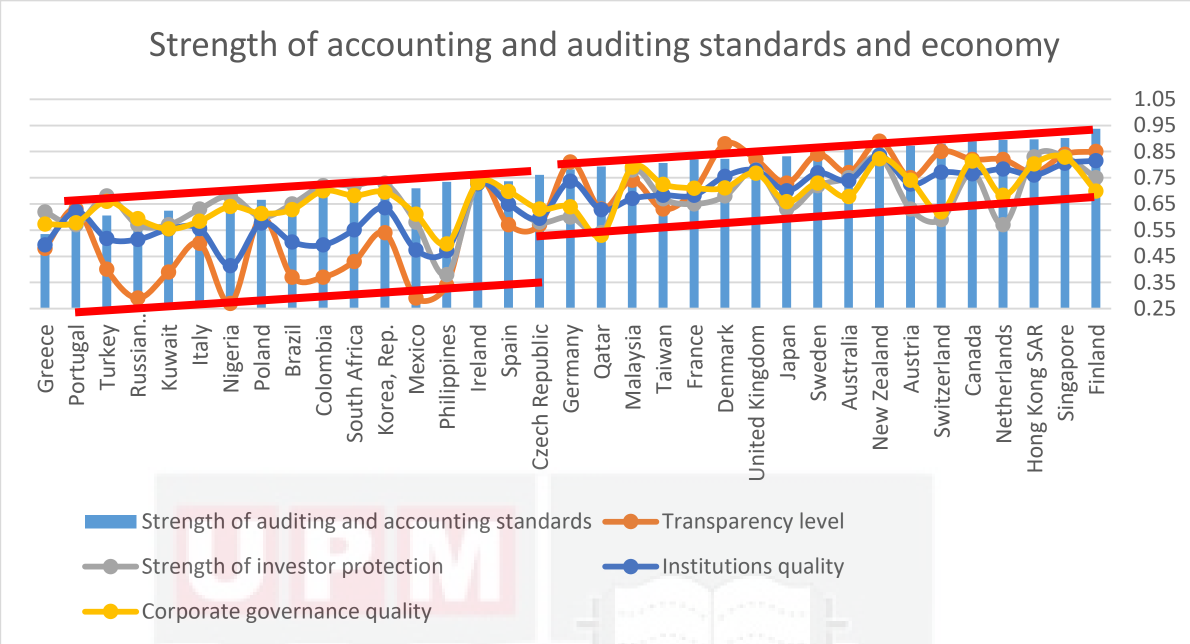

Figure 1.4 : World competitiveness indicators
(Source: World Economic Forum, 2018)

Figure 1.4 represents data that were retrieved from World Economic Forum in 2018 regarding strength of accounting and auditing standards, transparency level, strength of investor protection, corporate governance quality, and the quality of the institutions among some IFRS-adopted jurisdictions. These data reflect the same information that were provided in Figure 1.1 in the introduction section but have been rearranged based on the strength of accounting and auditing from the lowest to the highest level to illustrate how high or low accounting quality may affect these other economic indicators.

The above graph provided evidence that these economic indicators coincide positively with the strength of accounting and auditing, particularly in developed economies. These indicators reveal there is a strong connection between the quality of accounting numbers and other economic indicators. For instance, countries with high strength in accounting and auditing standards such as the United Kingdom, Australia, and New Zealand recorded high levels of investor protection, institution quality, corporate governance quality and transparency levels. Unlike those jurisdictions which have shown weak consistency in accounting and auditing standards, advanced jurisdictions with high-quality accounting information have demonstrated a strong corporate governance system that demands a high degree of information disclosure that enhances investor and creditor protection. This proves there is a clear, positive correlation between accounting information quality and economic growth. This evidence supports the fact that jurisdictions reporting low accounting quality would show high volatility and uncertainty in their economic indicators, as shown in the Figure 1.4.

Accounting quality issues have heightened importance if we also look at the consequences of poor accounting quality. Low accounting quality could lead to an unstable market, inappropriate capital allocation, and poor financial standards practice (Ahmed et al., 2013). It also affects debt contracting options through the lack of transparency of financial statement information (Ball, Li, & Shivakumar, 2015). Furthermore, poor quality accounting information increases capital market imperfections, reduces external capital suppliers to monitor firms' decisions and thus results in an increase of the cost of equity capital. In addition, poor accounting quality will result in investment opportunities with negative net present values to be financed and executed by firms (Hope, Thomas, & Vyas, 2017). Of major concern, firms with weak accounting practices typically rely on private debt bank loans and have low cash holdings (Sun, Yung, & Rahman, 2012).

At the regional level, accounting quality may influence three important country-level economic factors, namely economic growth and freedom, foreign direct investments, and funding availability. With regards to economic development, jurisdictions with good accounting quality set a common ground for investment, such as the degree of accountability, the strength of investor security, the standard of corporate governance and good institutional standards that offer more competitive opportunities between countries. In addition, increased market rivalry increases the risk of liquidation, which may dissuade the company's revenues and make high management effort less desirable. In this context, accounting quality is instrumental in achieving a higher degree of economic freedom as it can promote economic development and regulate human and economic rights. (Appiah, Mireku, & Ahiagbah, 2016).

Specifically, sources and the amount of funds available are important for banks and creditors to pay back their liabilities when maturity dates are due. Notably, accounting quality is crucial in persuading foreign investors and international business communities to invest confidently, especially in developing jurisdictions that aim to attract foreign investment to support the growth of their national economy. The low quality of accounting reports provided by some developed jurisdictions may therefore be a key reason for the loss of foreign direct investment. As a result, accounting efficiency has a direct impact on firms' ability to raise the necessary funds at a low cost. Otherwise, low accounting efficiency will discourage the settlement of obligations and, as a result, reduce the supply of financing that will impact the liquidity, economic stability and overall development of jurisdictions. (Dahir, Mahat, & Ali, 2018).

Generally, good accounting quality will reduce suspicion around the preparation of financial statements. This can be seen in developed economies, for example, such as the European Union, which is considered to have had high quality accounting for decades, even before the introduction of IFRS standards. This means that accounting quality levels do not purely rely on standards used, but also on other institutional settings and economic environment factors (Houqe & Monem, 2016). However, given the global convergence and adoption of a single standard that already occurred more than a decade ago, the impact of the single standards, whether IFRS or other standards, on accounting quality needs to be studied. This is more pressing when a set of standards is expected to have a high positive impact on the financial reporting environment.

Proponents of the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) expected the standards would result in high accounting quality among adopting countries. Over 122 jurisdictions have adopted IFRS, and this number included both fully adopted jurisdictions and the converged jurisdictions, which are usually close to IFRS but with some different strategies concerning the extent of the application (enforcement) and/or the method of endorsement (modifications) (IASB, 2018). According to Mr. Ian Mackintosh, the IASB Vice-Chairman:

"Adoption entails the application by a jurisdiction of IFRS in full. It implies a continuing commitment by all adopters to contribute to the development of IFRS into the future. Convergence, on the other hand, has been a perfectly valid strategy for bringing different sets of accounting standards into close alignment, but as the 2011 Trustees' Strategy Review made clear, convergence cannot be a substitute for adoption". [9]

This means full adoption is different from convergence, and it is expected that adoption strategies will result in differing accounting quality. In this regard, Mr. Mackintosh pointed out the following in his speech:

"There are many dangers in pretending that converged national standards can serve as a substitute for global standards. The devil is always in the detail. Small differences in accounting requirements can have a substantial effect on reported performance."

In line with the quotations above, IFRS is being adopted in many countries, yet there are indicators that accounting quality will continue lack uniformity (World Competitiveness Indicators, 2018). Moreover, there is an obvious indicator that many nations (i.e., European Union, Australia, Hong Kong, New Zealand, Malaysia, etc.) have adopted a somewhat modified version of IFRS and/or permitted IFRS along with other acceptable standards. On the other hand, some other nations have adopted IFRS under pressure, but they cannot be realistically expected to comply in full as accounting practices in one nation are influenced by factors beyond the standards themselves (Ahmed et al., 2013; Cieslewicz, 2014; Lewellyn & Bao, 2017; Othman & Kossentini, 2015; Ward & Lowe, 2017). This results in a global appearance of uniformity which is incomplete in its substance. Even with a single set of standards, complete uniformity is not realistic because underlying institutional settings differ between nations. For example, Canada and Nigeria adopted IFRS; however, they had

[9] This was contained in speech entitled "Are truly global standards achievable?" by Ian Mackintosh, Vice-Chairman of the IASB, at the IFRS Foundation conference, Johannesburg, South Africa, 13 August 2014.

an obvious different percentile level of regulatory quality in 2017 with 97.60% and 16.83% respectively (WGI, 2017).

It is expected that accounting quality will be different even if jurisdictions are using the same standards as a resuly of utilising different IFRS strategies and the role of diverse institutional settings. Therefore, the effect of IFRS on accounting quality remains unclear even though over 122 countries have adopted IFRS in some form or other (Ahmed et al., 2013; Bonetti, Magnan, & Parbonetti, 2016; Christensen et al., 2015; L. C. Doukakis, 2014; Elbakry, Nwachukwu, Abdou, & Elshandidy, 2017; Obradovic, 2014; Trimble, 2018).

According to the previous studies, enforcement and modification strategies are two common classifications when countries tend to adopt IFRS (Cai, Rahman, & Courtenay, 2014; Dvořák & Libor, 2015; Felski, 2017; Samaha & Khlif, 2016), but these studies mixed approaches up these when examining IFRS adoption strategies (Ahmed et al., 2013; Chen et al., 2010; Horton, Serafeim, & Serafeim, 2013; Müller, 2014). There is a lack of literature on separate IFRS adoption strategies and their joint effect on accounting quality (Alon & Dwyer, 2014; Felski, 2017; Obradovic, 2014; Othman & Kossentini, 2015).

Moreover, the theoretical debate on the association between IFRS enforcement strategy and accounting quality indicated that there were positive and negative effects, leading to inconclusive and mixed results (such as, Ahmed et al., 2013; Chan et al., 2015). The conflicting results can be attributed to several factors, namely the negligence of IFRS modification strategy, lack of consideration of the impacts of institutional settings on the link between IFRS and accounting quality, differences in econometric estimations, single-country samples, firm-level studies of a country, and firm-level studies across countries.

Furthermore, to the best of the researcher’s knowledge, only a limited number of studies have been conducted examining IFRS modification strategy and its relationship to accounting quality. As mentioned earlier, there is a difference between IFRS enforcement and modification strategies. The latter appears to be the least-examined in IFRS literature in general. Thus, a kind of ambiguity exists in regard to the joint effects of IFRS enforcement and modification strategies on the quality of accounting. Generalizing the effect of IFRS enforcement strategy on accounting quality may not provide a clear picture. Therefore, highlighting the distinction between different IFRS adoption strategies is a highly important issue that should be investigated across different countries as it contributes to the identification of the effect on accounting quality.

Theoretically, the relationship between IFRS adoption and accounting quality is indirectly influenced by formal institutional settings (Ahmed et al., 2013; Cieslewicz, 2014; Hassan, Rankina, & Lu, 2014; Houqe & Monem, 2016; Isidro & Raonic, 2012; Wijayana & Gray, 2018). This implies that different IFRS adoption strategies affect accounting quality through institutional quality. Despite its theoretical appeal, this relationship needs to be empirically addressed and clarified.

Similarly, culture is believed to have a conditional effect on the adoption of IFRS strategies which in turn affect accounting quality. Managers are imbued with beliefs, and as a result certain high cultural values in different jurisdictions may strengthen the implementation of IFRS standards, thus improving the quality of accounting information. However, there is little empirical research that has investigated the moderating effect of culture on the relations between different IFRS adoption strategies and accounting quality across countries (Borker, 2012; Cieslewicz, 2014; Lewellyn & Bao, 2017; Nurunnabi, 2015).

There is also a theoretical consensus on the impact of culture on the relations between IFRS adoption strategies and accounting quality. Culture refers to informal institutional settings which involve widespread beliefs, values, assumptions, and practices within a specific country (Sidney J. Gray, Kang, Lin, & Tang, 2015; Ward & Lowe, 2017; Wijayana & Gray, 2018). Since these culture dimensions are not easily changed and may affect the system rules, it is expected that these dimensions moderate the linkages between different IFRS adoption strategies and accounting quality. Some studies have shown that cultural influence has played a moderating role between institutions and accounting quality (Lewellyn & Bao, 2017). However, the empirical evidence corroborating the conditioning effect of culture on the association between IFRS adoption strategies and accounting quality is still lacking in the context of global IFRS practices. Moreover, the previous studies on the effects of IFRS adoption strategies on accounting quality have provided inconclusive results (M. Abdullah et al., 2015; Bonetti et al., 2016; Clements, Neill, & Scott Stovall, 2010; Sidney J. Gray, Kang, Lin, & Tang, 2015; Hao, Sun, & Yin, 2019; Laupe, 2018; Ugrin et al., 2017), which can be attributed to ignoring interacting effects of culture and IFRS adoption strategies on accounting quality across countries.

The literature on the relationship between IFRS adoption strategies and accounting quality is more prevalent at the firm level than at the country level. A small but growing body of research has examined the effects of IFRS adoption strategies on accounting quality at the country level. Moreover, the studies on the adoption of IFRS strategies mainly used static panel estimations which behaved poorly and provided biases when the variables of the study were persistent over time.

The research conducted in this study mainly focuses on IFRS adoption strategies at the country level because the researcher's interest lies in examining the interplay between IFRS adoption strategies, institutions, culture, and resulting accounting quality. This study is one of the few studies to have applied dynamic panel modeling (such as two-step GMM) to minimize persistentcy over time.

In summary, the novelty of this study lies in uncovering the effects of IFRS adoption strategies on accounting quality. In particular, it sheds light on the joint effect of IFRS enforcement and modification strategies. Significantly, these aspects of the research have not been previously addressed. Moreover, the study evaluates the indirect effect of the institution and the conditional effect of culture on the effects of IFRS strategies on accounting quality. There has been no prior attempt to explore these relations across countries in the global context. To the best of the researcher's knowledge, any effort to consider some or all of the above factors in any IFRS studies to examine accounting quality will contribute to filling research gaps in this important area.

1.6 Research Questions

In line with the problem statement, several research issues have arisen in respect of the IFRS adoption strategies' effect on accounting quality in the global setting. To address the aforementioned research issues and problems in the problem statement of the study, the following research questions are required to be answered:

1. What is the effect of IFRS enforcement strategy on accounting quality across the countries?
2. What is the effect of IFRS modification strategy on accounting quality across the countries?
3. What are the mediating effects of institutional variables on the relationships between different IFRS adoption strategies and accounting quality?
4. What are the moderating effects of cultural dimensions on the relationships between different IFRS adoption strategies and accounting quality?

1.7 Research Objectives

The general purpose of this study is to empirically investigate the effects of different IFRS adoption strategies on accounting quality across countries. Further, the mediating effects of institutional variables and the moderating effects of cultural factors on the relationships between IFRS adoption strategies and accounting quality across countries are also examined. Therefore, the specific objectives are as follows.

1. To examine the relationship between IFRS enforcement strategy and accounting quality across countries.
2. To examine the relationship between IFRS modification strategy and accounting quality across countries.
3. To investigate the mediating effect of institutional variables on the relationship between different IFRS adoption strategies and accounting quality across countries.
4. To investigate the moderating effect of cultural dimensions on the relationship between IFRS adoption strategies and accounting quality across countries.

1.8 Significance of the Study

The study seeks to emphasize the importance of accounting quality among different jurisdictions across the world by reflecting the underlying economy of a firm and consequently the economy of a country. It sheds some lights for the accounting standards' setters in different jurisdictions, securities' regulators, economic analysts, investors, and users in making better decisions in the appropriate adoption strategy (full adoption or convergence). Moreover, it provides supports for stakeholders including investors, shareholders, auditors, creditors, and other parties in understanding how different IFRS adoption strategies, institutional settings, and accounting quality vary among jurisdictions.

This study extends the literature on IFRS adoption strategies on accounting quality in respect of the global setting. Specifically, it looks at how different IFRS adoption strategies (IFRS enforcement and modification strategies) affect accounting quality. This study provides insights to interested parties regarding the impact of different countries' IFRS modifications. As cited in previous studies (more details is provided in literature review part), IFRS adoption is associated with high-quality accounting information. The motivation behind this study is to examine the linkages between IFRS adoption strategies and accounting quality.

In this study, countries that adopted IFRS with enforcement are analyzed first, followed by countries that adopted IFRS with modification. The study also expands the literature on institutional quality by investigating the mediating role of institutional quality on the impacts of different IFRS adoption strategies on accounting quality. Furthermore, the study adds to the literature on culture by shedding light on the interaction effects of culture dimensions and IFRS adoption strategies on accounting quality which are notably less explored. Accountants' different cultures should be considered, as neglecting culture may distort the accounting quality outcomes. In addition, distinguishing between IFRS adoption strategies has importance for stakeholders such as auditing firms. Auditors should be careful about different IFRS adoption strategies because employing an IFRS modification strategy may affect the outcome of the financial statements. Moreover, investors should understand IFRS adoption strategies as they may affect their investment decisions.

This research will enhance the awareness of regulators about the factors that could determine the efficiency and effectiveness of IFRS. It will establish the background of these factors and how they could be controlled to help countries achieve appropriate IFRS adoption strategies that suit their environments while complying properly with international standards. Understanding these factors would enhance the chance for countries to reach appropriate IFRS adoption strategies, in order to improve their accounting quality.

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