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Examining the Impact of Vulnerability and the Law of Justice on the IFRS Adoption Decision

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Abstract: We investigate the impact of vulnerability and the law of justice indicators on the decision to adopt International Financial Reporting Standards (IFRS) by 133 countries. Applying robust Logit and Probit models to 2021 cross-sectional data, we find that the absence of corruption, state illegitimacy, a well-functioning civil justice system, and insufficient public services are helpful for IFRS adoption. On the other hand, results show that a country's uneven economic development and human rights violations are detrimental to IFRS adoption. Our research confirms that requiring higher standards for financial and accounting reporting in the media, allocating sufficient budget amounts to support an equitable civil justice system, and coordinating efforts to reduce or eliminate economic inequality may help IFRS adoption. We argue that highlighting the positive benefits of IFRS adoption and the commensurate constructive policy outcomes may add the emphasis needed to convince governmental leaders to move toward IFRS adoption.

Keywords: International Financial Reporting Standards (IFRS); IFRS adoption; law of justice; vulnerability

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1. Introduction

International Financial Reporting Standards (IFRS) are the financial and accounting reporting standards set by the IFRS Foundation and the International Accounting Standards Board (Posner 2010). Research shows that IFRS adoption improves accounting system transparency by enhancing financial statement disclosure requirements (Ball 2006; Barth et al. 2008; Lambert et al. 2007). The World Bank and the International Organization of Securities Commissions encourage countries to adopt IFRS, emphasizing that doing so helps construct and solidify a more uniform international financial and accounting reporting structure, which research shows is helpful for the economic development of participating countries (Collins 1989; Wyatt and Yospe 1993).

Some studies also provide arguments that IFRS could negatively affect firms and the country-level information environment. In this regard, Jeanjean and Stolowy (2008) found that the introduction of IFRS did not decrease earnings management for the firms in Australia and the UK, rather it increased earnings management for the firms in France. Additionally, based on a sample of non-financial firms listed on 11 EU stock markets, Callao and Jarne (2010) found that adopting IFRS increased the earnings management of those firms.

While the adoption of IFRS involves pros and cons, over the last thirty years, IFRS adoption has increased, resulting in company financial statements that are more explicable, transparent, and comparable across countries (Khaghaany and Jaber 2023). Although IRFS adoption is voluntary at the country level (Keune et al. 2017) and provides substantive benefits, the principal reasons behind IFRS adoption decisions are not wholly understood.

The extant literature identifies three main drivers of IFRS adoption: socio-legal factors, economic factors, and intra-organizational factors (Bengtsson 2022). We argue that a country's internal structural weaknesses or vulnerability and the absence of a law of justice are crucial catalysts in the IFRS adoption decision. To that end, as vulnerability indicators, we use corruption, uneven economic development, insufficient public services, and state illegitimacy as proxies for a country's internal structural weaknesses. For our law of justice[1] indicators, we use human rights violations and civil justice[2] as proxies for law and order in a country. Because vulnerability and the law of justice can influence a transparent financial and accounting reporting system, both indicators may influence a country's IFRS adoption decision.

Discussion of the impact of corruption, one of the vulnerability indicators, on IFRS adoption is pervasive in the IFRS literature. Thus far, however, researchers have largely overlooked the impact of the other three vulnerability indicators on IFRS adoption. Moreover, the individual influences of human rights violations and civil justice on IFRS adoption remain unexplored in the literature. Our study is the first to investigate the impact of a new set of vulnerability indicators and the effects of human rights violations and civil justice on the IFRS adoption decision.

Correctly identifying the factors influencing the IFRS adoption decision points to substantive policy implications. If an indicator is catalytic for IFRS adoption, policymakers should devote more resources to increasing the influence of that indicator on the IFRS adoption and implementation process. Our research offers objective support for policymakers' impetus to promote and maintain transparent, consistent, and comparable financial and accounting reporting systems across countries. Using Logit and Probit models, we find that the absence of corruption, state illegitimacy, civil justice, and insufficient public services significantly and positively affect IFRS adoption. Conversely, our results indicate that uneven economic development and human rights violations significantly and negatively affect IFRS adoption. Our research contributes to the literature in three significant ways.

First, we include data from 133 countries, a significantly larger sample size than those used in other studies. For example, Clements et al. (2010) use data from 61 countries to investigate the impact of cultural heterogeneity and country size on the IFRS adoption decision. Hassan et al. (2014) and Nguyen et al. (2023) analyze the factors contributing to the IFRS adoption decision of only one country (Iraq and Vietnam, respectively). Using a sample of 51 countries, Zaidi and Huerta (2014) assess the impact of IFRS adoption on the economic growth of adopting countries. Fitriana and Insani (2018) use a sample of 65 countries to investigate whether economic growth and foreign direct investment influence the IFRS adoption decision. El-Helaly et al. (2020a) use a sample of 89 non-EU countries to examine the influence of national corruption on the IFRS adoption decision.

Second, our empirical analysis introduces new vulnerability and law of justice indicators. Zaidi and Huerta (2014) use corruption data and El-Helaly et al. (2020a) use both corruption and rule of law data, all drawn from the Worldwide Governance Indicators website[3]. We use corruption data (absence of corruption is one of our vulnerability indicators) drawn from the World Justice Project website and the law of justice data (human rights violations and lack of civil justice are our two law of justice indicators) pulled from the Fragile States Index and World Justice Project websites. These new indicators, collected from new sources, position our research as added robustness checks of the current literature.

Third, we examine the impact of three additional vulnerability indicators on IFRS adoption: uneven economic development, lack of public services, and state illegitimacy. To our knowledge, research on IFRS adoption using any of these vulnerability indicators does not exist. Isidro et al. (2020) argue that IFRS adoption is likely associated with various economic and market outcomes. As the literature finds mixed results about the relationship between traditional economic outcomes and IFRS adoption (see Section 2.2), we introduce uneven economic development as a new measure of weakness of the economic condition of a country. When a country has internal weakness (vulnerability) in terms of lack of public services and state illegitimacy, masses of people demand major economic reforms.

Adopting IFRS may be a path to improve the situation. Therefore, investigating the impact of vulnerability indicators on IFRS adoption is an interesting area of research.

The balance of the paper proceeds with Section 2, which discusses the literature and our hypothesis development. Section 3 outlines our data and methodology. Section 4 presents our empirical findings and robustness check outcomes. Section 5 concludes the overall discussion.

2. Literature Review and Hypothesis Development

Bengtsson (2022) categorizes the determinants responsible for IFRS adoption into three main groups: socio-legal, economic, and intra-organizational factors. Socio-legal factors that can influence a country's IFRS adoption include governance (El-Helaly et al. 2020a; Mita and Husnah 2016), legal system structure (Mita and Husnah 2016; Zehri and Chouaibi 2013), education (Hassan et al. 2014; Zehri and Chouaibi 2013), culture (Cieslewicz 2014; Dowa et al. 2017; El-Helaly et al. 2020b), and political freedom (Hung 2022). The literature also supports the premise that some economic factors, such as access to foreign capital (Alon and Dwyer 2014; Khlif et al. 2020), economic growth (Hassan et al. 2014; Mita and Husnah 2016), and the existence of financial markets (Mita and Husnah 2016; Zehri and Chouaibi 2013), may also influence the IFRS adoption decision. Likewise, intra-organizational factors, such as lender-donor pressure (Alon and Dwyer 2014; Tahat et al. 2018) and membership networks (Elad 2015; Khlif et al. 2020), are essential for IFRS adoption.

We examine the potential impacts of multiple vulnerability and law of justice indicators on the IFRS adoption decision through the following subsections.

2.1. Absence of Corruption and IFRS Adoption

Research shows corruption influences the manipulation of accounting-related outcomes, which results in degraded financial and accounting reporting quality and reliability (Agyei-Mensah 2017; Kythreotis 2015; and Mazzi et al. 2018). IFRS requires more robust monitoring and enforcement of financial and accounting reporting practices. Therefore, we expect that corrupt politicians and public officials will oppose IFRS adoption in their countries (Chen et al. 2010; Chua et al. 2012; Collins et al. 2009).

Within highly illegitimate states, corruption is widespread throughout public and private institutions. Many elected officials, appointed bureaucrats, and those in the general public may defer from or even discourage adopting international standards such as IFRS, lest it cut into their profit and power. For this reason, many may even work against IFRS adoption to simply pursue illegal gain. Researchers also provide support, reporting a negative relationship between corruption levels and IFRS adoption at the country level (El-Helaly et al. 2020a). Their findings align with the larger body of work concluding that corruption drives opposition to prevent significant government improvement (Hope 2003; Leuz 2010).

In our study, we expect that it is highly likely that corrupt politicians and public officials will oppose the adoption of IFRS in their countries (Chen et al. 2010; Chua et al. 2012; Collins et al. 2009). We seek to advance the work of El-Helaly et al. (2020a) by examining the influence of domestic corruption on IFRS adoption. Yet, unlike in previous studies, we employ a more robust and expansive approach using 2021 cross-sectional data for 133 EU and non-EU countries. We also use corruption data from the World Justice Project website. The research implications of our empirical design are clear: by using a more significant dataset than used in previous studies and a unique corruption measure, we lay the groundwork for robustness confirmation and expansion of the conversation within the literature on the relationship between corruption and IFRS adoption.

Finally, through the lens of institutional theory, we find it reasonable that IFRS adoption can signal a state's intention to seek more widespread international recognition and approval (DiMaggio and Powell 1983). Of course, this will lead to increased opposition from the corrupt who wish to prevent any shift to international standards that may threaten or diminish their abilities to continue profiting from their corrupt acts. Researchers suggest

this opposition will be one of many types in highly corrupt countries and that corrupt individuals will work hard to maintain their personal status quo (Everett et al. 2007; Kaufmann et al. 2009).

Adopting IFRS signals a country's intent to heighten its transparency in its financial and accounting reporting standards. In a corrupt country, politicians and government leaders can easily reap private illegal gain by exploiting weak accounting standards. These same people will likely work to thwart IFRS adoption because they understand that a significant likely consequence of IFRS adoption is the reduction of their ability to continue extracting illegal private gain from their country's economy. Therefore, the associated hypothesis is:

H1. *The absence of corruption and IFRS adoption have a positive relationship.*

2.2. Uneven Economic Development and IFRS Adoption

The literature highlights two different relationships between IFRS adoption and economic growth. The first group of studies finds a positive association between economic growth and IFRS adoption, meaning that positive economic growth catalyzes IFRS adoption. For example, Shima and Yang (2012) find that growing countries with increasing capital are more willing to adopt IFRS. Zehri and Chouaibi (2013) reveal a positive relationship between economic growth and IFRS adoption among 74 developing nations. Hassan et al. (2014) find that economic development should positively impact Iraq's IFRS adoption decision because burgeoning economies often demand more robust, standardized financial and accounting reporting quality. Finally, using a sample of 65 countries, Fitriana and Insani (2018) find that economic growth positively affects the decision to adopt IFRS.

The second group of studies finds no significant association between economic growth and IFRS adoption. Zeghal and Mhedhbi (2006) find no significant relationship between economic growth and IFRS adoption in 64 developing countries. Mita and Husnah (2016) found that economic growth did not significantly affect the adoption decision in 54 developing countries. Focusing solely on the United States (US), Hail et al. (2010) suggest that IFRS adoption may not significantly impact US economic growth for two reasons. The first is that the US adheres to Generally Accepted Accounting Principles, promulgated and administered by the Financial Accounting Standards Board, which are designed to standardize "the classifications, assumptions, and procedures used in accounting industries across the US.[4]" The second is that the US financial system consists of thousands of entrenched, financially sound institutions for which financial and accounting reporting standardization is an absolute operational and managerial norm.

Researchers often find conflicting results when using economic growth, most often expressed as Gross Domestic Product (GDP), as a barometer of a country's economic condition (Easterly 1999). We introduce a new variable, labeled "uneven economic development", as a proxy to represent the economic condition within a country. Economic growth considers the aggregate performance of the economy, but uneven economic development reflects more than growth. Uneven economic development reflects inequality in employment, income, and wealth creation and measures the distribution of the growth benefit throughout the economy. Thus, uneven economic development is a better proxy for the economic status of an economy because the growth benefit does not materialize if economic development is uneven within the economy.

Exploring the relationship between uneven economic development and IFRS adoption is particularly intriguing. When economic development is uneven, inequality in the income distribution should be high, indicating that an elite group of business tycoons and powerful government officials belong to the country's highest income levels. This group of highly influential people will likely try their utmost to prevent IFRS adoption because of their concerns that IFRS adoption may reduce their status (Leuz et al. 2003). Therefore, the associated hypothesis is:

H2. *Uneven economic development and IFRS adoption have a negative relationship.*

2.3. Human Rights Violations and IFRS Adoption

The relationship between human rights violations and adopting IFRS is unexplored in the literature. We aim to overcome this gap and offer a better understanding of the relationship between IFRS adoption and a country's human rights violations.

In a seminal effort arguing that high-quality legal systems are essential to IFRS adoption, La Porta et al. (1998) assert that countries with low-quality systems and poor human rights records would be less inclined toward IFRS adoption. Khurana and Michas (2011) find that countries with poor governance standards and outcomes, often tied to human rights violations, may find it difficult to adopt IFRS. Ball (2006) argues that IFRS adoption efforts will be less successful in environments with poor governance outcomes and, particularly, records of human rights violations.

A primary concern in the IFRS adoption discussion is that human rights violations effectively reduce the transparency principles that IFRS advocates and undermine IFRS adoption efforts (Ball 2006; Leuz and Wysocki 2016; Stulz 2009). These principles are designed to deliver accurate and truthful information about a company's finances and hold investor protection to a high standard. In a financial accounting reporting quality context, reduced transparency can result in restricted data access, media manipulation or subversion, and abuse of internal and external stakeholders (Ball et al. 2000; Besley and Prat 2006; and Hope 2003).

While research supports the argument that countries with a history of human rights violations typically experience broader governance difficulties that can work to impede IFRS adoption (Ebrahim and Weisband 2007; Hopper et al. 2017), to our knowledge, no study investigates the relationship between human rights violations and IFRS adoption. Human rights violations include barriers to accessing public company-level data, widespread abuse of managerial supervision, and harassment of the press. All these factors are unfavorable to a transparent financial and accounting system. Therefore, the associated hypothesis is:

H3. *There is a negative relationship between human rights violations and IFRS adoption.*

2.4. State Illegitimacy and IFRS Adoption

Many researchers have overlooked the relationship between state illegitimacy and IFRS adoption. State illegitimacy reflects low public confidence in state functions and governance structures (Rothstein 2009). Institutional legitimacy researchers have shown that government actions adopting international standards improve public perceptions that governmental leaders are aligned with proper governance ideals and necessary reforms (Suchman 1995). As IFRS mechanisms can increase transparency and accountability (Barth et al. 2008), policymakers of a highly illegitimate country may like to adopt IFRS to increase public confidence and trust in the state. Therefore, the associated hypothesis is:

H4. *State illegitimacy and IFRS adoption have a positive relationship.*

2.5. Civil Justice and IFRS Adoption

We found no research investigating the relationship between civil justice and IFRS adoption. Given the importance of the structure and stability of a country's civil justice system, we find this surprising. La Porta et al. (1998) offer a persuasive argument that countries with more advanced legal systems tend toward higher standards of corporate governance, such as more stringent financial and accounting reporting. The presence of a fair and sound civil justice system will likely reduce deception and increase transparency in the preparation of financial statements. Research suggests that a fair and sound civil justice system works to improve the psychological state of society (Newton and Norris 2000). Tyler (2006) confirms that the legal system's institutional legitimacy motivates voluntary compliance with instituted standards and regulations.

As people increasingly take a positive view of their civil justice system, receptiveness toward IFRS' more structured reporting approach will likely increase. Under a fair and sound civil justice system, corrupt politicians and public officials cannot readily oppose or influence an open audit system (La Porta et al. 1998). In his seminal work, North (1990) asserts that under a fair and sound civil justice system, laws and statutory requirements will protect and promote financial and accounting reporting transparency. Quality enforcement mechanisms and legal authority are essential in fighting corruption and working to shift to higher standards of adherence. Therefore, the associated hypothesis is:

H5. *Civil justice and IFRS adoption have a positive relationship.*

2.6. Insufficient Public Services and IFRS Adoption

Insufficient public services indicate that people do not have adequate access to essential services—food, water, sanitation, utilities, healthcare, education, and transportation. Ellwood and Newberry (2007) find that inefficiencies drove many public sector reforms in New Zealand, and accrual accounting was a significant part of the overall reforms designed to promote greater transparency and increase financial and accounting reporting quality. Their research indicates that insufficient public services in a country may catalyze IFRS adoption. Nevertheless, a shortfall in government revenue is often a primary factor for insufficient public services. When a state has difficulties providing sufficient essential services to its citizens, adopting IFRS may be an intelligent policy because a more transparent financial and accounting reporting system can be essential to governments working to maximize the tax collections and improve resource allocation necessary to finance public services provision (Luder and Jones 2003). Therefore, the associated hypothesis is:

H6. *Insufficient public services and IFRS adoption have a positive relationship.*

3. Data and Methodology

3.1. Data

From the International Financial Reporting Standards Foundation website[5], we retrieved a list of 146 countries (see the Appendix A) that adopted IFRS Accounting Standards for all or most domestic public companies operating in capital markets in 2021. Data on vulnerability and law of justice indicators were available for 118 countries. We also collected a list of 15 countries that did not adopt IFRS standards but did have vulnerability and law of justice indicators data. Our cross-sectional sample, therefore, totals 133 countries (118 + 15)[6]. We collected the vulnerability indicators data (absence of corruption, uneven economic development, insufficient public services, and perceptions of state illegitimacy) from the Fragile States Index website[7] and the law of justice indicators data (absence of corruption and the civil justice system) from the World Justice Project website[8]. Table 1 provides a summary of the dataset.

Table 1. Descriptive summary statistics.

Variable	Definition	Mean	SD.	Min.	Max.	Data Source
IFRS (a dummy variable with a value of 1 if a country adopted IFRS in 2021, 0 otherwise)	Indicates whether a country adopted IFRS or not.	0.887	0.317	0	1	The International Financial Reporting Standards Foundation website
Absence of corruption (the scale is between 0 and 1; the higher the score, the more corruption-free the state is)	Measures three forms of corruption: bribery, improper influence by public or private interests, and misappropriation of public funds or other resources.	0.509	0.187	0.163	0.95	World Justice Project website

Table 1. *Cont.*

Variable	Definition	Mean	SD.	Min.	Max.	Data Source
Uneven economic development (the scale is between 1 and 10; the higher the score, the more uneven development the state has)	Measures structural inequality (based on racial, ethnic, religious, or other identity group) and urban-rural inequality (based on education, economic status, or region).	5.0601	2.141	1	9.3	The Fragile States Index website
Human rights violations (the scale is between 1 and 10; the higher the score, the more human rights violations)	Measures whether there is widespread abuse of legal, political, and social rights, harassment of the press, politicization of the judiciary, internal use of the military for political ends, and repression of political opponents.	5.010	2.528	0.5	9.8	The Fragile States Index website
State illegitimacy (the scale is between 1 and 10; the higher the score, the less confidence people have about the state)	Measures the population's confidence level in state institutions and processes and assesses the effects where that confidence is absent, manifested through mass public demonstrations, sustained civil disobedience, or the rise of armed insurgencies.	5.309	2.765	0.5	10	The Fragile States Index website
Civil justice (the scale is between 0 and 1; the higher the score, the greater the civil justice in the state)	Measures whether civil justice systems are accessible, affordable, and free of discrimination, corruption, and improper influence by public officials.	0.545	0.135	0.254	0.862	World Justice Project website
Insufficient public services (the scale is between 1 and 10; the higher the score, the lower the quality and availability of public services)	Measures essential services, such as health, education, water and sanitation, transport infrastructure, electricity and power, and internet and connectivity.	5.554	2.473	1.3	9.9	The Fragile States Index website

3.2. Methodology

As the dependent variable IFRS is a dummy variable, and following Clements et al. (2010), Agresti (2013), and Vera (2022), we use a Logit model for estimation, which is a widely used method to analyze categorical variable data. The structure of the Logit model is:

Let, Pi = probability of adopting IFRS by a country i
Let, $(1 - Pi)$ = probability of not adopting IFRS by a country i
$Pi/(1 - Pi)$ = odds in favor of adopting IFRS
Logit $Zi = log\ [(Pi/(1 - Pi)]$ = log of odds in favor of adopting IFRS
The estimated Logit equation is:

$$Zi = b0 + b1(AOCi) + b2(UEDi) + b3(HRVi) + b4(SIi) + b5(CJi) + b6(IPSi) \quad (1)$$

where:

AOC = Absence of Corruption
UED = Uneven Economic Development
HRV = Human Rights Violations
SI = State Illegitimacy
CJ = Civil Justice
IPS = Insufficient public services

To check the robustness of the results, we also use a Probit model with the following structure:

Let $Pi\ (IFRS = 1 \mid Xi) = \Phi(Zi)$ when $Xi = (AOCi, UEDi, HRVi, SIi, CJi, IPSi)$ and $\Phi(.)$ is the cumulative standard normal distribution function.

The estimated Probit equation is:

$$Zi = b0 + b1(AOCi) + b2(UEDi) + b3(HRVi) + b4(SIi) + b5(CJi) + b6(IPSi) \quad (2)$$

We also control for time invariant endogeneity issues by estimating a two-period ($t = 1$ when IFRS is adopted vs. $t = 0$ when IFRS was not adopted) panel model to check the robustness of the results, based on the following equation:

$$IFRSi,(t = 1) - IFRSi,(t = 0) = b1(AOCi,(t = 1) - AOCi,(t = 0)) + b2(UEDi,(t = 1) - UEDi,(t = 0)) + b3(HRVi,(t = 1) - HRVi,(t = 0)) + b4(SIi,(t = 1) - SIi,(t = 0)) + b5(CJi,(t = 1) - CJi,(t = 0)) + b6(IPSi,(t = 1) - IPSi,(t = 0)) \quad (3)$$

where:

$IFRSi,(t = 1) - IFRSi,(t = 0)$ = the change in IFRS adoption decision for a country "i" between $t = 1$ and $t = 0$.

$AOCi,(t = 1) - AOCi,(t = 0)$ = the change in the absence of corruption indicator value for a country "i" between $t = 1$ and $t = 0$.

A similar manner can explain the other five regressors of the model.

4. Empirical Results and Robustness Check

The outcomes of our initial Logit model, labeled "Model A", show the heteroscedasticity corrected results of Logit Equation (1) when $b5 = b6 = 0$ (see Table 2). We find a significant positive association between the decision to adopt IFRS and the absence of corruption, supporting H1. This result is consistent with El-Helaly et al. (2020a), who state that the absence of corruption is helpful for IFRS adoption.

Table 2. Empirical results from the Logit and Probit models.

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
VARIABLES	IFRS (Logit)	IFRS (Logit)	IFRS (Logit)	IFRS (Probit)	IFRS (Probit)	IFRS (Logit exog. Dem.)	IFRS (Logit exog. Stock)
Absence of corruption	13.79 *** (4.79)				12.33 ** (4.96)	19.84 ** (9.52)	23.23 ** (10.49)
Uneven economic development	−0.23 (0.19)	−0.35 (0.27)	−1.73 *** (0.61)	−0.93 *** (0.31)	−1.17 *** (0.31)	−2.94 *** (1.07)	−2.70 *** (0.71)
Human rights violations	−1.55 *** (0.44)	−1.22 *** (0.40)	−1.50 *** (0.42)	−0.85 *** (0.22)	−1.46 *** (0.37)	−2.72 *** (0.83)	−2.73 *** (0.78)
State illegitimacy	1.58 *** (0.41)	1.51 *** (0.34)	1.95 *** (0.43)	1.11 *** (0.22)	1.79 *** (0.40)	3.42 *** (1.00)	3.39 *** (0.83)
Civil justice		20.36 *** (5.81)	30.90 *** (6.59)	17.29 *** (3.48)	14.35 *** (4.33)	31.49 *** (11.49)	29.17 *** (8.96)
Insufficient public services			1.70 ** (0.67)	0.90 *** (0.31)	1.40 *** (0.36)	3.28 ** (1.33)	3.14 *** (0.90)
Constant	6.80 (4.22)	2.28 (5.07)	−6.26 (6.57)	−3.43 (3.16)	−4.50 (3.45)	−7.79 (10.57)	−14.33 * (8.58)
Predictive power	90.23%	90.23%	92.48%	91.73%	92.48%	93.70%	94.74%
p-value (H_0: Model fits the data well)	0.96	0.99	0.99	1.00	1.00	0.99	1.00
Observations	133	133	133	133	133	127	133

Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Results also show that the IFRS adoption decision is negatively associated with uneven economic development, concurring with H2[9]. We find a significant negative relationship between human rights violations and IFRS adoption, agreeing with H3. Finally, we find a significant positive relationship between state illegitimacy and IFRS adoption, which supports H4. Findings show that the model can correctly specify 90.23% of the data, indicating that the Logit model has good predictive power. The high p-value of 0.96 indicates that the model fits the data well.

For added robustness, we run another Logit model labeled "Model B", which shows the heteroscedasticity corrected results of Logit Equation (1) when $b1 = b6 = 0$. In Model B, we replace the "absence of corruption" variable with the "civil justice" variable. We do this because an equitable "civil justice" system and the "absence of corruption" are two sides of the same coin. We find a significant positive relationship between civil justice and IFRS adoption, which supports H5. The findings of model B are consistent with those of Model A.

We run another Logit model labeled "Model C", which shows the heteroscedasticity corrected results of Logit Equation (1) when $b1 = 0$. In Model C, we incorporate the variable "insufficient public services". We find a significant positive relationship between insufficient public services and IFRS adoption, which supports H6. Other results of Model C are consistent with those of Models A and B, though Model C provides more substantial results because the coefficient of uneven economic development is significant at the 1% level, whereas it was not significant in Models A and B.

We run a Probit model labeled "Model D". It shows the heteroscedasticity corrected Probit Equation (2) results when $b1 = 0$. The results are consistent with those of Models A to C.

We run a Probit model labeled "Model E". It shows the heteroscedasticity corrected results of Probit Equation (2) when all $bi \neq 0$. The results are consistent with those of Models A through D.

The readers may be interested to know the effect of controlling for some important variables that are likely correlated with the vulnerability and law of justice indicators and IFRS adoption. In this regard, Isidro et al. (2020) mention that there may be "the incomplete picture in the existing accounting literature where the claimed effects of "one" country attribute or policy change on accounting or other economic outcomes are generally established without acknowledging or controlling for the effects of numerous other known changes in policies or country attributes". The paper also mentions, "in the case of a country's adoption of IFRS, it is unsurprising that the timing of the adoption is likely coincident with favorable economic and social conditions such as increases or rebounds in the stock market, market liquidity, GDP growth, investment, access to capital, and declines or reversals in uncertainty and risk". Therefore, to check whether the IFRS adoption decisions are influenced by country attributes and economic conditions, we introduce two variables that control for the effects of democratic freedom and the existence of a capital market in our empirical analysis.

The first variable is the Democracy Index[10], which measures democratic freedoms within a particular country. Studies confirm that "The rule of law is among the essential pillars upon which any high-quality democracy rests" (O'Donnell 2004, p. 32). Accordingly, we reason that the more democratic a country is, the more likely it is to promote and expect higher financial and accounting transparency levels. The Democracy Index enables us to examine the impact of vulnerability and law of justice indicators on IFRS adoption while controlling for the effects of democracy. We run a Logit model (1) with all $bi \neq 0$, where the Democracy Index is used as an exogenous variable to control for the influence of democracy ("Model F"). Results are consistent with those of Models A through E.

The second variable is the existence of an organized stock market[11]. We include this variable because of the public-facing nature of a stock market's existence and operation. Research shows that law and order are significant factors in developing a viable stock market (Yartey 2008). As investors demand financial and accounting transparency, it makes

sense to gauge the effects of vulnerability and law of justice indicators on IFRS adoption while controlling for the existence of a stock market. We run a Logit model (1) with all bi $\neq 0$, where the existence of a stock market is used as an exogenous variable to control for the influence of a country's equity market existence ("Model G"). Results are consistent with those of Models A through F. All the results are reported in Table 2.

To address the problem of omitted variables and country-specific fixed effects (such as, to name a few, managerial decision-making capacity, level of risk tolerance, government budget allocations, and technological developments) that may remain constant over time, we estimate a two-period panel ($t = 1$ when IFRS is adopted vs. $t = 0$ when IFRS was not adopted), indicated by the model (3). The outcomes are represented in Table 3.

Table 3. Empirical results from the two-period panel model.

VARIABLES	$\boldsymbol{IFRS_{i,(t=1)} - IFRS_{i,(t=0)}}$
$AOC_{i,(t=1)} - AOC_{i,(t=0)}$	0.30
	(2.88)
$UED_{i,(t=1)} - UED_{i,(t=0)}$	−1.07 ***
	(0.23)
$HRV_{i,(t=1)} - HRV_{i,(t=0)}$	0.24
	(0.56)
$SI_{i,(t=1)} - SI_{i,(t=0)}$	−0.57
	(0.39)
$CJ_{i,(t=1)} - CJ_{i,(t=0)}$	3.95 *
	(1.98)
$IPS_{i,(t=1)} - IPS_{i,(t=0)}$	−0.23
	(0.26)
Observations	14
R-squared	0.86

Standard errors in parentheses. *** $p < 0.01.05$, * $p < 0.1$.

We find that the value of the uneven economic development indicator declined significantly (−1.07 ***) between the $t = 1$ vs. $t = 0$ periods, indicating that uneven economic development is negatively associated with the IFRS adoption decision. Our results indicate that if a country adopts IFRS, on average, the value of her uneven economic development index significantly declines by 1.07, holding other things constant. We also find that the value of the civil justice indicator increased significantly between the $t = 1$ vs. $t = 0$ periods, indicating that civil justice is positively associated (3.95 *) with the IFRS adoption decision. Our results indicate that if a country adopts IFRS, on average, the value of her civil justice index significantly increases by 3.95, holding other things constant. However, we find no significant change in the other five indicators between the two periods. Moreover, the signs of the HRV, SI, and IPS relationships with the IFRS adoption decision are the opposite of those produced in our original modeling (see Table 2). In this regard, it is essential to note that the law of justice data has only been available since 2012 and only includes 14 countries that changed their IFRS adoption decision (no adoption in period $t = 0$ and adoption in $t = 1$) during 2012–2021[12]. For these countries, the value of the six regressors changed slightly between the no adoption ($t = 0$) to adoption ($t = 1$) period. As our modeling results include only 14 countries[13] with a slight change in regressor values, it is not surprising that some of the regressors are insignificant with unexpected signs—for additional explanation, see Mullet's (2018) argument that a small range of independent variables may produce signs opposite to the expectations of the researcher in the experiment. In sum, while we can show evidence of robustness of the results of the Logit and Probit models by using a two-period panel model for some of the law of justice and vulnerability indicators, data limitations reduce our ability to find evidence of robustness for the other indicators; even so, we do not believe this undermines our overall findings.

Finally, because the variable coefficients produced in our initial modeling represent associations, in some instances, researchers might be interested in exploring the possible causal relationships between our variables of interest and the IFRS adoption decision. We suggest that one way to do so is to find instruments of each of the six indicators and check for causal effects. A possible drawback, though, is that given the endogenous nature of the six indicators, it is challenging to find suitable proxies for them. Another way to find causality is by identifying a control group that includes countries that did and did not adopt IFRS at the same time. A complication may be that countries with similar characteristics adopted IFRS around the same time (Santana and Sarquis 2018). Given data limitations, we could not check for causality between our variables of interest and IFRS adoption, but we propose this topic for future research.

5. Conclusions

Adopting IFRS increases efficiencies in financial and accounting reporting. The adoption results include enhanced financial transparency, improved accounting standards, and increased global investment (Ananggadipa and Maulina 2013). Despite the benefits of adopting and implementing IFRS, not all countries have yet done so; 146 of the 193 United Nations member countries had adopted IFRS by 2021. Our research examines factors that may contribute to the IFRS adoption decision. The current literature focuses on socio-legal, economic, and intra-organizational factors as the determinants of IFRS adoption decisions. However, we believe other factors may also be in play. We are the first researchers to investigate the impact of vulnerability and the law of justice on IFRS adoption. Our analysis of cross-sectional data from 133 countries shows that the absence of corruption, state illegitimacy, civil justice, and insufficient public services support IFRS adoption. However, uneven economic development, and human rights violations deter IFRS adoption. Our results are robust across a group of Logit and Probit models.

Our research suggests that increasing financial and accounting reporting transparency in the media, allocating a healthy proportion of state budgets to promoting fair and equitable civil justice systems and implementing comprehensive economic development plans may help reduce or eliminate resistance to IFRS adoption. Our suggestions may create other benefits for the country besides adopting IFRS. For example, if policymakers of a country that has not adopted IFRS implement a comprehensive strategy to reduce uneven economic development or inequality, the country may benefit in two distinct ways. First, the probability of adopting IFRS will most likely increase. Second, reducing inequality may lead to reduced poverty levels and increased human capital, both of which are essential to sustain long-term economic growth. A country adopting IFRS may accelerate this growth process by reducing distrust and increasing confidence in government and public institutions. This feedback effect of IFRS adoption must be highlighted in the media and press so that non-IFRS countries become interested in adopting this transparent accounting system. Future research should examine the causal relationships between vulnerability, law of justice indicators, and the IFRS adoption decision.

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Appendix A

Table A1. List of 146 countries where IFRS standards were adopted for domestic public companies in 2021.

Afghanistan	Albania	Angola	Anguilla	Antigua and Barbuda
Argentina	Armenia	Australia	Austria	Azerbaijan
Bahamas	Bahrain	Barbados	Bangladesh	Belarus
Belgium	Belize	Benin	Bhutan	Bosnia and Herzegovina
Brazil	Brunei Darussalam		Bulgaria	Burkina Faso
Botswana	Cambodia	Cameroon	Canada	Central African Republic
Chad	Chile	Colombia	Comoros	Costa Rica
Côte d'Ivoire	Croatia	Cyprus	Czech Republic	
Democratic Republic of Congo	Denmark	Dominica	Dominican Republic	
Ecuador	El Salvador	Equatorial Guinea	Estonia	
Eswatini	Ethiopia	European Union	Fiji	
Finland	France	Gabon	Gambia	Georgia
Germany	Ghana	Greece	Grenada	Guinea
Guinea-Bissau	Guyana	Hong Kong SAR		Hungary
Iceland	Iran	Ireland	Israel	Italy
Jamaica	Jordan	Kazakhstan	Kenya	Kosovo
Kuwait	Kyrgyzstan	Latvia	Lesotho	Liberia
Liechtenstein	Lithuania	Luxembourg	Macedonia	Malawi
Malaysia	Maldives	Mali	Malta	Mauritius
Mexico	Moldova	Mongolia	Montenegro	Montserrat
Myanmar	Namibia	Nepal	Netherlands	New Zealand
Niger	Nigeria	Norway	Oman	Pakistan
Palestine	Papua New Guinea	Peru	Philippines	
Poland	Portugal	Qatar	Republic of the Congo	
Romania	Russia	Rwanda	Saudi Arabia	Senegal
Serbia	Sierra Leone	Singapore	Slovakia	Slovenia
South Africa	South Korea	Spain	Sri Lanka	St Kitts and Nevis
St Lucia	St Vincent and the Grenadines	Sweden		
Syria	Chinese Taipei	Tanzania	Thailand	
Togo	Trinidad and Tobago	Turkey	Uganda	
Ukraine	United Arab Emirates	United Kingdom		
Uruguay	Venezuela	Yemen	Zambia	Zimbabwe

Notes

1 Law of justice indicates the ruling that ensures the impartial application of law and thus stands against all injustices.

2 Civil justice is a legal framework that enables people to settle disputes with other individuals or organizations.

3 https://info.worldbank.org/governance/wgi/ (accessed on 11 May 2023).

4 https://www.ojp.gov/sites/g/files/xyckuh241/files/media/document/GAAP_Guide_Sheet_508.pdf (accessed on 17 May 2023).

5 https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#use-of-ifrs-accounting-standards-by-jurisdiction (accessed on 18 June 2023).

6 As most of the countries out of the 133 countries have adopted IFRS, our results of Section 4 may have some potential bias. A large sample could reduce the bias, but given our fixed sample size, we cannot eleminate this bias.

7 https://fragilestatesindex.org/excel/ (accessed on 20 February 2023).

8 https://worldjusticeproject.org/our-work/research-and-data/wjp-rule-law-index-2021/current-historical-data (accessed on 11 January 2023).

9 Note, however, that the negative association is insignificant at the 10% level.

10 The index is collected from https://ourworldindata.org/grapher/democracy-index-eiu (accessed on 21 April 2023). The index ranges from 0–10 when 0 indicates the least democratic and 10 indicates the most democratic country. This index is available for 127 countries from our sample of 133 countries. So, we have 127 observations in Model F.

[11] The existence of a stock market is captured here with a binary variable when 0 indicates no stock market and 1 indicates the existence of a stock market in the country.

[12] Song and Trimble (2022) highlight that IFRS adoption dates have been ignored or overly generalized in the prior literature. The authors found that after the biggest cluster of IFRS adoption in 2005, the second major increase in IFRS adoption occurred between 2013 and 2019. Along this line, we address the timing issue of Song and Trimble (2022) by considering the countries that changed their IFRS status from 2012 to 2021. In other words, we investigate the impact of vulnerability and law of justice indicators on the IFRS adoption decision during 2012–2021 (which covers the second major IFRS adoption period).

[13] The countries are: Belarus, Burkina Faso, Cambodia, Cameroon, Colombia, Côte d'Ivoire, Iran, Liberia, Malaysia, Nepal, Pakistan, Senegal, Singapore, United Arab Emirates, and Uruguay.

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