ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

FACTORS AFFECTING ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN COMMERCIAL BANK OF ETHIOPIA

BY

SELAMU SELESHI

DECEMBER, 2017

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of my advisor and all sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This is has been submitted to St. Mary's University School of graduate studies for examination with my approval as a university advisor.

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ABSTRACT

Factors Affecting Adoption of International Financial Reporting Standard in Commercial Bank of Ethiopia

Developments in the global capital market have made the adoption of International Financial Reporting Standard more significant than ever before. The adoption of IFRS in Commercial Bank of Ethiopia like in many countries banking sectors has obstacles and challenges. The purpose of this study is to identify factors affecting adoption of IFRS in Commercial Bank of Ethiopia, as well as potential benefits and key challenges that will face on adoption of IFRS. In this regard from the total of distributed 55 questionnaires to all finance department accountants and auditors in head office, 53 were valid to analysis and interviews were conducted with accounts director, finance managers and with experts and also document analysis were used to collect the required data. To address research objectives and test the hypotheses the study adopted the mixed research approach. The questionnaire data were analyzed using descriptive statistics, correlations, and multiple linear regression analysis and data from interview and document reviews were interpreted qualitatively. The study finds that with the exception of government policy the other four independent variables which are educational level, professional bodies, company size and capital market are significantly affect the adoption of IFRS in Commercial Bank of Ethiopia. The results also show that IFRS adoption in CBE will result in a number of important benefits to a wide range of stakeholders, Managements and to the bank. High cost of adopting, the complex nature, lack of proper instructions from regulatory bodies for adopting IFRS, high level training requirement as well as IFRS's emphasis on fair value accounting, are listed among the most important challenges of IFRS adoption. Based on the findings CBE is required to revise the current accounting policy and procedure of the bank in accordance with IFRS and a number of recommendations and direction for future research are provided.

Keywords: Adoption, International Financial Reporting Standards

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Acronyms

AABE:	Accounting and Auditing board of Ethiopia
CBE:	Commercial Bank of Ethiopia
EC:	European Commission
EU:	European Union
FASB:	Financial Accounting Standard Board
GAAP:	Generally Accepted Accounting Principles
IFRS:	International Financial Reporting Standards
IFRIC:	International Financial Reporting Interpretations Committee
IOSC:	International Organization of Securities Commissions
IASB:	International Accounting Standards Board
IASC:	International Accounting Standards Committee
IAS:	International Accounting Standard
NBA:	National Bank of Ethiopia
SPSS:	Statistical Package for Social Sciences

CHAPTER ONE

Introduction

1.1 Background of the Study

The fact that users of financial information rely on financial statements for economic decisions, makes it important for the acquisition of standards to regulate the preparation of such statements to enhance their reliability. Last decade has observed various changes of doing business across the world. The process of financial reporting of business activities also undertook great changes. This started in 2005 when European Union made it mandatory for publicly traded companies to present consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) (Nobes, 2004; Hoyle, et al., 2009).

The International Financial Reporting Standards and their evolvement into one of the most common accounting standards used in the world. The International Accounting Standards Board (IASB) was established in 2001 to develop International Financial Reporting Standards. It is posed as the global language of accountancy which is aimed to make the comparison and interpretation of the financial statements across the world easier (Nguyen & chi, 2015).

The idea of International financial reporting standards is to make the financial information uniform, transparent and comparable, to increase the quality of information, ensure that investors receive more accurate and consistent reports and to make it as close to the true and fair presentation of company status as possible; hence to make the capital movement across the countries easier and less costly (Nobes, 2004; Hoyle, et al., 2009).

Financial system, including regulations, institutions and functions, is a key factor for the capital movement in the reality of the global market economy.

Banks are one of the most important institutional representatives of the financial system. Their role is even greater in continental Europe. Historical tradition, still prevailing in transitional EU countries, is to rely on banks as a major financing institution for private and business purposes and to prefer this mechanism in front of the securities market (Apostolos et al., 2010).

Other developed countries institutions such as global banking regulators had adopted or in the process of adopting IFRS in for reporting purpose.

Several survey studies have been attended to assess the adoption of International Financial Reporting Standards in different banking institution from member countries of EU. (Apostolos et al., 2010; William et al., 2010; Alessandro et al., 2003; Robyn and Graeme, 2009; Alicja et al., 2007; Jermakowicz et al., 2007; Susana et al., 2007; Jermakowicz, 2004). Comparatively fewer numbers of studies have been carried out on data from other countries banks (Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011).

Most of the above studies have been carried out on IFRS discussed based on western economic structures may not be effective in the context of the developing nations' economic realities. Until now, as per knowledge of the researcher very little empirical research on the adoption of IFRS has been conducted in Ethiopia banking sectors. Most of Ethiopian studies were conducted on the effects of IFRS adoption (Minga 2008), IFRS adoption progress in Ethiopia (Teferi 2016), assessment after one time implementation process, its challenge and benefits (Fikiru, 2012). These studies have not given sufficient information for the banks specifically on plan or process to start IFRS.

Following the effects of globalization, the World Bank and IMF joint study of the Ethiopian accounting system (ROSC, 2007), In line with the global trend Ethiopia has already embarked on adopting IFRS by issuing proclamation No.847/2014 for financial reporting and National Bank of Ethiopia has already required the banks to prepare their financial statements in accordance with IFRS by regulation No. 332/2014 including Commercial Bank of Ethiopia. And also as per the World Bank report, significant gaps were indicated in the Ethiopian banks financial reporting infrastructures and legal frameworks.

Thus, the motivation for this study is by utilizing an analytical framework from the extant empirical evidence that relates the adoption of International Financial Reporting Standards issues in other countries context the research discussed in more detail the factors that affect the adoption of IFRS in Commercial Bank of Ethiopia.

1.2 Statement of the Problem

Indeed, the banking sector plays an important role in the fast growth of economy. Along with the development of the economy, the banking sector has implemented different changes to adopt IFRS. National Bank of Ethiopia has already obliges the banks to follow IFRS in their financial statement presentation manifested by proclamation no. 592/2008, article 23 of the banking business about the financial records and external audit inspection of banks. According to article 23 sub article 1 of the proclamation, banks prepare their financial statements in accordance with the IFRS including Commercial Bank of Ethiopia. However, the adoption of these standards by Ethiopian commercial banks has not received the same level of attention and is affected by different factors (Zinabu 2015).

Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards in different banking institution of the world. For instance a set of studies have been conducted on the factors affecting the adoption of IFRS (Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010) in banking sectors. And the other set of studies have been conducted on the challenges of adopting IFRS in banking sectors (Nguyen, chi 2015; Russell Pavera and Jamil Khatri 2008) and the benefits (Vinayagamoorthy, 2015; Iyoha and Faboyede, 2011).

Even though, IFRS is equally important for all countries, there is a lack of empirical study that examines the data from developing countries particularly in Ethiopian banking sector.

Most of Previous studies were conducted on related issues in Ethiopian context we can mention the followings; IFRS adoption progress in Ethiopia (Teferi 2016) it studied that have started IFRS voluntarily, the adoption of IFRS in Ethiopia its benefits and key challenge (Fikiru 2012) it Studied the Benefits and challenges on adoption of IFRS and focus on ECX members companies which was already adopted voluntarily and Factors affecting adoption of IFRS (Yichelal, 2013) studied the factors affecting adoption with the target population of accounting professionals in different organizations with in Amhara region. This indicates majority of previous studies in the country focusing business areas other than Banks and did not emphasis on factors affecting adopt IFRS in Ethiopian banks as well as those studies have not given sufficient information for the banks specifically on plan or process to start IFRS.

On the other hand (AABE, 2015) five year strategic plan from 2015/16 to 2020/21 indicates some reporting entities in Ethiopia declares that they are already using IFRS for their financial statements, however during the ROSC A&A 2007 review of financial statements that focused on issues of presentation and disclosure, without making necessary transition periods requirements and issues of recognition, reclassification and measurement from previous reporting standard GAAP. In addition there were significant differences between the actual accounting practices and IFRS framework. (Zinabu 2015) researches were conducted on Implementation of IFRS in Ethiopian Banks: an Assessment of Banks' Reluctance to implement it, The research indicates that some private banks and Commercial Bank of Ethiopia are not implement every step of IFRS in their reporting system; instead they revealed it on their annual report as used it, but in fact they are not conformities with IFRS. Finally the research advocates on the future research area parts, since there is no any study conducted regarding cause and effect relation of factors affecting adoption of IFRS in Ethiopian banks.

Moreover, it is important to notice that the Ethiopian environment is different from the developed countries environment where the accounting profession is more developed and where there is specific set of accounting regulation and an independent standard setting body. On the other hand, prior IFRS related studies in Ethiopia did not address all important factors which influence in the adoption of IFRS.

Accordingly this study was motivated to focus in the area of the factors that could influence the adoption of IFRS in Commercial Bank of Ethiopia, extend the understanding of International Financial Reporting Standards and issues related to its benefits and challenges. Therefore, this study's intention is in filling the above gaps.

1.3 Research Questions

This study was focus on the following research questions:-

- What are the factors affecting adoption of International Financial Reporting Standards in Commercial Bank of Ethiopia?
- What are the challenges of adopting International Financial Reporting Standards in Commercial Bank of Ethiopia?

- What are the key benefits of adopting International Financial Reporting Standards for Commercial Bank of Ethiopia?

1.4 Objectives of the Study

1.4.1 General Objective

The overall purpose of this study is to investigate the factors affecting adoption of International Financial Reporting Standards in Commercial Bank of Ethiopia.

1.4.2 Specific Objective

In order to meet the overall objective of the study, the following specific objectives are set:

1. To identify factors (i.e., Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) affecting adoption of International Financial Reporting Standards in Commercial Bank of Ethiopia.
2. To identify the challenges to adopt International Financial Reporting Standards in Commercial Bank of Ethiopia.
3. To identify the key benefit of adopting International Financial Reporting Standards for Commercial Bank of Ethiopia.

1.5 Significance of the Study

Business research has special significance in solving various operational and planning problems in the organization. Accordingly, this research has the following significance:-

- ✓ It would be useful for the Commercial Bank of Ethiopia by giving insight about factors that affect the adoption of International Financial Reporting Standards and issues related to its adoption. And also it helps the organization to pinpoint the problems that exist currently to adopt.
- ✓ It enables the governing body, specifically the national bank of Ethiopia to be attentive of the factors and challenges of International Financial Reporting Standards and give insight, solve the factors & show the ways that banks how to adopt these international standards most efficiently.

- ✓ It helps for other private banks to figure out the status of adopting International Financial Reporting Standards since Commercial Bank of Ethiopia has shown as a model bank by private commercial banks in Ethiopia.
- ✓ It would enable the governing body, specially the higher educational institutes and ministry of Ethiopian education to be aware currently what challenges and factors affecting adoption of International Financial Reporting Standards.
- ✓ It would also be very important for academic purpose by providing useful information about International Financial Reporting Standards and issues related to its adoption for further studies.

1.6 Scope and Limitation of the Study

The purpose of the study is to assess the adoption of IFRS in CBE due to the wide-ranging and the complex nature of International Financial Reporting Standards, this study focused on the factors that affecting adoption of IFRS in CBE, the economic benefits of the adoption of IFRS and the demerits as well.

All commercial banks in Ethiopia needed to follow IFRS in their accounting system and financial statement presentation. The findings of this study would have been more useful if it has been conducted in all commercial banks in Ethiopia. However, this study delimits its scope only to Commercial Bank of Ethiopia. Subsequently the vision set by CBE is to become a world class bank by the year 2025 yet they are not following IFRS in their financial statement presentation for ten years since national bank of Ethiopia obliges proclamation by the year 2008.

Time constraint was also one of the other factors that will limit the scope of the study in Commercial Bank of Ethiopia. With this reason the study were limited to Commercial Bank of Ethiopia as well as the main objective of the study were been investigates influences of major factors stated in this study that affect the adoption of IFRS.

1.7 Organization of the Paper

The paper has five chapters. It begins with introductory outlines under which an overview of the topic under study is presented and then description is made on the statement of the problem, objectives of the study, significance of the study, scope of the study, and organization of the paper. The second chapter presents review of related literature. The third chapter outlines the research design and methodology. The fourth chapter would be devoted to the data analysis and presentation. The final chapter presents the conclusion, and recommendations made by the researcher. Then end of the paper listed references and appendixes.

CHAPTER TWO

Review of Related Literature

2 Introduction

This section presents a review of related literature to International Financial Reporting Standards and its adoption. It consists of general overview about International Financial Reporting Standards, benefits and challenges of adopting IFRS and factors affecting the adoption. In general, this chapter combined existing empirical research in the area of international accounting standards and ends by summarizing the review and identifying the gap in the existing literature. Lastly it explains the conceptual frame work to adopt for this study and development of hypotheses.

2.1 Overview of the International Financial Reporting Standards

IFRS has been prepared and developed by the International Accounting Standards Committee (IASC), which was formed in London in 1973 for uncertain purposes. Besides the need of a common set of accounting standards for the increasing international business, politic was another reason for the creation of the IASC. The IASC was formed during the changing stage in accounting regulations all over the world. Furthermore, the International Federation of Accountants was founded in 1977 that affected the future of the IASC. Although IASC remained functioning separately, all the IAFC members became members of the IASC and the IAFC gained the right to appoint membership of the standard-setting Board.

However, the IASC was struggling to broaden the use of the IFRS as national GAAPs. Especially, the IASC marked a new stage of IFRS's development as signing an agreement with the International Organization of Securities Commissions (IOSCO) to create a common core set of standards for listing companies in 1987. Thereafter, the IASC adopted new form of structure as IASB in 2001. The IASB is supervised by the IFRS Foundation Trustees as well as supported by the IFRS Interpretations Committee and the Accounting Standards Advisory Forum. As being a member of the IFRS Foundation, the IASB is responsible for developing *"a single set of high* *quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles"* (IFRS Foundation 2015).

In spite of the various arguments against global convergence to IFRS, definitely the adoption of IFRS will reduce the cost of doing business across different national boundaries by reducing the need for supplementary information, facilitating easy access to global capital , increasing the practice of transparency and public accountability , enhancing the understanding and the ability to generate value strategic processes and synergies and facilitating motivation and attraction of foreign investors (Baba,2013).

Accordingly, convergence to IFRS will help in maintaining credibility of financial reporting and increase in efficiency in financial reporting (Obazee, 2008). Now, the adoption of IFRS is a global phenomenon with numbers of countries in Europe, Australia, Asia, Africa and others are adopting IFRS as a means for preparing their financial reports. Accordingly, the adoption of IFRS across countries is considered as a means of increasing cross border comparability, reporting transparency, increasing capital flow, increasing capital market efficiency and minimizing information asymmetry (Ball, 2006).

IFRS were created which are capital market-oriented financial reporting standards. In June 2000, the EC announced the adopting IFRS in 2005 as requirement for primary listing companies in all members. This event marked a stage of IFRS's development as global GAAPs.

Furthermore, as more business operate worldwide and US is one of the biggest market, the FASB has been cooperating with the IASB to converge IFRS and allowed secondary listing entities to prepare its financial statements in conformity fully with IFRS in late 2007 (Mackenzie et.al 2013).

Currently, IFRS are permitted in 26 jurisdictions and not permitted in 23 jurisdictions while are fully required in 94 jurisdictions and partly required in 11 jurisdictions (IFRS Foundation 2015). As can be seen, IFRS are getting accepted in more nations and become a global common set of accounting standards.

2.2 Empirical Evidence

2.2.1 The Adoption of IFRSs by Developing Countries

Whittington (2005) indicates that the main motivator for adopting IFRSs is the need of international language of accountancy and the needs of internationalization of capital markets. Frey and Chandler (2007) point out that IFRS enable the comparison of financial statements between firms in the same field, even if they were operating in different markets. Moreover, countries such as UAE which does not have national accounting standards, would facilitate and rapidly improve their accounting practice which would enable them to gain access to global capital (Whittington, 2005).

Frey and Chandler (2007) suggest that adopting IFRS in developing countries would save time and the effort for these countries setting their own standards. Moreover, the adoption of IFRSs would lead to improve the quality of accounting which will, in turn, increase competitiveness (Saudagaran and Diga, 2003). The adoption of IFRS in some developing countries, therefore, has become mandatory due to the external pressure or the influence of the international organizations such as the IMF and the World Bank (Hooper and Morris, 2004).

Sucher and Alexander (2004) point out that the International accounting firms (IAFs) play a significant role in developing countries to motivate them to adopt IFRSs in order to list their firms internationally.

According to Saudagaran and Diga (2000), developing countries adopt IFRSs for the purpose of becoming acceptable in the international market. However, they do not aim to make fundamental changes to their political and economic strategies which could be necessary to adopt the IFRS more efficiently (Hussain et al., 2002).

Many organizations both national and international wish to adopt IFRSs that provide them with the ability to achieve the acceptability of the financial report.

Abd-Elsalam (1999), states that Egypt has adopted IASs in its financial standards in 1993. However in 1996 the Egyptian accounting board began to issue national standards. In June 2003 the Gulf Co-Operation Council Accounting and Auditing Organization (GCCAAP) agreed to adopt the IFRS into their listed firms (Al-Shammari, 2005). All of the GCC members, except Saudi Arabia, do not have their own accounting standards, thus it was logical for the members to accept IFRSs. Irvine and Lucas (2006) argue that UAE required its listed firms to prepare their financial statements under IFRSs on or before 2005.

Mostly countries have their accounting standards setting bodies. These bodies cope-up with the IASB for setting the standards. These bodies consider the IFRS for benchmark for issuing the standards for their respective countries. These bodies modified the IFRS according to their country need. Apart from it these bodies also issued the other accounting standards which are needed in the country without considering the IFRS. In this section the difference between the IFRS and local GAAP related research and articles have reviewed and these are the following

Vinayagamoorthy. (2015) “opportunities and challenges in adopting IFRS in India.” This article provides a summary and interpretation on adoption of IFRS, means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements. While IGAAP has been converging with IFRS as much as possible in recent years, differences still remain, and some of these were viewed as significant challenge to overcome. Participants noted concerns a) IFRS is more principles based, and therefore more ‘liberal’ than Indian GAAP. More choice under IFRS will mean the increased need to use professional judgment, and this will require a fundamental change in mindset for Indian accountants. B) Initial transition will be a challenge given differing recognition and measurement criteria for assets and liabilities. These will not only impact earnings, but it is important to be able to capture those differences through appropriate information systems.

c) Specific accounting areas that will be more complex included business combinations and financial instruments. Many of the problems associated with them arise from the greater use of fair value accounting under IFRS.

Songlan Peng, Rasoul H Tondkar, Joyce van der Laan Smith, David W Harless (2008), “Does Convergence of Accounting Standards Lead to the Convergence of Accounting Practices?, A Study from China”. In this empirical study examines whether China's efforts to converge domestic accounting standards with International Financial Reporting Standards over the past 15 years have resulted in the successful convergence of Chinese listed firms. This study is unique in that they evaluate convergence of firms' accounting practices from three perspectives: (1) the level of compliance with Chinese GAAP and IFRS, (2) the consistency of accounting choices under Chinese GAAP and IFRS, and (3) identification of significant differences in the net incomes produced under Chinese GAAP and IFRS (earnings gap). Using the 1999 and 2002 annual reports of 79 Chinese listed firms they find improvement in both compliance with IFRS and in the consistency of the accounting methods used in annual reports prepared under Chinese GAAP and IFRS. They also find a reduction in the earnings gap from 1999 to 2002. However, interestingly they observed that Chinese listed firms' compliance with IFRS is significantly lower than their compliance with Chinese GAAP. Overall they believe that their findings suggest that in China the convergence of accounting standards has been a channel to the convergence of accounting practices.

John Goodwin, Kamran Ahmed and Richard Heaney (2007), “The Effects of International Financial Reporting Standards on the Accounts and Accounting Quality of Australian Firms: A Retrospective Study”. They find that IFRS increases total liabilities, decreases equity and more firms have earnings decreases than increases. The leverage ratio is higher under IFRS. Using two different models, they find no evidence that IFRS earnings and book value are more value relevant than AGAAP earnings and book value. They also find that the changes to accounting for share-based payment, intangibles, provisions and impairment components are value relevant but not consistent with the way the market perceives these components, but that goodwill accounting under IFRS improves associations with market value. The information in the earnings reconciliations was impounded in prices before the release of the reconciliation note.

Sofie Van Der Meulen, Ann Gaeremynck , Marleen Willekens (2006), **“**The Influence of Specific Accounting Differences on the Choice Between IFRS or US GAAP”. This paper addresses the question whether specific accounting differences between IFRS and US GAAP determine the individual firm‘s accounting standard preference. The results show that firms prefer that accounting regime that offers them the largest flexibility (i.e. less disclosure or more measurement options) on relevant accounting items (e.g. R&D expenditures). Furthermore, the flexibility in measurement seems to result in accounting numbers that are significantly valued by investors.

Chile A.G. (2006), “Chile International Financial Reporting Standards and International Standards on Auditing”. The general aim of the project is to bring Chile into line with global standards by adopting standardized criteria in the presentation of financial accounting information, thereby facilitating trade integration. Its purpose is to strengthen existing mechanisms to support the system and process for issuance and adaptation of international standards, and to strengthen effective mechanisms of coordination, integration and dissemination, to converge rapidly towards them.

Van Tendeloo; Brenda; Vanstraelen and Ann (2005),“Earnings management under German GAAP versus IFRS.” They investigate whether German companies that have adopted IFRS engage significantly less in earnings management compared to German companies reporting under German generally accepted accounting principles, while controlling for other differences in earnings management incentives. There results suggest that IFRS adopters do not present different earnings management behavior compared to companies reporting under German GAAP. These findings contribute to the current debate on whether high quality standards are sufficient and effective in countries with weak investor protection rights. They indicate that voluntary adopters of IFRS in Germany cannot be associated with lower earnings management.

2.2.2 Benefits of IFRS Adoption

Armstrong et al. (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, deceases in information asymmetry, more rigorous enforcement of the standards and convergence. The study on the implementation of IFRS in Banks mainly shows that implementation of IFRS leads to improved comparability & reliability of financial statements, reduce cost of capital of firms through lower cost of information, facilitate easier international mobility of professional staffs across national boundary, greater marketability of shares, and reduced information asymmetry and others.

According to Armstrong et al, IFRS has the following benefits

1. If a business adopts IFRS, the business will be able to present its financial statement on a single set of high quality and global standards.

2. Adoption of IFRS will result in high quality, transparent and comparable financial statements that are based on modern accounting principles and concepts that are being applied in global markets.
3. If a company uses IFRS, the company could enjoy the benefit of raising capital from abroad.
4. Comparison is made easier with a foreign competitor if a company presents its financial statement according to IFRS.
5. The adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world.

It is advocated that adoption of IFRS will lead to greater transparency and understandability, lower cost of capital to companies and higher share prices, reduced national standard setting costs, ease of regulation of security markets, easier comparability of financial data across borders and investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials to foreign merger partners. It will also facilitate easier international mobility of professional staffs across national boundaries (Odia,J.O & Ogiedu,K.O,2013).

According to Ball (2006), IFRS has the following five benefits to investors.

1. IFRS provides more accurate, comprehensive and timely financial statement information for public financial reporting in most of the IFRS adopted countries when compared to the national standards they replace.
2. Improving financial reporting quality allows small investors to compete better with professionals, and hence reduces the risk they are trading with a better informed professional ('adverse selection').
3. By eliminating many of the international differences in accounting standards, IFRS eliminates many of the adjustments which have been made historically by analysts in order to make the companies' financial reports more comparable internationally. And hence, IFRS adoption could reduce the costs of financial information processing to investors.
4. Reduction in the financial information processing cost increases market efficiency.
5. Reducing international differences in accounting standards contributes to some degree in removing barriers to cross boarder acquisitions and divestures.

Generally, IFRS provides increased comparability and hence reduced information costs and information risk to investors (Ball, 2006).

Gordon (2008) listed the benefits from adoption of IFRS in the world as: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross border listing, better management of global operations and decreased cost of capital in the world.

Iyoha, and Faboyede, (2011), conducted a research on the adoption of International Financial Reporting Standards in Nigeria. The results of the study show that the introduction of IFRS in Nigeria will result in a number of important benefits for a wide range of stakeholders. The benefits of ease of using one consistent reporting standard in subsidiaries from different countries will accrue to companies while investors will benefit, amongst others, more confidence in the information presented in financial statements which they can understand and use. For policy makers (management), the adoption of IFRS will create better access to the global capital markets and a higher standard of financial disclosure for national regulatory bodies. Similarly, other stakeholders would benefit from overall better reporting and information on new and different aspects of the business.

Waterhouse Coopers (2005) "Accounting for change: A Survey of banks IFRS" The study objective to find out how they comply with the IFRS first year mandatory adoption in 20 EU leading global banks. The study found that compliance had been the top concern for the banks, as for disclosure it would take longer to be closer to the IFRS requirements. There was less volatility in the first set of financial statements and IFRS adoption is a long, costly and controversial results process for different countries, sectors of economy and companies. It leads to some advantages improving the financial statements information quality and is more likely to be profitable for companies in countries with strong enforcement mechanisms and reporting incentives. For financial institutions and for internationally owned and active companies it is more likely the convergence to be voluntarily acted and to have a small convergence effect. Despite the advantages of IFRS adoption, there could be enumerated some draw backs, including lack of transparent consistent disclosure and uniform treatment of standards.

Monir Z. Mir and Abu S. Rahaman (2005) conducted a research on the adoption of International Accounting Standards in Bangladesh financial institutions. The aim of the paper was to evaluate the decision of the Bangladesh financial institutions and accounting profession to adopt international accounting standards (IASs). The paper uses a variety of archival data and interviews with key actors, including preparers and users of annual reports, members of the Securities and Exchange Commission, and members of the professional accounting bodies. Findings of the paper shows that institutional legitimization is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies. Such pressure results from not only the need to provide credibility to foreign investors but also the need for strong accountability arrangements with lending/donor agencies. However, the perceived undemocratic nature of the adoption process appears to be creating and enhancing conflict among various constituencies, resulting in very low compliance with these standards.

2.2.3 Challenges of Adopting IFRS

The adoption of IFRS is not an easy task due to the fact that several challenges could be faced in the way of its implementation. Accounting Professionals across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges.

For instance Alexander, (2003) The survey result shows that the respondents identify various IFRS implementing challenges of Banks that high implementation costs, the complexity of financial reporting, lack of IFRS implementation agent, lack of IFRS implementation guidance, lack of availability of competent specialists, high level training requirement, less familiarity with the IT challenges in handling the implementation of IFRS, lack of proper instructions from regulatory bodies, and problem with IFRS implementation proper plan. From the challenges listed by the respondents of the questionnaire, lack of education & expertise, lack of adequate technical capacity of advanced financial management, insufficient familiarity with specific IFRS implementation IT challenges, absence of commitment & proper plan of Banks to implement IFRS and requirements of the existing Tax law amendment are identified as factors that makes Banks unwilling to implement IFRS.

Robyn and Graeme (2009) identified Lack of training facilities and academic courses on IFRS will also pose challenge in India. A key challenge is to ensure companies, auditors, regulators and the investment community is appropriately skilled to apply and interpret IFRS.

Throughout the world every implementation process has its own challenges and IFRS cannot be an exception. There are a number of factors in the adoption process of IFRS which may necessarily not be technical but rather cultural, legal, educational and political influences (Obazee, 2007). Rong- Ruey Duh in 2006 said that compliance challenges may comprise of interpretation of standards, continuous modification of IFRS, accounting knowledge available and expertise in relation to users of financial statement its preparers and regulators.

Iyoha and Faboyede (2011) identified ethical environment and the ability to protect qualified and competent employees from being poached by other companies as main challenges facing Nigerian companies. Wong (2004) said that education and training are considered as major challenges militating against the adoption of IFRS.

(Schachler *et al.*, 2012; Laga, 2012; Masoud, (2014) The adoption of IFRS in Libya faces several challenges and obstacles including, lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants.

As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn and Graeme, 2009). With the adoption of the IAS Regulation, requiring all EU listed companies to prepare their consolidated accounts in conformity with IFRS, EU publicly listed companies are facing many challenges, including fair value measurements to be considered to a greater extent (Jermakowicz ,2004; Alexander, 2003). IFRS would also present a challenge by way of more complex financial reporting requirements and resultant increase in costs; and availability of resources with expertise in IFRS. Similarly from an overall perspective, amendments to regulatory requirements and tax laws would be required; and impact on IT systems and compensation structures would need to be evaluated (Apostolos et al., 2010; Jermakowicz, 2004; Alexander, 2003).

Jermakowicz et al. (2007) examine the challenges and benefits, including value relevance, of the adoption of IFRS by DAX-30 companies in Germany based on a questionnaire sent to company executives. They find that most companies agree that implementing IFRS should improve the comparability of financial statements while the complex nature, high cost of adopting and lack of guidance for implementing IFRS, as well as increased volatility of earnings after adopting IFRS, are listed among the most important challenges of conversion to IFRS.

Jermakowicz and Gornik-Tomaszewski (2006) provide "insight into the IFRS adoption process based on a questionnaire sent to EU-listed companies in 2004." Among their findings are that the process of IFRS adoption is "costly, complex, and burdensome" and "the complexity of IFRS as well as the lack of implementation guidance and uniform interpretation are key challenges in convergence", so "a majority of respondents would not adopt IFRS if not required by the EU Regulation."

Chi Nguyen (2015) "Challenges in adopting international reporting standards for banking sector in Vietnam" The research objective is to point out challenges for Vietnamese banking sector in case IFRS is adopted. Attempted to see in-depth and semi-structured interviews were conducted to answer the fifth question of the challenges of IFRS adoption. The interviewees pointed out the advantages contribute to the accounting system. In case of IFRS adoption, IFRS enhances the accounting quality as well as the comparability and compatibility, which helps to increase the transparency of financial statements. Thus, credit institutions may have better reputation and better access to global financial market. However, time-consumption and cost are the main disadvantages of IFRS adoption leading to major challenges that the Vietnamese banking sector may face in IFRS adoption. Firstly, the difference in primary users between Vietnamese accounting standards and IFRS is a task for the government. Secondly, the accounting, auditing and IT upgrade process is an issue for credit institutions. Since Vietnamese accountants, auditors and specialists are familiar with Vietnamese accounting that leading to the lack of specialists on IFRS. Thus, the demand in training the preparation and presentation of financial statements in conformity with IFRS is great. Lastly, the government as well as credit institution is required to build up an active market for evaluating fair value, which is one of the most difficult tasks. Thus, the IFRS adoption is time-consuming and costly.

Russell Pavera and Jamil Khatri(2008) "IFRS: Implementation Challenges and Approach for Banks in India" This study examines the opinions surrounding the appropriateness of accounting harmonization and the obstacles to achieve it and seeks to apply these arguments in the case Indian banks. The findings of the research revealed that there are a multitude of risks and separate out three specific ones, the research finds:- *i) Sufficient dedicated internal staff:* The single biggest differentiator of successful and less successful conversion is the presence or absence of project management arena. *ii) Failure to spend sufficient time and energy on 'impact assessment':* the research believes that the initial impact assessment is by far the most critical phase of the study. It is essential that banks plan for this phase and allow sufficient time to ensure that the gap analysis is conducted on a line-by-line basis through the income statement and balance sheet. The gap analysis feeds the systems changes, the training program and the accounting policies - only realizing that elements of this have been missed later in the conversion process, leads to expensive unwinding of activities. iii) *Failure to train staff to a sufficient standard:* Many organizations that have encountered underestimated the level of investment required in training their finance community. A comprehensive training strategy and program is a complex area and needs to be carefully considered.

Laga (2012) Challenges of International Financial Reporting Standards Adoption in Libya commercial banks. This paper focused on the practical obstacles that will face the process of implementing of International Financial Reporting Standards, with particular reference to Libya commercial banks. According to the findings of the paper it highlighted the strengths and weaknesses of IFRS adoption and suggested ways to improve the convergence process in the future revealed that many necessary steps should be taken to overcome such obstacles which include strengthen professional accountancy body to improve the status of profession, revisions of curriculum for educating and training of professional accountants to enable accountants to gain exposure to international developments in the profession including IFRS application.

IFRS is one of the prominent issues among the person who has been affected by the IFRS. There are different users of IFRS for example accountants, investors, executives, regulatory bodies. These users had the different awareness and perception toward the IFRS. In this section the challenges and risks faced or to be faced by different users of different nations adopting IFRS towards the IFRS related survey, research and articles have reviewed and these are the following;

Charalambos Spathis, Eleftheria Georgakopoulou (2007), "The adoption of IFRS in South Eastern Europe: the case of Greece". This paper presents a study of the adoption of IFRS in South Eastern Europe by examining the case of Greece. It outlines the underlying factors and constraints affecting the compliance of firms with IFRS and most importantly highlights some key differences between IFRS and the Greek accounting system, which have had a major impact on the conversion to IFRS. Furthermore, it deals with specific issues related to local accounting practices and IFRS, the issue of enforcing compliance with IFRS and how this relates to current accounting and audit services.

John Sapsford (2006*), "*IFRS: are you ready?" The results were tallied from 10 questions responded to by more than 200 CAs from 13 industries in various organizational roles: 21% controllers, 9% VP finance, and the remaining (70%) had differing roles in finance and elsewhere. they said the new reporting standards will have a very significant impact on shareholders' understanding of financial statements, this concern was topped by five others when respondents were asked to list the biggest challenges in order of difficulty: capacity of staff, e.g. workload, capability of staff, e.g. upgrading skills, reporting, financial processes, financial systems, shareholder understanding. Forty percent think the challenge of IFRS will require about the same level of effort as SOX; believe it will take significantly more effort to implement; and the majority expects it to take the same or more effort.

Waterhouse Coopers, (2006)**,** "IFRS: The European investors' view Real influence on investment decisions". This survey finds that investors are already alert to the new IFRS information reported to them during 2005. They see the change to IFRS as significant and, even at this early stage, it has changed some perceptions of companies' value and had an impact on the investment decisions of over half the fund managers they spoke to. This underlines the significance of the first IFRS year-end accounts that are about to be published.

Ciliate Dewe Rogerson (2006), "The Adoption of International Financial Reporting Standards: Who should lead the way (Survey reveals equity market unprepared for IFRS changes)".-Findings of the survey that most analysts are being left to decide for themselves how IFRS should affect their approach to company valuation. As a result, many are waiting for companies to offer guidance which, to date, has appeared on a piecemeal basis. The risk is that market valuations and share prices may be affected by a prolonged period of volatility while analysts lack consensus and a consistent approach to the interpretation of financial data under IFRS. Citigate Dewe Rogerson concludes that companies need to do more to lead the way in communicating the impact of adopting IFRS.

Stewart Jones, Alison D. Higgins (2006), Australia's Switch to International Financial Reporting Standards: A Perspective from Account Preparers". they find evidence of strong systematic variation in survey responses with factors such as firm size, industry background and expected impacts on financial performance, the general results indicate that many respondents have not been well prepared for the transition and are generally very skeptical about the claimed benefits of IFRS as enunciated in the government's Corporate Law Economic Reform Program. The results have implications to other international reporting jurisdictions, particularly the European Union, where adoption of IFRS is already underway.

KPMG report (2006), **"**Perceptions and realities" The significant message from the survey is that companies face a real risk that their financial performance as reported under IFRS will be misunderstood or misinterpreted by the market. None of the surveyed analysts felt 'very confident' about their ability to distinguish between changes in a company's reported results due to changes in underlying business performance and those that directly relate to the adoption of IFRS.

Brendan Sheridan, and Delloite (2006), "IFRS Reporting. The Time is nigh". finding of the study were that With the financial reporting date of many European first-time adopters of International Financial Reporting Standards less than a month away, final preparations are being put in place. A recent survey carried out by Deloitte of European banks provides further indication of where they may expect the main changes to be in the reported financial position and results of companies. While the standards on financial instruments and insurance contracts have a more significant impact on banks, due to the nature of their business activity, many of the more significant matters identified by the survey will have impact on the majority of IFRS first-time adopters. Private companies not adopting IFRS should bear in mind that many of the transitional changes facing our listed companies will also impact on them in 2005 with to the introduction of new standards by the Accounting Standards Board under the programmer of convergence

2.2.4 Factors Affecting Adoption of IFRS

According to Iyoha and Faboyede, (2011), The Adoption of IFRS is motivated by both internal and external factors: internally, the demand of professionals, academics and preparers to work with international trends and externally pressure from global audit firms and other international organizations. The adoption of International Financial Reporting Standards is largely driven by a number of factors which include among others professional support with IFRS experience and self-enforcement by companies.

Chamisa (2000) evaluated the contradiction of the relevance of IASs to developing countries and used the particular case of Zimbabwe. The study reported that there is a significant increase in the number of professional bodies in developing countries. These professional bodies have supported the adoption of IASs which suggests that these standards are relevant and not harmful to developing countries. The results showed that the adoption of IASs and their impact on the reporting practices of the listed Zimbabwe companies appeared to be significant and relevant to the country as well as similar developing countries where shareholder/fair view is important.

According to Cooke and Wallace (1990), as cited in Zeghal and Mhedhbi (2006, p. 356), the factors affecting the choice of accounting systems could be internal as well as external. They could include factors such as economic growth and the level of wealth, the level of inflation, the education level, the legal system, the country's history and geography, the financial system, the size and complexity of business enterprises, the notoriety of the accounting profession, the development of financial market, sources of investment and financing and the predominant culture and language.

According to Teferi (2016) the factors affecting in IFRS adoption are: a) IFRS knowledge gap: prevalence of knowledge gap in IFRS among various stakeholders such as preparers, users, academics, and professionals is one of the most important challenges. b) Shortage of qualified professionals: Shortage of competent and qualified professional accountants and auditors in IFRS is another factor. C) Confrontation to change: Resistance from organizations who are benefiting from or confortable with the existing non-enforced and non-regulated accounting and auditing system in the country, and various groups of people who might not come up with IFRS d) Management knowledge gap: There is a gap in the management of corporate organizations as they have little or no understanding of accounting and financial reporting. Finally Absence of professional institutions: Since if no work has been done to have well-organized professional body, as the existing one are club of professionals, the accountancy professions fail to contribute what it was purported to contribute for economic growth and development of the country.

2.3 Summary and Gap in the Existing Literature

The review of the literature shows various discussions and perspectives about the IFRS adoption practices based on other countries' experiences. It reflects some of the issues relating to the debates, benefits and challenges of IFRS adoption by countries with varying legal, cultural and socio-economic contexts. It highlights the preconditions of IFRS adoption to be fulfilled by adopting jurisdictions in terms of non-technical and implementation issues.

In spite of the quite many benefits of IFRS adoption, it is also a difficult task and has many challenges. As evidenced by the global experience, convergence with IFRS has significant challenges common to all countries and companies and there are also certain specific challenges that are unique to particular countries and companies. Growing bodies of literature revealed that more complex financial reporting requirements; resultant increase in costs; availability of resources with expertise in IFRS; ethical environment, the ability to protect qualified and competent employees from being poached by other companies and from an overall perspective, amendments to regulatory requirements and tax laws; and impact on IT systems and compensation structures are the main challenges of IFRS (Iyoha and Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al., 2007; Jermakowicz, 2004; Wong, 2004; Alexander, 2003).

Although various survey studies have been conducted to assess the adoption of IFRS in different countries of the world, most of the studies have been carried out on IFRS analyzing the data from member countries of EU (Apostolos et al., 2010; William et al., 2010; Alessandro et al., 2009; Robyn and Graeme, 2009; Alicja et al., 2007; Jermakowicz et al., 2007; Susana et al., 2007; Jermakowicz, 2004). Comparatively fewer numbers of studies have been carried out on data from other countries (Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011). Even though IFRS seems to be equally important for all countries, there is a dearth of empirical study that examines the data from developing countries and in particular Ethiopia. Therefore, this study makes an attempt to bridge this gap and elaborated the benefits, challenges, and the factors that could influence the adoption of IFRS in Commercial Bank of Ethiopia.

This implies that there is knowledge gap in the Ethiopian context about the IFRS benefits, challenges, and the factors that could influence the adoption. Hence, this study aims to narrow the knowledge gap by putting point of reference in terms of assessing the overall IFRS adoption processes leading to IFRS adoption.

2.4 Conceptual Framework

Conceptual framework is visual or written product, one that explains, either graphically or in narrative form, the main things to be studied the key factors, concepts, or variables and the presumed relationships among them. The goal of a conceptual framework is to categorize and describe concepts relevant to the variables of study and map relationships among them (Miles and Huberman, 1994).

To achieve part of the research objective and to test the research hypotheses, this study used the conceptual framework developed by Sharif, (2010). Sharif conducted research on factors affecting the adoption of IFRS by using five independent variables (Government Policy, Educational Level, Professional Bodies, Company Size, and Capital Market). Similar model have been used by various studies in developing countries for instance; Mujeeb etal (2016).and (Chamisa, 2000) as well as in Ethiopian context also Fikiru (2012) used sharif's model in the study of factors affecting the adoption of IFRS and were found suitable. Therefore, this study used this variables will truly affects the adoption of IFRS in Commercial Bank of Ethiopia and convinced to use Sharif, (2010)'s model.

The study applied independent and dependent variables in order to put the research into practice. An independent variable is that variable whose values or levels the experimenter selects to determine what effect this independent variable has on the dependent variable. The independent variable is the experimental counterpart to a predictor variable. A dependent variable is some aspect of the subject's behavior assessed to reflect the effects of the independent variable. The dependent variable is the experimental counterpart to a response variable.

Therefore the dependent variable in this study is the adoption of IFRS by CBE, while the independent variables are Government Policy, Educational Level, Professional Bodies, Company Size, and Capital Market.

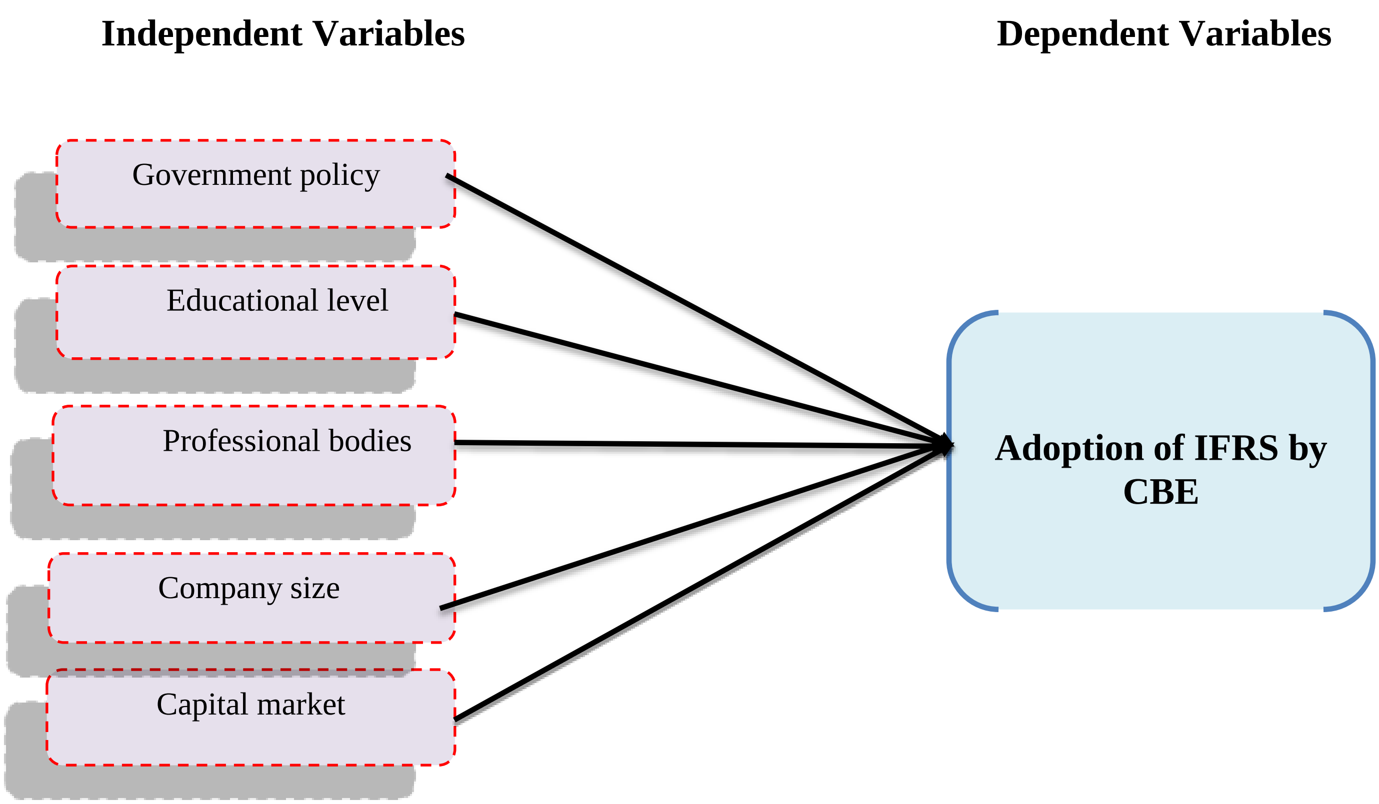

Figure 2.1: Sharif, (2010)

2.5 Hypotheses Development

The major objective of this study was to investigate factors affecting adoption of IFRS in CBE. To achieve the objectives of this study the hypotheses were presented in this section. Hypothesis were also developed in order to see the relationship of the independent variables (Government Policy, Educational Level, Professional Bodies, Company Size, and Capital Market) and the dependent variable i.e. adoption of IFRS in CBE. The description of both dependent and independent variables with related hypothesis is discussed below.

2.5.1 Dependent Variable

The dependent variable is some aspect of the subject's behavior assessed to reflect the effects of the independent variable. The dependent variable is the experimental counterpart to a response variable (Neumann, 2007). In this study the dependent variable is adoption of IFRS in CBE as explained below.

2.5.1.1 Adoption of IFRS

International Financial Reporting Standards are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of entities. This standards is to make the financial information uniform, transparent and comparable, to increase the quality of information, ensure that investors receive more accurate and consistent reports and to make it as close to the true and fair presentation of company status as possible; hence to make the capital movement across the countries easier and less costly (Nobes, 2004; Hoyle, et al., 2009). IFRS adoption is the only dependent variables of the study and intended to investigate due to its newness and complex nature.

2.5.2 Independent Variables

An independent variable is that variable whose values or levels the experimenter selects to determine what effect this independent variable has on the dependent variable. The independent variable is the experimental counterpart to a predictor variable (Neumann, 2007). In this study, the five independent variables are Government Policy, Educational Level, Professional Bodies, Company Size, and Capital Market as explained below.

2.5.2.1 Government Policy

Chamisa (2000) in the survey result the government policy plays an important role in many developing countries by setting clear directives, vibrant direction, guidance and proper instructions about the adoption of IFRS and examines the application of standard framework.

Tucker (2002) states when government policy is hostile to the foreign and global principles, the adoption of IFRS may possible; suggesting that in line with the global trend the government should support the adoption of IFRS. According to Najar (2007) also indicated that government policy has an influence on the adoption or non-adoption of IFRS in developing countries. Therefore, in this regard, the next hypothesis is formulated to see the relations of government policy as a factor for the adoption of IFRS.

H1: There is a relationship between government policy and adoption of IFRS by CBE

2.5.2.2 Educational Level

Gernon, Meek, & Mueller (1987) indicate that a well-educated accountants regarding are effectively support the modern complex accounting systems. It has been established that there is a positive relationship between education level and the competence of professional accountants.

The main reason on which educational levels of accountants was to be one of the independent variables of this study is it requires a high level of education, competence, and expertise to be able to understand, interpret, and then make use of these standards. Highly qualified accountants and well-trained users must exercise professional judgment and process complex information (Doupnik and Salter, 1995; Street, 2002). Thus in this regard the second hypothesis is formulated.

H2: There is a relationship between education level and adoption of IFRS by CBE

2.5.2.3 Professional Bodies

Fikru (2012) the existence of professional accounting bodies is a major factor that drives the decision to adopt IFRS. One of factor which affects the accounting system in the developing countries is the lack of accounting professionals which is due to the weaknesses or inadequate standard in the accounting education.

Similarly, sharif (2010) showed that the Existence of Professional bodies in county able to provide the required related consultant and training that will help the successful adoption of IFRS. It is in this regard the following is hypothesized in this study.

H3: There is a relationship between professional bodies and adoption of IFRS by CBE

2.5.2.4 Company Size

The survey study of Fikiru (2010) found that company size i.e. large, medium & small affect the adoption of IFRS and has significant role towards adoption of IFRS in respect to large size organizations have not adopting IFRS early and timely as required compared to small and medium organizations. On the other hand Company size here is referred to as everything the company has in terms of asset and liquidity. Sharif (2010, p. 29) found that company size has significant role towards adoption of IFRS. Thus in this regard the next hypothesis is formulated.

H4: There is a relationship between company size and adoption of IFRS by CBE

2.5.2.5 Capital Market

Capital market here is referred to a market for securities (debt or equity), where business enterprises and governments can raise long term funds. In this respect, Jemakowicz and Gornik-Tomaszewski (2006) have shown that countries with financial market that are open to foreign investors are more likely to adopt the IFRS.

Thus, by integrating the local financial market in the chain of global Exchanges and in related to fair value measurements of capital markets will help the successful adoption of IFRS. The main reason on which capital market was to be the independent variable of this study due to its impact on fully adoption of IFRS, particularly related to fair value measurement. These arguments lead us to the fifth hypothesis:

H5: There is a relationship between capital market and adoption of IFRS by CBE

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CHAPTER THREE

Research Design and Methodology

3 Introduction

This chapter deals with the research methodology that is used in this study. It encompasses research design, research approach, population of the study, sources of data, data gathering instruments and the reasons for why those methods are chosen in comparison to the other alternative methods were discussed. At the end it presents the regression model, measurement of the variables, data analysis methods and the validity and reliability of the study.

3.1 Research Design

Research design is the structure that guides researchers in their investigation into a phenomenon (Kotzar, Seuring, Muller, & Reiner, 2005).

This paper discussed on factors affecting adoption of IFRS in Commercial Bank of Ethiopia. To see the adoption of IFRS in CBE both descriptive and explanatory study design were used. The study used descriptive analysis because the researcher interested to describe the potential benefits and key challenges that will face on adoption of IFRS. And also explanatory survey method was employed with the assumption that it can help to explain and interpret the relationships between variables that are factors affecting adoption of IFRS (independent variables) and adoption of IFRS by CBE (dependent variable).

3.2 Research Approach

A research approach can be categorized as quantitative research approach, qualitative research approach and mixed research approach.

In this paper the researcher adopted mixed method research approach to identify factors affecting adoption of IFRS in the case of Commercial Bank of Ethiopian to convergence across qualitative and quantitative methods (triangulating data sources). Therefore, employing this approach was used to neutralize or cancel the biases (limitations) of applying any of a single approach and a means to offset the weaknesses inherent within method with the strengths of the other method (Creswell, 2003, pp. 15 & 217).

In addition, adopting of mixed method research approach in this research provided the best understanding of a research problem because it opens the door to multiple methods of data collection and to both generate the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals (Creswell, 2003, pp. 12-22). This research approach posed the researcher to the challenges the need for extensive data collection, the time-intensive nature of analyzing both text and numeric data, and the requirement for the researcher to be familiar with both quantitative forms of research (Creswell, 2003, p. 210). Concurrent procedure were employed in undertaking this research in which, converges quantitative and qualitative data in order to provide a comprehensive analysis of the research problem. Moreover, the researcher was collected both forms of data at the same time during the study and integrates the information in the interpretation of the overall results (Creswell, 2003, p. 16).

This study has determined to assess the adoption of International Financial Reporting Standards in CBE so a survey method was employed. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population. It is a means of collecting information, usually through self-report using questionnaires or interviews. In this study surveys was administered to all of the populations of respondents that are accountants, auditors, Experts, Finance managers and Accounts director.

3.3 Population of the Study

The target populations of this study were Experts, Finance managers, Accounts director and employees of Commercial Bank of Ethiopia. Thus, the population of the study was Finance department staffs in Head office of Commercial Bank of Ethiopia who have directly related with IFRS adoption.

The selections of the respondents department were carried out by using purposive sampling research method because no other departments were concerned about IFRS adoption and they are deemed to have sufficient knowledge about IFRS; since they are directly involved them can provide important perspective on its adoption. This department has 55 staffs that include

Accounts director, Finance managers, Accountants and Auditors whose are directly related in IFRS.

The researcher took all targeted population of finance department staffs in the headquarters as a respondent.

3.4 Data Sources, Collection Instruments, and Procedures

3.4.1. Data Source

Both primary and secondary data sources were used in order to generate relevant information to the research.

Primary data source is gathered from informants that include account directors, finance managers, experts, accountants and auditors.

As to the secondary data, the bank’s annual reports, legislations, directives, accounting policy & procedure of the bank, and other related documents were reviewed in order to seek information about IFRS.

3.4.2. Data Collection Instruments

The primary data of this study were collected using both questionnaire and interview.

The questionnaires were designed to both close ended and open ended. Mixed questionnaires have many merits; the most important of this advantage is its considerable flexibility (McNabb, 2005). Questionnaires were distributed to accountants and auditors of the bank. Accountants and auditor were selected as respondents because they are believed to be knowledgeable about IFRS and can provide important perspective on its adoption. The response is expected to help understand the factors affecting adoption, challenges and key benefits of International Financial Reporting Standards for CBE.

The questionnaires were structured based on those used by Iyoha and Faboyede (2011), and Sharif (2010). With regard to the close- ended questions five point Likert scale were used to provide range of responses for respondents to determine the level of agreement or disagreement for all specific objectives. Similar scales have been used by Sharif (2010), and Iyoha and

Faboyede (2011) and were found suitable. The questionnaire has four parts. These are: Factors affecting adoption of IFRS, Adoption of IFRS by Commercial Bank of Ethiopia, Challenges and benefits of IFRS Adoption. With respect to the open ended questionnaires the respondents were asked to provide open ended responses to the questions that require opinion.

Whereas semi structured interview also employed with experts, financial manager and accounts director of the bank because they are key persons directly related to IFRS adoption. The researcher chose semi-structured interview because of its flexibility and believes as that it is more appropriate to capture the ideas of the interviewee in a particular topic and it allows interviewees to go into as much depth as they feel. Furthermore, the semi-structured interview allows the interviewer to explore deeply and ask more questions that are not written down. Questions in the interview guides were developed based on literature review relevant to the issue and the specific objectives. Purposive selection technique was applied to select interviewees based on their knowledge, involvement and role in the IFRS adoption process.

The secondary data were collected through the bank's annual reports, legislations, directives, accounting policy & procedure of the bank, and other documents related to the adoption and use of IFRS.

3.5 Measurement of Variables and the Regression Model

As it is already mentioned above the dependent variable in this study is the adoption of IFRS by CBE. Adoption of IFRS is measured with 6 items from the scales developed using the five-point Likert Scale of "1-Strongly Disagree", "2-Disagree", "3-Neutral", "4-Agree" and "5-Stronly Agree". As per the previously existing literature, it is possible to measure these variables by primary data Questionnaire. This measure is expected to bring a reliable result after the collection of the data and its analysis.

The regression model below reveals that there is a relationship between one dependent variable (adoption of IFRS) against five independent variables (Government Policy, Educational Level, Professional Bodies, Company Size, and Capital Market) and therefore, multiple regression analysis have been used for the study. As shown in the appendix there are 3 questions each to capture government policy, professional bodies and company size and 4 & 2 questions for capture educational level and capital market respectively..

The full regression model for the empirical investigation in estimating Factors that might explain the adoption of International Financial Reporting Standards by CBE is given as:

$$\mathbf{IFRSi = \beta 0 + \beta 1GPi + \beta 2ELi + \beta 3PBi + \beta 4CSi + \beta 5CMi}$$

Where:-

IFRSi = Adoption of IFRS by CBE

GPi = Government Policy

ELi = Educational Level

PBi = Professional Bodies

CSi = Company Size

CMi = Capital Market

β0 = Constant or intercept

β1= the coefficients for Government Policy

β2= the coefficients for Educational Level

β3= the coefficients for Professional Bodies

β4= the coefficients for Company Size, and

β5= the coefficients for Capital Market

3.6 Data Analysis

Data analysis gives compelling reasons to reduce bias and to assist the study to make fair analytical conclusions that rules out misinterpretations Yin (1994). As explained in the preceding part, the research is designed to follow a mixed method. To this end, both qualitative and quantitative analyses were used.

Data collected using questionnaire were analyzed through descriptive statistics, frequency distribution, correlation and multiple linear Regression using Statistical Package for the Social Scientists (SPSS).

The descriptive statistical results were presented by tables, frequency distributions and percentages to give a condensed picture of the data. This achieves through summary statistics, which includes the means, standard deviations values which are computed for each variable in this study.

The other analysis method correlation coefficient was used to determine the relationships between factors affecting adoption of IFRS (Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) and adoption of IFRS by CBE.

And also multiple regression analysis was used to investigate the effect of independent variables (Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) on adoption of IFRS by CBE. The basic objective of using regression equation on this study was to make the researcher more effective at describing, understanding, predicting, and controlling the stated variables. Furthermore, various diagnostic tests such as normality, heteroscedasticity, autocorrelation and multicolinearity test were conducted to decide whether the model used in the study is appropriate and fulfill the assumption of classical linear regression model.

The SPSS was used to find out percentages, mean values, frequencies, correlations, regression, etc. as main means for summarizing the data. Data collected from the interview and reviews of documents were interpreted qualitatively.

3.7 Validity and Reliability of the study

The term validity defines the degree of stability and consistency that is attributable to the conclusion drawn from the study which is likely to be confirmed by a different researcher (Yin, 1994:36). Yin (1994) suggested using multiple sources of evidence as the way to ensure construct validity. This study used multiple sources of data including questionnaire, interview and document review that helps to cross validate the data.

In addition, the study used instruments developed by Iyoha and Faboyede (2011), and Sharif (2010). Since questions are tested up on their clarity and understandability and significant conclusions are drawn using those questions.

To ensure that the study is reliable, the study relied on diverse and renowned authors of accounting in the literature review. Comparisons of various conclusions made by various studies were carefully examined. In order to keep the reliability the researcher chose all respondents which are related with the issue, experts in the field and take all population as a respondent.

The Cronbach's Alpha is the most well accepted reliability test tools applied by social researcher.

The closer Cronbach's Alpha to 1.0, the higher the internal consistency reliability (Sekaran, 2003)

As shown in the table 3.3 below, the variables under study, for all constructs are confirmed as greater than 0.7, which shows a good and acceptable reliability respectively. Therefore it can be concluded that the items are well correlated with each other and show good reliability and consistency.

Table 3.3: Cronbach's Alpha Results

Variables	***Item***	***Cronbach's Alpha***
Government Policy	3	*0.795*
Educational Level	4	*0.788*
Professional Bodies	3	*0.734*
Company Size	3	*0.913*
Capital Market	2	*0.817*

Source: Own Survey Data, 2017

CHAPTER FOUR

Data Analysis and Presentation

4.1. Introduction

This chapter is about data analysis and discussion of research findings. The analysis and discussions were done with understanding of research objectives which includes; factors affecting adoption of international financial reporting standards, and discuss the related challenges & benefits from adopting of IFRS. In this section, the results of the study are discussed by triangulating the different sources results: questionnaire results, and interview and document review results.

A total of 55 questionnaires were distributed to all accountants and auditors of Commercial Bank of Ethiopia finance department in head office. All 55 questionnaires were returned however, out of which returned only 53 responses were valid with complete answers (96% response rate). Compared to other IFRS adoption studies and considering the difficulty of collecting data in developing countries such as Ethiopia, a 96 % response rate was very good.

In addition, the researcher was conducted an interview with the accounts director, finance manager and with one expert consultant who had been willing. The researcher had also use secondary data such as annual reports, legislations, directives, accounting policy and procedure of the bank, and other related documents in order to have a better insight about the issue.
As indicated in the previous chapter, survey was the main strategy of inquiry factors affecting adoption of IFRS in CBE. To this end, the results obtained from the survey were analyzed through frequency distribution, descriptive statistics, correlation and multiple linear regressions.

4.2. Background Information of Respondents

The respondents' demographic features included four key features which were: the respondents, gender, academic level, working experience and current position in the bank. Descriptive statistics were used to analyze the background information of participants.

Table 4.1 Gender of Respondents

		Frequency	Valid Percent
Valid	Male	37	69.8
	Female	16	30.2
	Total	53	100.0

Source: *Researcher Survey Result, 2017*

Table No 4.1, shows that out of the 53 respondents 37 representing 70% of the respondents were Male whiles 16 representing 30% of the Respondents were females.

Table 4.2 Education Level of the Respondents

Academic level

		Frequency	Valid Percent
Valid	Diploma	2	3.8
	Degree	39	73.6
	Masters	12	22.6
	Total	53	100.0

Source: *Researcher Survey Result, 2017*

Another demographic measure used in this study is educational level of the respondents. The response on the educational level of respondents is summarized in the table above. Out of the total respondents 73.6% had bachelor's degree. Those who had masters were 12 representing 22.6% of the respondent's whiles 3.8% of the respondents had attained Diploma level education. This shows the education level of the research sample is significantly good.

It indicates they can giving a valid response for the questions raised because they have at least first degree in Business fields, particularly in accounting & Finance and deemed to have sufficient knowledge about IFRS; since they are have academic knowledge them can provide important perspective on its adoption.

Table 4.3 Working Experience of the Respondents

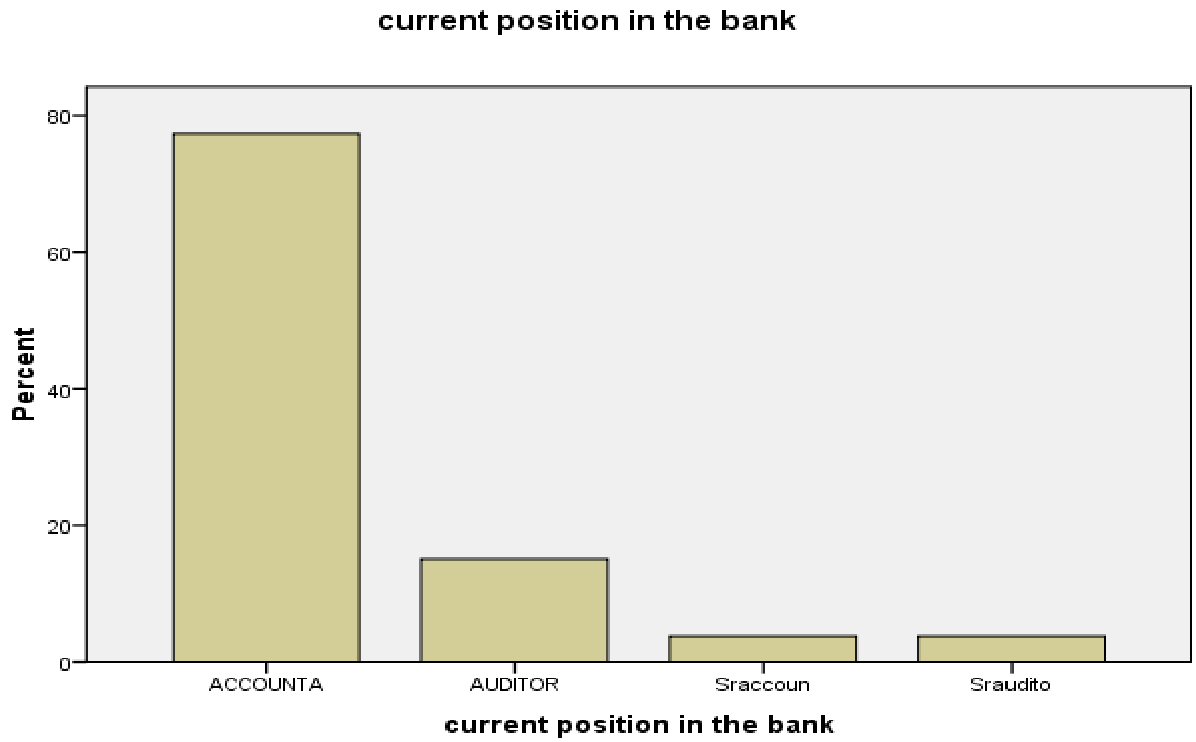
working experience

		Frequency	Valid Percent
Valid	≤5	15	28.3
	6-10	30	56.6
	11-15	4	7.5
	16-20	3	5.7
	>20	1	1.9
	Total	53	100.0

Source: *Researcher Survey Result, 2017*

As per table 4.3 of above, Regarding time worked in the current job, majority of the Participants 56.6% of the respondents were between six to ten years' working experience, while 28.3% of the participants have working experience of less than five years, the other 7.5 % of the respondents have working experience of between eleven to fifteen years, the participants who have sixteen to twenty years' experience are 5.7% and the remaining 1.9% of the respondents with working an experience of over twenty years. It shows majority of the respondents who participate in this survey worked more than five years in CBE. So it indicates they can giving a valid response and can provide important perspective on its adoption for the questions raised because they have more experienced specially on Finance department of CBE in head office.

Figure 4.1 Current Positions of the Respondents in the Bank



Source: *Researcher Survey Result, 2017*

As can see from Figure 4.1 above in related to Current position in the bank result of the research shows that majority of respondents are accountants, they accounted for 77.4% of the total respondents, the next majority of the participants from the bank that mean 15.1% were auditors. Senior auditors and senior accountant out of the total Respondents were 3.8% each. In addition, all of the respondents of the study were currently working in Finance department of CBE in head office. Generally the demographic information of the respondents who were participated in this study indicates that they have better knowledge and working Experience to provide significant & important information for issues of this study, and this was the good opportunity for the researcher to better findings & conclusion.

4.3 Factors Affecting Adoption of IFRS in Commercial Bank of Ethiopia

The first objective of this paper was to identify factors affecting adoption of IFRS in Commercial Bank of Ethiopia. In this section, a dependent variable of the study which was adoption of IFRS in Commercial Bank of Ethiopia against the five independent variables which were Government Policy, Educational Level, Professional Bodies, Company Size and Capital Market in related to affecting on adoption of IFRS was investigated through survey result. The subsequent sections presents the results of descriptive statistics, the Pearson correlation analysis and regression model respectively.

4.3.1. Descriptive Statistics

The table 4.4 below shows the descriptive statistics results of corresponding 53 total observations of five independent variables which could potentially influence the adoption of International Financial Reporting Standards and dependent variable, Adoption of International Financial Reporting Standards by Commercial Bank of Ethiopia. It also describes the overall nature of variables employed in the study and their interpretation is presented as follows.

Table 4.4 Descriptive statistics of factors affecting adoption of IFRS

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Government Policy	53	3.00	5.00	4.4088	.47879
Educational Level	53	3.000	5.000	4.66981	.456717
Professional Bodies	53	2.33	5.00	4.4780	.50851
Company Size	53	3.00	5.00	4.4591	.37682
Capital Market	53	2.50	5.00	4.3679	.68043
Adoption of IFRS by CBE	53	3.67	5.00	4.5440	.33517
Valid N (list wise)	53				

Source: SPSS result

1. According to Best, (1977), standard deviation of the score from 1-1.80 is lowest, from 1.81- 2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very Good.
2. Besides, the decision rules used in the analysis was average mean less than 3 was considered as low, average mean equal to 3 was considered as medium and average mean greater than 3 was considered as high. (Best and khan1995).

4.3.1.1 Government Policy

The respondents of this study were asked regarding the first independent variables of Government Policy influence on adoption of IFRS. According to the survey result the mean and standard deviation for the government policy shows 4.40 & 0.47 respectively. According to (Best and khan1995) standard, the mean values were indicates greater than its moderate value of 3 which means the respondent's perception on government policy on adoption of IFRS by CBE is high. It implies that the government policy and NBE have not a clear directive about IFRS adoption; and also they have not encouraged CBE sufficiently to adopt IFRS.

The findings of this study in related to Government Policy against adoption of IFRS were consistent with previous related study forwarded by (Chamisa, 2000). In the survey result the government policy plays an important role in many developing countries by setting clear directives, vibrant direction, guidance and proper instructions about the adoption of IFRS and examines the application of standard framework.

4.3.1.2. Educational Level

In related to the second independent variable of the study, the respondents were asked their opinion about the assumption of the Educational level and majority of respondents stated an agreement in the assumption of weak educational level of accountants and current Accounting Education given by higher institutions as well as other practical issues affects the adoption of IFRS. The survey result shows almost all of the respondents stated their agreement on the issues raised and the mean distribution was 4.66 which are greater than its moderate value of 3 and the standard deviation of 0.45 which is less than 1.

According to (Best and khan1995) standard the mean values were indicates the respondent's perception on Educational level on adoption of IFRS by CBE is high. This implies that educational level plays important roles on IFRS adoption in CBE. The finding of this study was consistent with the findings of previous related studies carry out by Sharif (2010); Doupnik and Salter (1995); and Street (2002) in their findings they had stated qualified the adoption of IFRS as being socially strategic decision. Actually, understanding, interpreting and applying these standards need a certain level of education and university trainings. Their findings were also supported by the results of this study.

4.3.1.3 Professional Bodies

The respondents of this study also asked regarding the third independent variables, Professional bodies affects the adoption of IFRS. Accordingly, respondents were requested their level agreement of disagreement on the assumption of lack of existing professional association in the country and professional consultants experience support the bank to adopt IFRS. According to the survey result majority of the respondents provide an agreement on the issues raised and the mean distribution of Professional bodies was 4.47 which are greater than 3 and the standard deviation of 0.50 which is less than 1. It has a high value in (Best and khan1995) standard.

This implies that lack of professional association in the country will affect the proper and successful supporting on the conversion of IFRS through providing related training, consultant and sharing experience. Similarly, the findings of this study was consistent with the conclusion of previous related studies which were carry out by different authors such as Aljifri and Khasharmeh, (2006) and Chamisa (2000).

4.3.1.4 Company Size

Respondents were asked to give their opinion about the fourth independent variable company (bank) size affects the adoption of IFRS in CBE. As shown in table 4.4 above, the majority of the respondents were agreed with the mean distribution of Company size was 4.45 which are greater than 3 and the standard deviation of 0.37 which is less than 1. It has a high value as per (Best and khan1995) standard.

It implies that the size of CBE is broad and expanded throughout the Ethiopia therefore; it will affect the adoption of IFRS early as required. The findings of this study in related to relationship between company size and fully adoption of IFRS was consistent with the conclusion of previous related studies which were carry out by Aljifri and Khasharmeh, (2006) and Russell et al (2008).

The survey found that company size (large-medium-small) affect the adoption of IFRS and has significant role towards adoption of IFRS in respect to large size organizations have not adopting IFRS early and timely as required compared to small organizations.

4.3.1.5 Capital Market

Finally in related the five independent variable of the study respondents were asked to give their opinion about capital market affect the adoption of IFRS in CBE. Majority of the respondents stated an agreement with the mean distribution of capital market was 4.36 which are greater than 3 and the standard deviation of 0.68 which is less than 1. It has a high value as per (Best and khan1995) standard.

The implication of this finding is unavailability of capital market in the country will affect the adoption of IFRS by CBE particularly in related to the required fair value measurement. The findings of this study was consistent with the conclusion of previous related studies which were carry out by Al- Shammari, et al, (2008), Chamisa, (2000) and (Zeghal and Mhedhbi, 2006). They argue that availability of capital market is singled out as very cogent for adoption of IFRS in developing countries and the growth and opening of capital markets in a developing countries put pressure on government to adopt IFRS, in the expectation that adoption would meet demands by local and international investors for more detailed and comparable financial reporting.

4.3.2 Pearson Correlation Analysis

Pearson correlation is used to examine relationships between two or more variables. It measures the strength and direction of a relationship between variables. The p-value, in Pearson Correlation analysis, attempts to provide a measure of the strength of results of a test, in contrast to a simple reject or do not reject decision.

In Pearson correlation analysis the value of strength of relationship (r) plays an important role in determining the level of relationships among variables. The significance level, $p<0.01$ is also used to establish the relationship. The correlation coefficient of factors affecting adoption of IFRS and adoption of IFRS was computed and presented below: the table shows the relationship between the dependent variable and independent variables as well as the relationship among independent variables.

As shown in table 4.5 below, explanatory variables tested in this study, it is evident that there is a significant correlation between the independent variables (Government policy, education level, professional bodies, company size, and capital market) and the dependent variable (adoption of IFRS by CBE).

In this case correlation analysis was made and interpreted based on: R value from 0.60 to 0.80 indicate a Strong or highly correlation, R value from 0.40 to 0.60 indicate moderate correlation and R value less than 0.2 indicate weak correlation. (Mac Eachron).

Table 4.5 Pearson Correlation Analysis

Independent Variables	**No. of Observations**	**Adoption of IFRS by CBE**	
		Pearson Correlation	**Sig. (2-tailed)**
Government Policy	53	.418	*.002*
Educational Level	53	.704	*.000*
Professional Bodies	53	.739	*.000*
Company Size	53	.421	*.002*
Capital Market	53	.644	*.000*

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS correlation result

As shown in table 4.5 above the coefficient of correlation between Government policy and adoption of IFRS by CBE is 0.418. It shows that there is moderate and positive relationship between them. The relationship is significant at 0.01 level of significance. This implies that a good government policy on IFRS and emphasis support have a positive significant influence on IFRS adoption.

The coefficient of correlation between educational level and adoption of IFRS by CBE is 0.704. The above table reveals that there is a strong and positive relationship between educational level and dependent variable. The relationship is significant at 0.01 level of significance. This implies that a well educational level and appropriately skilled accountants have a significant positive influence on effectiveness of IFRS adoption.

The other variable employed in the study was Professional Bodies. The coefficient of correlation between Professional Bodies and adoption of IFRS by CBE was 0.739. It shows that there is strong and positive relationship between them. The relationship is significant at 0.01 level of significance. This implies that the availability of professional bodies and their consultant service have a significant positive influence on effectiveness of IFRS adoption.

The above table also shows that a moderate coefficient of correlation and positive relationship between company size and adoption of IFRS by CBE which is 0.421. The relationship is significant at 0.01 level of significance. This implies that a bank size have a significant positive influence on effectiveness of IFRS adoption.

The coefficient of correlation between the fifth independent variable capital marker and adoption of IFRS by CBE is 0.644, which indicates that there is strong positive correlation between them and the relationship is significant al 0.01 level of significance. This implies that the presence of capital markets might require firms to present their financial statements based on IFRS frameworks. The direction and strength of these associations indicate preliminary support for the conceptual framework.

4.3.3. Multiple Regression Analysis

Through a correlation analysis it is identified that there is a significant relationship between independent and the dependent variable. In this section, in examining the factors affecting adoption of IFRS by CBE, the researcher used a regression analysis to test the effect of five independent (explanatory) variables on the dependent (explained) variable i.e. the adoption of IFRS. Thus, in this study the researcher used multiple regression analysis, in which tests have been made to examine whether one or more independent variables influence the variation on dependent variable.

The researcher undertook the diagnostic tests for the assumption of classical linear regression model (CLRM) before directly going to the multiple linear regression models.
The objective of the model is to predict the strength and direction of association among the dependent and independent variables. Thus, in order to maintain the validity and robustness of the regression result of the research in CLRM, it is better to satisfy basic assumption CLRM.

When these assumptions are satisfied, it is considered as all available information is used in the model. However, if these assumptions are violated, there will be data that left out of the model (Brooks, 2008). Accordingly, before applying the model for testing the significance of the slopes and analyzing the regressed result, normality, multicolinearity, autocorrelation and heteroscedasticity tests are made for identifying misspecification of data if any so as to fulfill research quality.

4.3.3.1 Normality Test

One of the diagnostic tests for CLRM assumption of normality assumption was tested by this study. The CLRM assumes that the error term is normally distributed with the mean of error being zero as positive error will offset the negative error. This assumptions of linear regression analysis is that the residual are normally distributed, at the mean of zero and standard deviation of one .All of the results from the examine command suggest that the residual or the error term are normally distributed.

Table 4.6 Normality test

Residuals Statistics [a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.4145	4.9124	4.5440	.28314	53
Residual	-.65017	.26521	.00000	.17937	53
Std. Predicted Value	-3.989	1.301	.000	1.000	53
Std. Residual	-3.446	1.406	.000	.951	53

a. Dependent Variable: Adoption of IFRS by CBE

Source: SPSS result

4.3.3.2 Multicolinearity Test (Collinearity)

The other test which is conducted in this study is the multicolinearity test. This test mainly checked by Collinearity diagnostics using SPSS which is the variance inflating factor (VIF). The VIF indicates whether a predictor has strong linear relationship with the other predictor(s). Field (2000) suggests that value of 10 is good value at which to worry and also if the average VIF is greater than 1, then multicollinearity may be biasing the regression model. Related to the VIF is the tolerance statistics, which is a reciprocal of VIF (1/VIF). Such values below 0.2 are worthy of concern. Considering the regression model for this study correlation matrix of all of the predictor variables less than 0.80 or 0.90 and the tolerance statistics values are all below 1 as such no multicollinearity is observed in this model.

As shown in table 4.7, since our model VIF is less than two we can conclude that model of the study free of Multi collinearity problem.

Table- 4.7 Collinearity diagnostics using VIF

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.149	.376		3.054	.004		
	Government Policy	.011	.067	.016	.169	.866	.662	1.511
	Educational Level	.226	.079	.308	2.857	.006	.523	1.912
	Professional Bodies	.168	.082	.254	2.056	.045	.598	1.811
	Company Size	.184	.081	.207	2.259	.029	.727	1.375
	Capital Market	.164	.051	.333	3.234	.002	.574	1.742

a. Dependent Variable: Adoption of IFRS by CBE

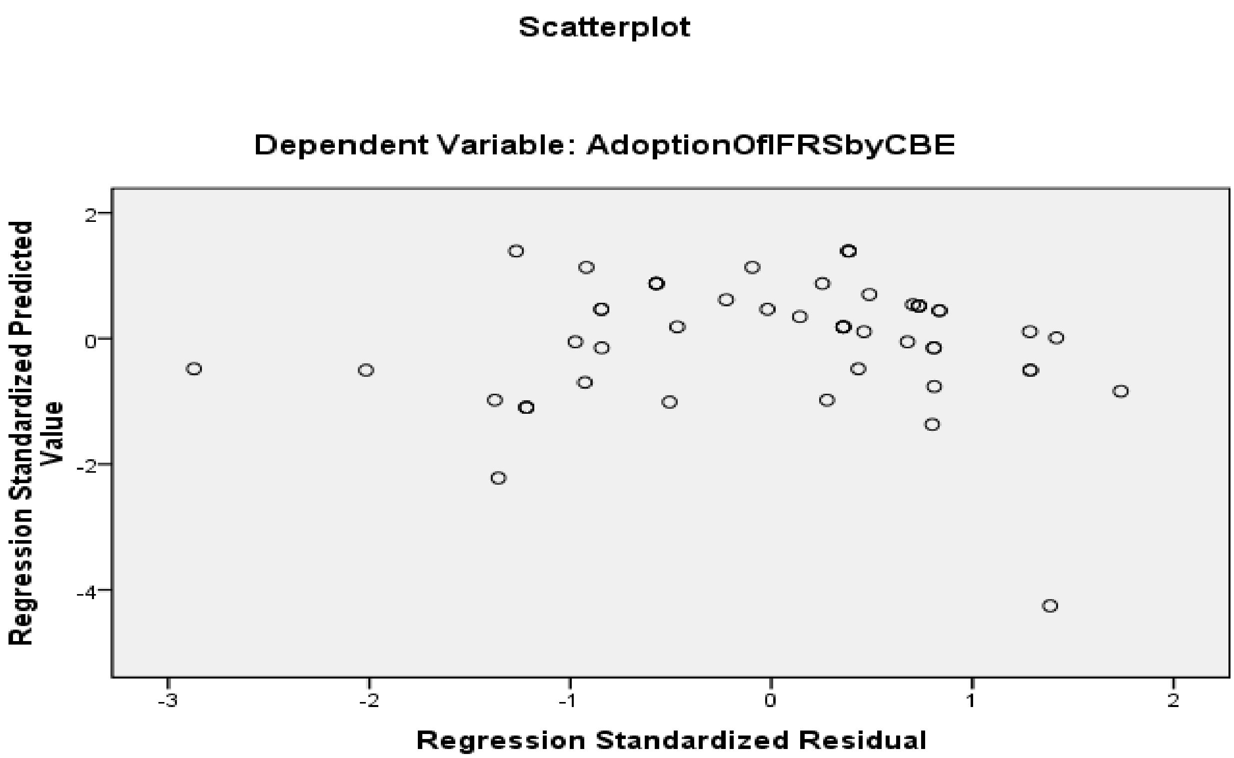
Source: SPSS result

4.3.3.3 Heteroscedasticity Test

One of the important assumptions of the classical linear regression model is Heteroscedasticity. As noted by brooks (2008) Heteroscedasticity assumption state that the disturbances ui appearing in the population regression function are homoscedasticity; that is, they all have the same variance. The variance of each disturbance term ui, conditional on the chosen values of the explanatory variables, is some constant number equal to σ2. This is the assumption of Heteroscedasticity, or equal (homo) spread (scedasticity), that is, equal variance (Gujarati, 2004). If the error term ui do not have constant variance its said to be there is Heteroscedasticity problem. Heteroscedasticity makes your parameter estimates no longer BLUE – they are still unbiased, but no longer have a minimum variance. Unfortunately, SPSS does not have built in procedure to test for heteroscedasticity. The test can be done by writing some codes. Despite not having built in procedure to test for heteroscedasticity, we can plot standardized residuals

(ZRESID) against the standardized predicted values (ZPRED). If there is no heteroscedasticity, the plot should look random. As shown below in the plot the residuals have a random pattern, which signifies that there is no sign of heteroscedasticity.

Figure 4.2:-Test for Heteroscedasticity



Source: SPSS result

4.3.3.4 Autocorrelation Test

The last important diagnostic test which is performed in this research is autocorrelation test. According to Chris Brooks (2008) it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are 'auto correlated' or that they are 'serially correlated'. This assumption was tested by Durbin Watson (DW) test of autocorrelation. If the D.W can up to zero to four, on which statistics has value two indicates there is no serial correlation to the model, if D.W less than two there is positive serial correlation and if D.W close to zero indicates perfect positive serial correlation. And if D.W greater than two, there is negative serial correlation and if it is close to four perfect negative serial correlation. That is a D.W value of 1.5 to 2.5 is desirable in any model to say it is free from serial correlation (Richard, 2015).

Table-4.8 DW test result test of autocorrelation

Model Summary [b]

	Durbin-Watson
Result	1.750

Source: SPSS result

The above table shows the DW test statistic value for the model was 1.75 for a total observation of 53 responders with 5 regresses. This indicates that the study model within the acceptable D.W value range & close to perfect positive serial correlation, which was between the desirable interval of between 1.5 and 2.5 Therefore, we can conclude that there is no evidence of autocorrelation in the study.

Table 4.9 Goodness of fit through R Square

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.845[a]	.714	.683	.18867	.714	23.421	5	47	.000

a. Predictors: (Constant), Capital Market, Government Policy, Professional Bodies, Company Size, Educational Level

Source: SPSS regression result

Model fit explains how much the independent variable explains the dependent variable. They measure the proportion of the variation in dependent variable explained by the model. But since adjusted R^2 is the modification for the limitation of R^2 the value of the adjusted R^2 is considered to measure the fitness of the model. The model summary as shown in above table 4.9, the value of adjusted R-square which represents 0.683 of variance in adoption of IFRS is explained by the independent variables government policy, education level, professional bodies, company size, and capital market. When expressed in percentage, 68.3% of the variation in adoption of IFRS can be explained by the independent variables in the model. This outcome empirically indicates it is providing a good fit to the data and the independent variables in this study are the major determinants of IFRS adoption.

Table 4.10 testing the model through ANOVA (Goodness of fit statistic)

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.169	5	.834	23.421	.000[a]
	Residual	1.673	47	.036		
	Total	5.842	52			

a. Predictors: (Constant), Capital Market, Company Size, Government Policy, Educational Level, Professional Bodies

b. Dependent Variable: Adoption of IFRS by CBE

Source: SPSS result

Table 4.10, shows whether the proportion of variance explained in the first table 4.9, is significant. It also tells whether the overall effect of the five independent variables on adoption of IFRS is significant. The sig. (or p-value) is .000 which is below the .001 level; where F-value is 23.421. Hence, it can be conclude that the overall model is statistically significant, or that the variables have a significant combined effect on the dependent variable.

Table 4.11 Regression analysis on IFRS adoption

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.149	.376		3.054	.004
	Government Policy	.011	.067	.016	.169	.866
	Educational Level	.226	.079	.308	2.857	.006
	Professional Bodies	.168	.082	.254	2.056	.045
	Company Size	.184	.081	.207	2.259	.029
	Capital Market	.164	.051	.333	3.234	.002

a. Dependent Variable: Adoption of IFRS by CBE

Source: SPSS regression result

As illustrated in table 4.11, the coefficient test for the variables involved is presented. The table depicts the extent to which each independent variables influence the dependent variable. The factors affecting adoption of independent variables in contributing to the variance of the adoption of IFRS (dependent variable) is explained by the standardized Beta coefficient.

The Beta value for government policy is (Beta=.016, $P>0.05$), educational level (Beta=.308, $P<0.01$), professional bodies (Beta=.254, $P<0.05$), company size (Beta=.207, $P<0.05$), and capital market (Beta=.333, $P<0.01$). The result reveals that a significant relationship between independent variables (education level, professional bodies, company size, and capital market) and dependent variable. Whereas Government policy were found insignificant relationship with dependent variable; adoption of IFRS by CBE.

4.3.4. Hypothesis Testing and Interpretation of the Results

This section of the study aims to find out the factors affecting adoption of International Financial Reporting Standards by Commercial Bank of Ethiopia. This particular section presents the results of the study indicated by statistics, using regression analysis and the effect of each independent variable tested is discussed and analyzed.

The results show that there are significant relationship between independent variables such as education level, professional bodies, company size, and capital market, and the dependent variable. Even though most of the hypotheses are supported, the study found that there is a weak relationship between government policy and adoption of IFRS. The hypotheses testing based on regression model output is discussed below.

Hypothesis 1

The regression result shows there is a weak relationship between Government policy and IFRS adoption with a regression coefficient of 0.16, t-statistic of 0.169 and P-value of 0.866. It shows Government policy has a beta coefficient of 0.16 which indicates that if Government policy is increased by 100%, the adoption of IFRS by CBE will be increased by 16% by controlling other factors constant. Since the coefficient has a positive sign, Government policy has a positive effect on adoption of IFRS. However, the p-value of the variable was 0.866 and this indicates that the effect of this variable on adoption of IFRS was statistically insignificant at 5% significance level. Therefore, the first hypothesis is rejected.

The finding of the study implies that government policy and the existing NBE directives and regulations about preparing financial statements in accordance with IFRS insignificantly affect the adoption of IFRS by CBE. The result is consistent with the findings of Sharif (2010), Tucker (2002) and Fikiru (2012). They founds that government policy affects the adoption or non-adoption of IFRS in developing countries.

Hypothesis 2

The regression result shows a significant positive relationship between IFRS adoption and Educational level, with a regression coefficient of 0.308, t-statistic of 2.857, and P-value of 0.006. This indicated Educational level has 0.308 beta coefficient, which shows that if Educational level is increased by 100%, adoption of IFRS by CBE will be increased by 30.8% by controlling other factors constant. Since the beta coefficient of Educational level has a large magnitude of positive sign, it has a positive effect on adoption of IFRS by CBE. Educational level is statistically significant at 1 percent significance level because the p-value was 0.006 which is less than 1%. Thus the regression analysis results show that Educational level has a great influence for the adoption of IFRS by CBE and the result is consistent with the hypothesis of the study. Therefore, the second hypothesis is accepted.

The implication of this finding is lack of the skilled accountants and the existing accounting curriculum based on GAAP will have strong influence on adoption of IFRS by CBE. The finding of this study was consistent with the conclusions forwarded by Iyoha and Jimoh (2011), Sharif (2010), and Wong, (2004). According to Iyoha and Jimoh (2011) the education and training of accountants have strong implications for IFRS adoption. They also concluded that education and training are important for the successful adoption of IFRS. As a matter of fact, IFRS standards are quite complex and their understanding require deep and detailed knowledge; educated and appropriately skilled accountants help to apply and interpret IFRS easily.

Hypothesis 3

The regression result shows a significant positive relationship between IFRS adoption and Professional bodies, with a regression coefficient of 0.254, t-statistic of 2.056 and P-value of 0.045. This shows Professional bodies has beta coefficient of 0.254, which indicates that an increase in the Professional bodies support at 100% will increase the adoption of IFRS by 25.4% by controlling other factors constant. The positive sign of beta coefficient of Professional bodies' variable has indicated that it has a positive effect on adoption of IFRS. Professional bodies are statistically significant at 5 percent significant level because the p-value was 0.045 which is less than 5%. This indicates that Professional bodies' influences the adoption of IFRS and the result is consistent with the hypothesis of the study. Therefore, the third hypothesis is accepted.

This implies that lack of Professional Bodies in the country will affect adoption of IFRS by CBE in relation to their expected important through providing related consultant, training service and sharing experience regarding IFRS standards & requirements. The result was also consistent with a number of prior empirical evidences forwarded by Monir and Rahman (2005), Aljifri and Khasharmeh, (2006) and Chamisa (2000) found similar result. They found that professional bodies have played a significant role in supporting the adoption of IFRS particularly they helps the organization through providing consultant service and related trainings in connection to IFRS.

Hypothesis 4

The regression result shows a significant relationship between company size and IFRS adoption, with a regression coefficient of 0.207, t-statistic of 2.259 and P-value of 0.029.

This indicates company size has 0.207 beta coefficient, which shows that an increase in the company size at 100% will increase adoption of IFRS by 20.7% by controlling other factors constant. Since the beta coefficient has a positive sign, it has a strong positive effect on dependent variable. Company size is statistically significant at 5 percent significant level because the p-value was 0.029 which is less than 5%. Thus, from the result it can be conclude that company size influences the adoption of IFRS and it is consistent with the hypothesis of the study. Therefore, the fourth hypothesis is also accepted.

The implication of this finding is that the capital and size of CBE is broad and expanded its branch throughout the Ethiopia and in some east Africa countries subsequently; it influences the early adoption of IFRS as needed. The findings of this study are consistent with previous studies of Aljifri and Khasharmeh, (2006). In the study of United Arab Emirates accounting practice they found that company size (large-medium-small) affects adoption of IFRS in respect to large organizations have not adopting IFRS early and timely as required compared to small organizations.

Hypothesis 5

In this study, the regression result shows a significant relationship between Capital market and IFRS adoption, with a regression coefficient of 0.333, t-statistic of 3.234 and P-value of 0.002.
It indicates Capital market has beta coefficient of 0.333, which shows that an increase in the Capital market at 100% will increase the adoption of IFRS by 33.3% by controlling other factors constant. The positive sign of beta coefficient of variable has indicated that it has a positive effect on the adoption of IFRS. Capital market is statistically significant at 1 percent significant level because the p-value was 0.002 which is less than 1%. Thus, from the result it can be conclude that Capital market influences the adoption of IFRS. This result is consistent with the hypothesis of the study. Therefore, the fifth hypothesis is also accepted.

The implication of this finding is unavailability of capital market in the country will affect the adoption of IFRS by CBE particularly in related to the required fair value measurement. On the other way the presence of capital markets might require firms to present their financial statements based on IFRS frameworks. The findings of this study in related to relationship between Capital Market and adoption of IFRS was consistent with the previous related study's conclusions which were carried out by Fikru (2012), Zegal & Mehadi (2006), Al- Shammari, et al, (2008), & Sharif (2010). In conformity with this, they found that countries with financial market that are open to foreign investors are more likely to adopt the IFRS states that the rapid growth and opening up of capital markets has led governments to adopt IFRS, in the expectation that adoption would meet demands by local and international investors for more detailed and comparable financial reporting.

4.4 Challenges of IFRS Adoption

The second objective of this paper was to identify the challenges to adopt International Financial Reporting Standards in Commercial Bank of Ethiopia, to address this there were nine five Likert scale and open ended question distributed to research participants to obtain information regarding challenges that will face in connection to IFRS adoption by Commercial Bank of Ethiopia.

This section presents the descriptive statistics result of corresponding 53 total observations. According to (Best and khan1995) the decision rules used in the analysis was average mean less than 3 was considered as low, average mean equal to 3 was considered as medium & average and mean greater than 3 was considered as high. The result in table 4.12 revealed that respondents agreed up on the challenges of IFRS adoption in all questions and had a mean response of more than 3.00 which is greater than its moderate value of 3 which indicates the respondent's perception is high, and standard deviation of less than 1.00 except one question which shows that respondents perceptions were close to each other.

Table 4.12 Descriptive Statistics of Challenges of IFRS Adoption

	N	Minimum	Maximum	Mean	Std. deviation
Adoption of IFRS is costly	53	2.00	5.00	4.1321	.65156
IFRS increases the complexity of financial reporting	53	3.00	5.00	4.1321	.55601
There is lack of IFRS implementation guidance	53	3.00	5.00	4.1698	.50899
IFRS brings about increased volatility of earnings	53	1.00	5.00	3.9057	1.00507
Lack of availability of competent specialists	53	1.00	5.00	3.8113	.92105
high level training requirement	53	2.00	5.00	4.5849	.69154
Lack of proper instructions from regulatory bodies	53	1.00	5.00	4.3774	.85993
Problem with the IT system in handling the transition to IFRS	53	3.00	5.00	4.2264	.57651
Problem with IFRS use of fair value accounting	53	3.00	5.00	4.2075	.63119
Valid N (list wise)	53				

Source: Researcher survey result, 2017

Respondents were asked their opinion about that adoption of IFRS is costly, the majority of the respondents stated their agreement with mean & standard deviation of 4.13 & 0.65 respectively. This implies that adoption of IFRS costly and will the basic challenge face on the adoption of IFRS. According to the interview result IFRS adoption requires the bank a huge amount of initial investment during the implementation phase, the benefits of IFRS are longer lasting than the costs that occur during the initial phase of its adoption. In addition high implementation cost especially in related to consultant fee & related training costs are the main challenge to adopt IFRS.

In the survey of Jermakowicz et al. (2007) examine the challenges of the adoption of IFRS companies in Germany the findings shows that most companies agree adopting IFRS should improve the comparability of financial statements while high cost of adopting are listed among the main challenges of conversion to IFRS. Their findings were also supported by the results of this study

The survey respondents agreed with the proposition that adoption of IFRS increase the complexity of financial reporting and almost all respondents shown their agreement with the mean & standard deviation of the survey result of 4.13 & 0.55 respectively (See table 4.12 above). This indicates that complexity of financial reporting is one of the major challenges that facing on the adoption of IFRS. According to Jermakowicz, (2004), one of the reasons is the complex nature of some of the IFRS, including standards related to hedge accounting (IAS 39) and impairment tests (IAS 36) and also in the survey of Caramanis and Papadakis (2008), the respondents indicated a number of difficulties that relate with the application of IFRS. Particularly difficulties are regarding the technical aspects of the application of IFRS is the lack of comprehensive training and lack of adequate IFRS implementation guidance. Their findings are also supported by the results of this study. According to the interview in related to challenges facing by adopting of IFRS, all interviewees agreed that, adoption of IFRS increase the complexity of financial reporting. And also it results this lack of complexity creates risks for different local or national interpretations of IFRS easily and increases the risk for manipulation in interpretation of financial statements.

Another challenge in the process of adopting IFRS, according to respondents is lack of IFRS implementation guidance. Majority of the participants agree and strongly agree with the mean & standard deviation of 4.16 & 0.50. According to the interview results lack of guidance will decreases willingness on the adoption of IFRS and increases the risk for manipulation in interpretation of financial statements. In addition it also supported by the findings of Caramanis and Papadakis (2008), In the survey of the respondents indicated in particular, they have the opinion regarding lack of adequate IFRS implementation guidance as well as uniform interpretation are key challenges in convergence.

The respondents also believe that increased volatility of earnings as a result of IFRS as challenges of adopting IFRS. Majority of the participants agree with the mean & standard deviation of 3.90 & 1.00507 respectively (See table 4.12 above). This implies that lack of volatility of periodic earnings will increase after IFRS adoption particularly fair value measurements, provisions & impairment loss as the challenge for organization due to transition on new standards & requirements. The interview result suggests that volatility of earnings is considered to be among the main challenges of implementing IFRS. Bank management will have to learn how to deal with volatility in reported performance. This is also supported by the findings of Waterhouse Coopers (2005), A Survey of banks IFRS how they comply with the IFRS first year mandatory adoption in 20 EU leading global banks. The study found that there was less volatility in the first set of financial statements.

Respondents were also asked their opinion regarding the argument of Lack of availability of competent specialists, and it will be the major challenge in the adoption of IFRS, Majority of the respondents agree with the mean & standard deviation of 3.81& 0.92 respectively (See table 4.12 above). This implies that it is one of the problems to consult IFRS related issues without competent specialists. The interview result also revealed that there is lack of specialists who could assist the bank by providing consultant service, related trainings and reliable reactions in connection to IFRS practices. Furthermore Ethiopian accountants were not experienced and familiar with IFRS is one of the major challenges in adopting IFRS, by this problem the bank invites very popular consultant in the world that is KPMG international regarding to consult in the process of adoption of IFRS starts from November, 2016. For instance survey result of Alexander, (2003) shows that the respondents identify various IFRS implementing challenges of Banks one of that lack of availability of competent specialists are identified as factors that makes Banks unwilling to implement IFRS. Their findings were also supported by the results of this study.

Respondents were asked their agreement level about the challenges of adoption of IFRS, it requires high level training, almost all respondents shown their agreement with the mean & standard deviation of the survey result of 4.58 & 0.69 respectively (See table 4.12 above). This indicates that training on issues related to IFRS is one of the major challenges facing that on the adoption of IFRS. According to the interview result IFRS requires high level trainers and training; In addition the current accounting curriculum of the country is not sufficiently support the CBE's accountants, as a result giving training for employees across the bank is also another costly investment. The cost is not only increased internal employee cost but also external trainer's costs, nevertheless of course one of the most important factors that increase the adoption of IFRS. In the survey of Robyn and Graeme (2009), identified Lack of training facilities and academic courses on IFRS will also pose challenge in India. Their findings were also supported by the results of this study.

The respondents believe that lack of proper instructions from regulatory bodies as challenges of adopting IFRS. Majority of the participants agree with the mean & standard deviation of 4.37 & 0.85 respectively (See table 4.12 above). On the other hand Respondents also were asked their opinions in the issues of Problem with the IT system in handling the transition to IFRS and according to survey result almost all respondents agree with the mean and standard deviation of 4.22 & 0.57 respectively. This survey supported by the results of Zinabu (2015), The survey result shows that the respondents identify various IFRS implementing challenges of Ethiopian Banks one of that were less familiarity with the IT challenges in handling the implementation of IFRS. In addition it also supported by the results of Anonymous Partner's Report (2008), the survey found that companies making the conversion from U.S. Generally Accepted Accounting Principles will face a number of challenges, including the expense of upgrading IT systems and finding talent to make the transition smooth and efficient.

Finally the respondents were asked their opinion about problems with IFRS using of fair accounting, the majority of the respondents stated their agreement with mean & standard deviation of 4.20 & 0.63 respectively (See table 4.12 above). Similarly, most of Interviewee's believe that the new improvement of IFRS which is the use of fair value accounting instead of historical cost is another challenge in adopting the international standard.

Regarding the five Likert scale questions, respondents were asked their viewpoint by open ended question about the challenges of IFRS other than mentioned in level of agreement. Most of respondents set their viewpoints lack of experience, absence of proper plan to implement and lack of awareness about IFRS were another challenge of IFRS adoption. Similarly their opinion also supported by the Interviewee's.

Consistent with the findings of this study, Waterhouse Coopers, (2005); Jermakowicz, (2004); Jermakowicz et al. (2007); Robyn and Graeme, (2009); Alexander (2003), Zinabu (2015); Caramanis and Papadakis, (2008); and William et al., 2010 examined the challenges of the adoption of IFRS in different countries of the world. Generally the survey result shows that the respondents identify various IFRS adopting challenges of Banks that high implementation costs, the complexity of financial reporting, lack of IFRS implementation guidance, lack of availability of competent specialists, high level training requirement, less familiarity with the IT challenges in handling the implementation of IFRS, lack of proper instructions from regulatory bodies, lack of education & expertise, and lack of adequate technical capacity of advanced financial management. Their findings were also supported by the results of this study.

4.5. Benefits of Adoption of IFRS

The third objective of this paper was to identify the benefits of adopting IFRS in Commercial Bank of Ethiopia, to address these Five Likert scale questions were distributed to the respondents of this study to obtain their perceptions regarding the benefits of adoption of IFRS in Commercial Bank of Ethiopia.

In this section, the questionnaire results related to the benefits of IFRS adoption were analyzed. The data related to benefits of IFRS to bank, stakeholders, and management will be presented and discussed separately.

4.5.1. Benefits of Adoption of IFRS to the Bank

Six questions were distributed to assess the benefits of IFRS adoption to Commercial Bank of Ethiopia. The mean responses of the six questions under benefits of adoption of IFRS to Commercial Bank of Ethiopia were more than 4.5. Besides, (Best and khan1995) the decision rules used in the analysis was standard average mean greater than 3 was considered as high and the standard deviation were also less than 1.00, which indicates that the respondents perception were close to one another.

Table 4.13 Descriptive statistics benefits of adoption of IFRS to the bank

	N	Minimum	Maximum	Mean	Std. Deviation
Adoption of IFRS improves the efficiency of financial reporting	53	3.00	5.00	4.6981	.50326
Financial statements based on IFRS are reliable and comparable	53	4.00	5.00	4.7547	.43437
Adoption of IFRS improves effectiveness of financial reporting	53	4.00	5.00	4.7358	.44510
IFRS makes external financing easier	53	4.00	5.00	4.6981	.46347
It provides greater reporting transparency	53	3.00	5.00	4.5472	.53945
IFRS adoption result in Reduced cost of capital	53	4.00	5.00	4.6226	.48936
Valid N (list wise)	53				

Source: Researcher survey result, 2017

Respondents were asked their opinion about adoption of IFRS can improve the efficiency and effectiveness of financial reporting the majority of the respondents agreed with mean and standard deviation response of 4.69 & 0.50 believe that adoption of IFRS improves the efficiency of financial reporting and the mean response of 4.73 to the question related to effectiveness of financial reporting under IFRS indicates that adoption of IFRS improves the effectiveness of financial reporting. (See table 4.13 above). This study also supported by the findings of (Obazee, 2008) survey, convergence to IFRS will help in maintaining credibility of financial reporting and increase in efficiency in financial reporting.

The survey respondents agreed with the proposition that financial statements prepared based on IFRS are more reliable and comparable. The majority of the respondents with mean & standard deviation response of 4.75 & 0.43 respectively agreed that adoption of IFRS more reliable and comparable with IFRS. This implies that the banks financial reporting will improve in terms of its more reliable and comparability through adopting IFRS, so this will be one of the benefits that can be realize by IFRS adopting. Similarly, the interview result has mentioned that adopting IFRS enhances the reliability and comparability of financial statements. Since IFRS is required and adopted in many countries all over the world, financial statements under IFRS will be easier to understand as well as more accurately compared for foreign investors. So adoption of IFRS leads to improved comparability and reliability of financial statements. In addition the findings of this study is supported by Ball (2006), stated that from the list of five IFRS benefits the third one was IFRS eliminates many of the adjustments which have been made historically by analysts in order to make the companies' financial reports more comparable internationally.

The others question for respondent related to the benefits realize from adoption of IFRS was, adoption of IFRS makes external financing easier and enhances transparency of banking operation through better reporting, Almost all of the respondents believed that the financial statements would become more transparent as a result of the adoption of IFRS and make external financing easier with mean of 4.69 & 4.54 respectively provides an agreement for the same assumption (See table 4.13 above).

The interview result also supported that adoption of IFRS will helps to increase the transparency of financial statements and makes external financing easier; Comparison is made with foreign banks if a bank presents its financial statement according to IFRS. Thus, credit institutions may have better reputation and better access to global financial market. This survey was reliable with Chi Nguyen, 2015; and Ball, 2006 findings.

The final question under benefits of adopting IFRS for CBE was about whether adoption of IFRS brings a reduction in cost of capital for the bank. As it is shown in the table 4.13 above the mean response and standard deviation of 4.62 and 0.48 which indicates that adoption of IFRS would significantly reduce cost of capital of firms. The findings of this survey seem consistent with the results of the survey carried out by Leuz, and Verrecchia, (2000); and Armstrong et al. (2007), they states that lower cost of information, reduction in bad earnings management, increased value relevance of accounting information, greater marketability of shares, and reduced information asymmetry between managers and shareholders have positive impact on cost of capital. The aforementioned benefits of IFRS would lead companies to a reduced cost of capital.

4.5.2. Benefits of Adoption of IFRS for Stakeholders

Under this section three questions were distributed and according to the survey result the respondents provide an agreement on the issues raised with a mean distribution of benefits of adopting IFRS for stakeholders was greater than 4.50,which has a high value in (Best and khan1995) standard and the standard deviation of less than 1.00.

Table 4.14 Descriptive statistics benefits of adoption of IFRS for stakeholders

	N	Minimum	Maximum	Mean	Std. Deviation
IFRS provides better information for decision making	53	3.00	5.00	4.6792	.51041
Stakeholders will have more confidence in the information presented using IFRS	53	3.00	5.00	4.7547	.47659
Adoption of IFRS enhance transparency of companies through better reporting	53	3.00	5.00	4.5472	.57399
Valid N (list wise)	53				

Source: Researcher survey result, 2017

From the respondents agreement level in their response that adoption of IFRS will lead to provide information for decision making and more confident in the information presented. This shows that adoption of IFRS will make it easier for stakeholder to evaluate the financial performances of organizations with which they might invest in more, enhance transparency of companies through better reporting, and they will have more confidence in the information presented.

The interview result also supported that adoption of IFRS will help stakeholders enhance transparency of companies through better reporting and provides better information for decision making. Since the standards are high quality, transparent and comparable, stakeholders will have more confidence in the information presented using IFRS.

The findings of this survey seem consistent with the results of the survey carried out by Apostolos et al., (2010) among Greece publicly traded companies, which revealed that on average the respondents agreed with the proposition that the adoption of IFRS has benefits of develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.

4.5.3. Benefits of Adoption of IFRS for Management

The last section of the questionnaire under benefits of IFRS probed the perception of respondents with regard to the importance of the adoption of IFRS for the management. Benefits of IFRS for management are dealt in this particular section.

Table 4.15 Descriptive statistics benefits of adoption of IFRS for management

	N	Minimum	Maximum	Mean	Std. Deviation
Enables better risk management	53	3.00	5.00	4.6038	.56635
IFRS improves management information for decision making	53	4.00	5.00	4.5849	.49745
IFRS promotes cross border investment	53	3.00	5.00	4.5849	.53472
Valid N (list wise)	53				

Source: Researcher survey result, 2017

The survey result indicates that the mean and standard deviation of adoption of IFRS benefit for the management with three items on five point Likert scale shows a minimum value of the mean 4.58 with a standard deviation of 0.49, and a maximum of 4.60 with a standard deviation of 0.56 respectively. This indicates that in the view of respondents, adoption of IFRS provides management of the bank with better risk management, improved management information for decision making and it promotes cross border investment.

The interview result reveals that management will benefit, amongst others, IFRS improving information quality allows managers to better decision making with professionals, and hence reduces the risk they are trading with better informed professional improved management information presented in the financial statements which they can use for decision making. Managers will also be at ease to manage risk and value firms which follow identical accounting measures; the risk assessment can be done more accurately on account of decreasing disparities in the flow of information.

The findings of this survey consistent with the results of the survey carried out by (Ball, 2006). They that IFRS provides increased comparability and hence reduced information costs and information risk to the management hence the management gets better and easier information on how to direct the business and also Reducing international differences in accounting standards contributes to some degree in removing barriers to cross boarder acquisitions and divestures.

Regarding the five Likert scale questions, respondents were asked their viewpoint by open ended question about the benefit of IFRS other than mentioned in level of agreement. Generally the survey carried out another benefit of IFRS adoption from respondent's viewpoint, IFRS would provide professional opportunities for accountants and auditors to serve international clients and it would increase their mobility to work in different parts of the world. This implies that adoption of IFRS provides greater credibility and improved economic prospects for the accounting profession. Furthermore, other stakeholders such as regulatory bodies and financial analysts would benefit from improved regulation oversight and enforcement, overall better reporting and information on new and different aspects of the business.

4.6. Summary of Major Findings

In this chapter the results of findings has been explained and discussed based on the analysis done on the data collected. The summary of major findings is presented below.

The demographic result of the study indicates that educational background of the respondents out of the total respondents 96.2% were holders of first degree and above which indicates majority of the employees are well educated. And also majority of the respondents (71.7%) who participate in this survey were worked more than five years in finance department of CBE in head office which indicates they have more experienced and can provide important perspective on its adoption for the questions raised.

The study used diagnostic tests for the assumption of identifying misspecification of data if any so as to fulfill research quality such us, normality, multicolinearity, autocorrelation and heteroscedasticity tests were made. The regression analysis was done to ascertain the extent to which the variables explain the variance in adoption of IFRS by CBE. The value of Adjusted R^2=.683 indicates 68.3% of the variation in adoption of IFRS can be explained by the independent variables in the model and it indicates independent variables are major determinants of IFRS adoption by CBE. From the Goodness of fit (ANOVA) statistic it can be conclude that the overall model is statistically significant and independent variables have a combined effect on dependent variables.

The regression result reveals that there are significant relationship between independent variables such as education level, professional bodies, company size, and capital market, and dependent variable. The finding implies that Educational level and appropriately skilled accountants are important for the successful adoption of IFRS. Similarly professional bodies have a significant role by providing consultant service, sharing experience and giving related training in connection to IFRS. The other variable company size finding implies that the bank size have influence the early adoption of IFRS as of its broadness compared to small companies. The regression result on the fifth independent variable implies that the presence of capital markets might require firms to present their financial statements based on IFRS frameworks and have a great influence. Even though most of the hypotheses were supported, the study found that there is insignificant relationship between government policy and adoption of IFRS by CBE.

The descriptive statistics result of the study has shown the mean response of more than 4.00 and the standard deviation less than 1.00 in almost all questions were issues raised to probe the perception of respondents in regarding to the benefit of the adoption of IFRS for the management, to the bank and stakeholders; and also to assess the challenges that will face in adoption of IFRS is costly, its increases the complexity of financial reporting and other issues. It indicates that the respondents perception were close to one another and considered as highly agreed. This is also similar with the interview result and supported by previous studies.

CHAPTER FIVE

Conclusion and Recommendation

5. Introduction

In the previous chapter, data analysis and interpretation has been presented. In this section, of the research thesis presented the conclusions and recommendations are forwarded. It has three parts; the first part presents conclusions of the study, the second part presents recommendation and finally, the possible future research areas are presented.

5.1. Conclusions

The main objective of this study was to identify the factors affecting adoption of IFRS in Commercial Bank of Ethiopia. In this framework, the researcher seeks to verify the contribution of the following factors: Government Policy, Educational Level, Professional Bodies, Company Size and Capital Market. Furthermore this study identifies the potential benefits of the adoption of International Financial Reporting Standards and key challenges that will face on adoption of IFRS.

The study has analyzed the data collected through questionnaire from accountants and auditors, interview with accounts director, finance managers and with one expert consultant as well as document review (annual reports, legislations, directives, accounting policy and procedure of the bank, and other related documents). Questionnaire data were analyzed using frequency distribution, descriptive statistics, correlations, and multiple linear regression and data from interview and document reviews were interpreted qualitatively through adopting concurrent mixed method research approach to convergence across qualitative and quantitative methods (triangulating data sources).

This empirical study has been conducted to critically examine the factors affecting adoption of IFRS in CBE. The Pearson correlation and multiple linear regression analysis have been used for the study and using the survey result of the study, it is possible to conclude that Educational Level, Professional Bodies, Company Size and Capital Market are factors that are significant affect the adoption of IFRS in CBE. While government policy has no statistically significant effect on adoption of IFRS by CBE.

The survey result also shows that respondents were indented various IFRS adopting challenges on CBE; that are high implementation costs, the complexity of financial reporting, lack of IFRS implementation guidance, high potential volatility of earnings after adoption of IFRS, lack of availability of competent specialists, high level training requirement, problem with the IT system in handling the transition to IFRS and using & ascertaining fair value measurement in financial reporting. Furthermore, lack of experience, absence of proper plan to implement from regulatory bodies and lack of awareness about IFRS were identified by the respondents of the study as challenges of adopting IFRS in CBE.

In regarding the potential benefits of adoption of International Financial Reporting Standards in CBE; the results shows a number of important benefits for the bank, stakeholders, and management.

The study identifies on the adoption of IFRS in CBE has a benefit for the bank mainly shows that it leads to improve the efficiency and effectiveness of financial reporting, comparability & reliability of financial statements, facilitate easier external financing, provides greater reporting transparency, reduce cost of capital of firms through lower cost of information and others. The results also show that the introduction of IFRS in CBE will result in a number of important benefits for stakeholders i.e., provides better information for decision making, more confidence in the information presented in financial statements using IFRS and enhance transparency of companies through better reporting will accrue to stakeholders. Finally adoption of IFRS provides management of a bank with better risk management, improved management information for decision making and it promotes cross border investment.

In general, the results of the study enable us to conclude that adoption of IFRS by CBE has been influenced by many factors, such as Educational Level, Professional Bodies, Company Size and Capital Market have a significant influence on adoption of IFRS, while the other variable Government Policy has no significant effect on adoption of IFRS by CBE. Furthermore, IFRS adoption has appreciable positive benefits on financial reporting quality of the bank, and the study also allows us the challenges of IFRS adoption in CBE includes: high implementation costs, lack of availability of competent specialists, problems with IT system in handling the transition to IFRS and lack of experience were among the major ones.

5.2 Recommendation

The study revealed that the benefits of prepare financial statements based on this international standard are longer lasting than the costs of adopting IFRS. From the findings and conclusions of this study, the researcher hereby recommends the following points to ensure a successful adoption of IFRS in CBE.

- The government should make a policy through the ministry of education, mandating the incorporation of IFRS syllabus into the school curriculum in order to increase the technical capacity of the country's future accountants. And also Ethiopian Universities, Colleges and other training institutes should work in this regard and broadly include the concept of IFRS intensely in their academic curriculum.
- CBE should careful planning, identifying knowledge gap regarding IFRS standards and periodically update their staff in the education, expertise, technical capacities and IT challenges in connection with IFRS. And also the bank should begin revise the expired current accounting policy and procedure of the bank in 2015 in accordance of IFRS.
- The Government, Accounting and Auditing Board of Ethiopia and other concerned organs should establish and give attorney to private independent professional consultants; these professional consultants should consults about the conceptual frame works of IFRS and the processes of transition to IFRS through active participation under there controls and develop their own IFRS training manuals for accountants and finance personnel and giving trainings.
- Since IFRS are developed having stock market in mind, a stock exchange should also be established in the country if effective implementation and application of IFRS is looked-for. The government and other concerned association must be responsive & play the key role to establish at least one stock Market into the country, which will facilities the fair value related issues arises in associate to IFRS standards.

5.3. Suggestion for Future Studies

This study was focused mainly on factors affecting adoption of IFRS and the research found four important factors affecting adoption of IFRS in Commercial Bank of Ethiopia. The International Financial Reporting Standards is a broader scope of accounting which cannot be dealt with only by those used five factors. Furthermore since CBE is the largest banking organization in the country, other factors may be affect the adoption of IFRS other than in this study. So the researcher suggested future studies could be conducted with others variables and contextual factors.

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Appendices

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St. Merry University
School Of Graduate Studies
Department of Accounting and Finance

Annex I: Questionnaires

Dear Sir/Madam

The intent of this questionnaire is to explore information regarding the adoption of International Financial Reporting Standards (IFRS) in Commercial Bank of Ethiopia. The questionnaire will distribute to all Accountants and auditors of Commercial Bank of Ethiopia in head office. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on *Factors Affecting adoption of International Financial Reporting Standards in Commercial Bank of Ethiopia*.

I would like to assure you that the information you provide will be accessible only to the investigator. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

Your honest and thoughtful response is invaluable
I thank you very much in advance for your cooperation and sacrificing your valuable time!!!

Kind regards,

Selamu Seleshi

For any comment and questions, please contact me @ +251912763130

Section 1: *Demographic Background*

Please kindly tick (√) your answer in the appropriate boxes or respond by writing if required.

1. Gender:

☐ Male ☐ Female

2. Academic level:

☐ Diploma ☐ Bachelor's degree

☐ Master's degree ☐ other (specify) ____________________________

3. Working Experience:

☐ Less than 5 year's ☐ 6 to 10 years

☐ 11 to 15 year's ☐ 16 to 20 years

☐ Over 20 years

4. Current position in the Bank_________________________________

Section 2:

In this section the researcher is seeking your specific perceptions toward the adoption of IFRS by CBE. Please indicate whether you agree or disagree with each statement by ticking (√) on the spaces that specify your choice from the options that range from "strongly agree" to "strongly disagree".

Notes: - **SA**- Strongly Agree **A**- Agree

D- Disagree **N**- Neutral

SD- Strongly Disagree

Factors Affecting adoption of IFRS						
		SD	D	N	A	SA
Government Policy						
5	The Ethiopia government not encourages CBE sufficiently to adopt IFRS					
6	National bank of Ethiopia not initiates CBE sufficiently to adopt IFRS					
7	National bank of Ethiopia has not clear directives about IFRS adoption					
Educational Level						
8	Having trained people in place greatly influence the adoption					
9	Weak educational level of accountants is barrier for the adoption of IFRS					
10	The accounting education given by higher institutions is not sufficient to adopt and implement IFRS					
11	Ethiopia has no adequate educated man power that will be help to adopt IFRS effectively.					
Professional Bodies						
12	Professional consultant experience support the bank to adopt IFRS					
13	Lack of existing Professional association in the country will be a basic challenge for effectively adopting of IFRS					
14	CBE have Lack of competent specialists and professionals bodies (to consult regarding IFRS) for fully and properly adoption of IFRS					
Company Size						
15	Size of capital determines early adoption of IFRS					
16	Size of companies determines early adoption of IFRS					
17	The size of CBE is broad and expanded throughout the Ethiopia; it will affect fully adoption of IFRS					
Capital Market						
18	The absence of capital market in Ethiopia has negative impact on the adoption of IFRS					

19	It is not a good time to adopt IFRS in CBE, because of there is no Capital market in the country, especially for fair value measurement					
B. Adoption of IFRS by Commercial Bank of Ethiopia						
		SD	**D**	**N**	**A**	**SA**
20	Adoption of IFRS improves the efficiency of financial reporting					
21	Financial statements based on IFRS are reliable and comparable					
22	IFRS adoption result in Reduced cost of capital					
23	It provides greater reporting transparency					
24	It improves effectiveness of financial reporting					
25	It achieves the objectives of financial reporting					

C. Challenges of IFRS Adoption						
		SD	**D**	**N**	**A**	**SA**
26	Adoption of IFRS is costly					
27	IFRS increases the complexity of financial reporting					
28	There is lack of IFRS implementation guidance					
29	IFRS brings about increased volatility of earnings					
30	Lack of availability of competent specialists					
31	High level training requirement					
32	Lack of proper instructions from regulatory bodies					
33	Problem with the IT system in handling the transition to IFRS					
34	Problem with IFRS use of fair value accounting					

35. What other Challenges from your viewpoint other than those mentioned above regarding adoption of IFRS (if any)?

(I) ....

(II) ....

(III) ....

D. Benefits of Adopting IFRS						
		SD	**D**	**N**	**A**	**SA**
I. Benefits of adopting IFRS to the Bank						
36	Adoption of IFRS improves the efficiency of financial reporting					
37	Financial statements based on IFRS are reliable and comparable					
38	Adoption of IFRS improves effectiveness of financial reporting					
39	IFRS makes external financing easier					
40	It provides greater reporting transparency					
41	IFRS adoption result in Reduced cost of capital					
II. Benefits of IFRS for stakeholders						
42	IFRS provides better information for decision making					
43	Stakeholders will have more confidence in the information presented using IFRS					
44	Adoption of IFRS enhance transparency of companies through better reporting					
III. Benefits of IFRS for management						
45	Enables better risk management					
46	IFRS improves management information for decision making					
47	IFRS promotes cross border investment					

48. What other benefits from your viewpoint other than those mentioned above from adoption of IFRS (if any)?

(I) ....

(II) ....

(III) ....

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Reference for Questionnaires

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2. **Iyoha, F.O. and Faboyede, S.O. (2011), adopting international financial reporting standards (IFRS): a focus on Nigeria, *International journal of research in commerce & management***

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Annex II: Interview

Dear sir/madam

The intent of this interview is to explore information regarding the adoption of International Financial Reporting Standards (IFRS) in Commercial Bank of Ethiopia and to have sufficient response to the research problem in addition to questionnaires distributed to Accountants and Auditors of CBE in head office. The interview will be made with financial managers, accounts directors and experts of CBE. The information you provide in response to the items in the interview will be used as part of the data needed for a study on *Factors Affecting adoption of International Financial Reporting Standards in Commercial Bank of Ethiopia*.

I would like to assure you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

Your honest and thoughtful response is invaluable

I thank you very much in advance for your cooperation and sacrificing your valuable time!!!

Kind regards,

Selamu Seleshi

A. Interviewee's Profile

Date of interview: _______________ Location: _________________

Time started: __________________ Time completed: ___________

Current position in the Bank _____________________________

B. General Questions about IFRS

1. How involved are you in the process of adopting IFRS standard currently, and how would you describe the current accounting and reporting standards in Commercial Bank of Ethiopia?
2. What are the main challenges in the process of adoption of IFRS in CBE?
3. From your point of view how beneficial is IFRS to CBE?
4. In your opinion what key factors affect the adoption of IFRS in Commercial Bank of Ethiopia?
5. In general, please suggest a roadmap for IFRS adoption.

Correlations

		Government Policy	Educational Level	Professional Bodies	Company Size	Capital Market	Adoption Of IFRS by CBE
Government Policy	Pearson Correlation	1	.461**	.472**	.420**	.159	.418**
	Sig. (2-tailed)		.001	.000	.002	.255	.002
	N	53	53	53	53	53	53
Educational Level	Pearson Correlation	.461**	1	.644**	.293*	.491**	.704**
	Sig. (2-tailed)	.001		.000	.034	.000	.000
	N	53	53	53	53	53	53
Professional Bodies	Pearson Correlation	.472**	.644**	1	.405**	.584**	.739**
	Sig. (2-tailed)	.000	.000		.003	.000	.000
	N	53	53	53	53	53	53
Company Size	Pearson Correlation	.420**	.293*	.405**	1	.041	.421**
	Sig. (2-tailed)	.002	.034	.003		.770	.002
	N	53	53	53	53	53	53
Capital Market	Pearson Correlation	.159	.491**	.584**	.041	1	.644**
	Sig. (2-tailed)	.255	.000	.000	.770		.000
	N	53	53	53	53	53	53
Adoption Of IFRS by CBE	Pearson Correlation	.418**	.704**	.739**	.421**	.644**	1
	Sig. (2-tailed)	.002	.000	.000	.002	.000	
	N	53	53	53	53	53	53

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Government Policy 1	53	3.00	5.00	4.7358	.48639
Government Policy 2	53	3.00	5.00	4.4528	.60657
Government Policy 3	53	1.00	5.00	4.0377	1.19232
Educational level 1	53	4.00	5.00	4.7736	.42252
Educational level 2	53	3.00	5.00	4.6792	.51041
Educational level 3	53	2.00	5.00	4.6226	.71324
Educational level 4	53	1.00	5.00	4.6038	.79275
Professional bodies 1	53	1.00	5.00	4.3396	.87582
Professional bodies 2	53	3.00	5.00	4.6226	.52720
Professional bodies 3	53	2.00	5.00	4.4717	.77469
Company size 1	53	3.00	5.00	4.4151	.53472
Company size 2	53	3.00	5.00	4.2642	.48639
Company size 3	53	3.00	5.00	4.6981	.50326
Capital market 1	53	3.00	5.00	4.4151	.60237
Capital market 2	53	1.00	5.00	4.3208	1.01477
Adoption of IFRS by CBE 1	53	1.00	5.00	4.4717	.93240
Adoption of IFRS by CBE 2	53	3.00	5.00	4.6604	.51677
Adoption of IFRS by CBE 3	53	4.00	5.00	4.7925	.40943
Adoption of IFRS by CBE 4	53	3.00	5.00	4.2453	.47659
Adoption of IFRS by CBE 5	53	2.00	5.00	4.3585	.90073
Adoption of IFRS by CBE 6	53	3.00	5.00	4.7458	.48739
Valid N (listwise)	53				