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IFRS Adoption and Enforcement as Antecedents of Economic Growth

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IFRS ADOPTION AND ENFORCEMENT AS ANTECEDENTS OF
ECONOMIC GROWTH

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by

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2012

Dedication

To my wife and parents for their support. You have made my difficult times easier by praying for me day and night and encouraging and motivating me in stressful times.

To my grandpa, Syed Siraj-ul-Hassan Zaidi (Late). You will always be remembered.

To Dr. Esperanza Huerta. This could not have been possible without your help and support. You have been a professional mentor and one of the best teachers I have ever had.

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ECONOMIC GROWTH

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SYED KASHIF RAZA ZAIDI, MBA

DISSERTATION

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Abstract

Globalization of capital markets has increased the need for harmonized accounting standards around the world. International regulators promote the adoption of International Financial Reporting Standards (IFRS) to increase harmonization. The purpose of this paper is to assess the impact of IFRS adoption on the economic growth of adopting countries taking into consideration the level of enforcement within a country. I hypothesize that the adoption of IFRS increases the economic growth of the adopting countries. This effect is to be moderated by the level of enforcement. That is, I hypothesize a positive interaction between enforcement level and IFRS adoption on the economic growth rate of a country. However, when enforcement is taken by itself, it causes a negative impact on the economic growth rate of a country. Using several statistical procedures and models to estimate regression, I find support for first two hypotheses. I find partial support for hypothesis 3.

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Chapter 1: Introduction

International agencies such as the World Bank and the International Organization of Securities Commissions (IOSCO) promote the adoption of International Financial Reporting Standards (IFRS)¹ to create a solid international financial infrastructure, which in turn should stimulate economic development (Collins, 1989; Wyatt & Yospe, 1993). The objective of this research is to assess the effect of IFRS adoption on the economic growth of adopting countries. However, adopting IFRS may not be enough; enforcement mechanisms need to be in place to ensure IFRS compliance. This research also explores the moderating effect of the level of enforcement when adopting IFRS on economic growth.

As the world moves towards globalization, capital markets also become increasingly globalized. Roussey (1992) and Wyatt and Yospe (1993) suggest that the globalization of capital markets has increased foreign investors' need for information as well as their desire for harmonized financial reporting standards. In order to invest in foreign markets, investors need information which should be both reliable and comparable. Similarly, Benston, Bromwich, Litan, and Wagenhofer (2006) suggest that globalization has increased the demand for universal financial reporting standards. Samuels and Piper (1985) suggest that harmonization facilitates the development of world trade which in turn promotes economic growth of countries. International Regulators promote the adoption of IFRS to provide harmonized accounting standards across countries. The World Trade Organization (WTO) and IOSCO recommend their member countries to adopt IFRS (Radebaugh & Gray, 2002; Arnold, 2005; Ball, 2006; Benston et al., 2006). The United Nations (UN) and the World Bank also endorse the use of IFRS. The underlying benefit of accounting standards harmonization is to provide comparable and reliable

¹ IFRS were previously known as International Accounting Standards (IAS). Throughout this paper I use IFRS to refer to both IFRS and IAS.

financial statements to decision makers all over the world. Since financial markets are moving towards globalization, there is a need to develop uniform accounting standards that can benefit investors, accounting firms, multinational corporations (MNCs), and financial institutions. Zeghal and Mhedhbi (2006) suggest that the main factors behind IFRS development include: (1) international accounting firms, (2) MNCs, (3) foreign investors, and (4) international financial institutions.

Several studies have been conducted to evaluate the consequences of IFRS adoption at the country level. Some studies investigate countries in a particular region such Africa (Larson, 1993) or Asia (Woolley, 1998), and some investigate developing countries (Larson & Kenny, 1995). Overall, these studies do not provide conclusive evidence on the impact of IFRS adoption on the economic growth of a country. Larson (1993) finds that African countries adapting IFRS to meet local environmental factors experience larger economic growth than African countries that either adopt IFRS wholesale or do not adopt IFRS at all. Larson's (1993) study supports the influence of IFRS on the economic growth of adopting countries. However, Larson and Kenny (1995) find a small negative relationship between IFRS adoption and economic growth rates in the developing countries they studied. Similarly, Woolley (1998) finds no significant differences in the economic growth rates of IFRS adoptee and non-adoptee countries. In addition, the findings of these studies are potentially outdated because they were conducted when the predecessors of the current IFRS, the IAS were in place. To expand our knowledge in this area, this research examines the impact of IFRS adoption on the economic growth of adopting countries all over the world. That is, I include countries from different geographical areas as well as developing and developed countries. To the best of my knowledge, no country level

study investigating the impact of IFRS adoption on economic growth has been conducted since the development of IFRS in its current form.

In addition, this study expands our knowledge on the impact of IFRS adoption by investigating the influence of a country's level of enforcement. Mere adoption of IFRS is not enough to develop a solid financial infrastructure. As stated by the World Bank (2004, p3):

While setting accounting and auditing standards is an important step in developing a sound financial reporting environment, enforcement of these standards is even more important. The lack of an effective and efficient mechanism to ensure compliance with established accounting and auditing standards is the weakness of a financial reporting environment.

Previous country level studies have not taken into account the level of enforcement. Extant literature suggests multiple benefits from IFRS adoption; however, empirical evidence on the economic growth of a country is not conclusive. This study tries to fill this gap in the literature by increasing the scope of the countries included in the sample and using the most current information available. It empirically tests the economic benefits of IFRS adoption. Results from this study may guide countries that have not adopted IFRS yet in making adopting decision. In addition, scholars suggest that level of enforcement of adopting countries should have a significant impact on the economic consequences of IFRS adoption (Ashraf & Ghani, 2005; Mir & Rahaman, 2005; Ball, 2006; Daske, Hail, Leuz, & Verdi, 2008; Armstrong, Barth, Jagolinzer, & Riedl, 2008). However, this relationship has not been empirically tested. Therefore, I use the level of enforcement as a moderator variable to test the impact of enforcement on the economic growth of countries adopting IFRS.

The remainder of the proposal is structured as follows. Chapter 2 provides the literature review and hypotheses development. Chapter 3 discusses the research method. Chapter 4

analyzes results. Chapter 5 provides discussion on findings. Chapter 6 discusses the limitations of the study and provides options for future research.

Chapter 2: Literature Review and Hypotheses Development

IFRS are part of the accounting infrastructure that helps developing countries to promote their economic growth (Larson & Kenny, 1996; World Bank). Therefore, adoption of IFRS should lead to increased economic growth in adopting countries. Leuz and Verrecchia (2000), Ball (2006), Lambert, Leuz, and Verrecchia (2007), and Barth, Landsman, and Lang (2008) suggest that IFRS adoption improves the transparency and disclosure of financial statements. Improved transparency and disclosure should reduce uncertainty, agency cost, information asymmetry, cost of capital, and estimation risk, while enhancing credibility, comparability, accuracy, information quality, accounting quality, corporate governance, market liquidity, and capital market efficiency (Leuz & Verrecchia, 2000; Jermakowicz, 2004; Ball, 2006; Jermakowicz & Gornik-Tomaszewski, 2006; Lambert et al., 2007; Armstrong et al., 2008; Barth et al., 2008). In addition, bonding theory suggests that improved disclosure and better accounting standards signal investors of an increase in quality of the financial statements (Coffee, 2002). Better financial statements increase transparency which, in turn, attracts more investors and promotes efficient capital markets (Leuz & Verrecchia, 2000; Drabek & Payne, 2002; Lang, Lins, & Miller, 2003; Jermakowicz, 2004; Ball, 2006; Jermakowicz & Gornik-Tomaszewski, 2006; Lambert et al., 2007; Barth et al., 2008). Lee (1987) suggests that efficient capital markets promote economic development. Therefore, the adoption of IFRS should have a positive impact on the economic growth of adopting countries. Figure 2.1 illustrates this relationship.

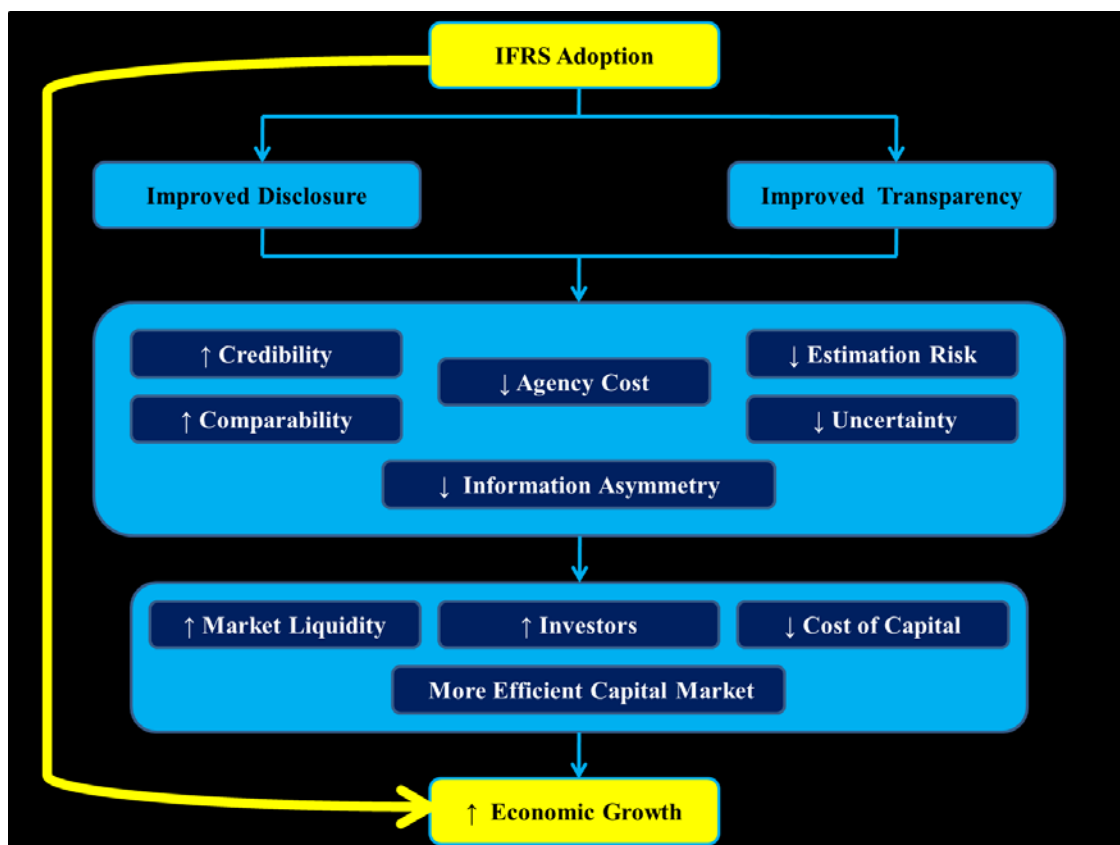


Figure 2.1: Impact of IFRS Adoption

The impact of IFRS adoption on a country's economic growth has been a constant topic of debate among researchers, accounting professionals, and regulatory authorities. Numerous arguments in favor and against of IFRS adoption and its impact on the economic growth of adopting countries have been made; however, limited empirical research has been conducted in this area to test the validity of these arguments. Although several studies investigate the impact of IFRS adoption at the firm level, I identify only three studies testing the economic consequences of IFRS adoption on adopting countries. Studies conducted in this area are *limited in scope* in terms of the geographic area or the type of economic development of the countries included in the sample. For example, research has focused on Asian (Woolley, 1998), African (Larson, 1993), or developing countries (Larson & Kenny, 1995). Since these studies are limited

to countries from a particular region or a particular level of economic development, their results may not be generalizable to countries with different characteristics.

In addition, the *meaning of IFRS adoption varies*. For instance, in Larson (1993), Larson and Kenny (1995), Daske, Hail, Leuz, and Verdi (2007), Armstrong et al. (2008), and Daske et al., (2008) adoption means wholesale adoption of IFRS; however, Larson (1993), Larson and Kenny (1995), and Daske et al., (2007) also include IFRS adaption in their research. The authors indicate that adaption means modifying IFRS to fit the economic, social, political, cultural, and other environmental conditions of the adopting country. In addition, Ball (2006) suggests that IFRS convergence is the process of narrowing the differences between the accounting standards of a country and the IFRS. The diversity of meanings of IFRS adoption used in the literature limits the comparability of the results found.

Also, the findings of previous *studies are potentially outdated* because they studied IAS adoption rather than IFRS adoption. IFRS are more comprehensive than their predecessors (IAS) and are considered an improved set of standards (Hicks, 2010; Deloitte, 2010). If IAS are considered less comprehensive and, in general, of a lower quality compared to current IFRS, it is possible that IAS adoption had had a low impact or no impact at all on the economic growth of a country. The lower quality of IAS compared to IFRS might have had a limited impact on the market of adopting countries and therefore on the overall economic growth. Conflicting results on the economic growth of adopting countries might be explained by the limited impact of IAS on the quality of the financial statements reported.

Summarizing, several research gaps are found in the literature indicating the need to conduct more research in this area. The following literature review is organized based on the research gaps discussed above. In addition, the literature review includes a section on the studies

investigating the impact of IFRS adoption at the firm level. These studies have tested the effect of IFRS adoption on stock market liquidity, stock price, bid-ask spread, and accounting quality among others. Even though studies at the firm level do not focus on the impacts of IFRS on adopting countries, discussing their findings is important because market liquidity, stock price, bid-ask spread, and accounting quality may have an indirect effect on the economic growth of a country. Table A1 in appendix A summarizes the main findings for the articles discussed below².

2.1 Limited Scope

Studies testing the economic consequences of IFRS adoption on adopting countries are limited in scope. I identify two studies focusing on a specific geographical area and one study focusing on developing countries.

Larson (1993) conducts a cross-sectional study including data from 35 African countries to determine whether the economic growth of countries that adopt or adapt IFRS differs from those of non-adoptee countries. Larson's (1993) results indicate that countries that adapt IFRS to meet local environmental factors experience larger economic growth than countries that either adopt IFRS wholesale or do not adopt IFRS at all.

Similar to Larson's (1993) research, Woolley (1998) conducts a study to determine the differences in economic growth rates between IFRS adoptee and non-adoptee countries in Asia (Cited in Zeghal & Mhedhbi, 2006). Woolley (1998) finds no significant differences in the economic growth rates of IFRS adoptee and non-adoptee countries contradicting the results found by Larson (1993).

Larson and Kenny (1995) conduct a study including 27 developing countries that have equity markets to determine the effects of IFRS adoption on equity market development and

² In addition, Appendix A provides findings from studies that are not discussed in the literature review chapter.

economic growth. They find a small negative relationship between IFRS adoption and economic growth rates in the developing countries studied (Larson & Kenny, 1995).

In terms of the impact of IFRS adoption on the economic growth, one study indicates that countries that adopt IFRS experience larger economic growth (Larson, 1993), another indicates a small negative relationship between IFRS adoption and the economic growth of a country (Larson & Kenny, 1995), and the other indicates that IFRS adoption does not have an impact on the economic growth of adoptee countries (Woolley, 1998).

This study tries to fill the gap found in literature by including countries from around the world regardless of their geographic location (e.g., Asia, Africa, etc.) or their economic development status (e.g., developed, developing, or under-developed country). By studying a more comprehensive sample, I attempt to provide findings that are more generalizable.

2.2 Different Meanings of IFRS Adoption

The meaning of IFRS adoption varies in prior studies. There are different degrees of IFRS adoption identified by multiple terms. Adoption, adaption, and convergence are some of the terms most frequently used. Adoption refers to wholesale adoption of IFRS; that is adopting IFRS as issued by the IASB without any modification. Adaption refers to modifying IFRS to fit the economic, social, political, cultural, and other environmental conditions of the adopting country. Convergence is “a process narrowing differences between IFRS and the accounting standards of countries that retain their own standards” (Ball, 2006, p.13).

In Larson (1993), Larson and Kenny (1995), Daske et al., (2007), Armstrong et al. (2008), and Daske et al., (2008) adoption means wholesale adoption of IFRS; however, in Larson (1993), Larson and Kenny (1995), and Daske et al., (2007) adoption also means modifying IFRS to fit the environmental conditions of the adopting country. The lack of a common term to define

IFRS adoption among the studies might contribute to the lack of consistent results found in the literature. Deloitte's website (www.iasplus.com) defines adoption as the use of IFRS as issued by the IASB. I use Deloitte's definition for three reasons. First, I do not find any other public source that provides information about IFRS adoption. Second, IASB relies on Deloitte's website as a data source (IASB, 2008a). Finally, Larson and Street (2004), Hope, Jin, and Kang (2006), and Ramanna and Sletten (2009) also use Deloitte's data as a reliable source. I exclude from my study those countries that state that their own standards are equivalent to IFRS since they do not adopt IFRS as issued by IASB. By using Deloitte's definition of adoption, I attempt to provide findings that are consistent with the most commonly used definition of IFRS adoption.

2.3 Outdated Studies

The studies investigating the impact of IFRS adoption on the economic growth of adopting countries are conducted before the current form of IFRS. The only country level studies found that have tested the effect of IFRS adoption on the economic growth of adoptee countries are Larson (1993), Larson and Kenny (1995), and Woolley (1998); however, the findings from these studies are potentially outdated.

In addition, due to lack of consistency in accounting standards, the IASC (IASB now) started a Comparability Project in 1987 (Street & Gray, 1999). The authors discuss that the IASC made several modifications to improve IAS (IFRS now). However, the changes made during the Comparability Project were highly controversial due to which, after completion of the project "in 1993, the IASC's core set of standards failed to receive a much-needed endorsement from IOSCO" (Street & Gray, 1999; p.135). After not getting the endorsement on IAS, IASC entered into an agreement with IOSCO to produce a core set of standards in 1995 (Gornik-Tomaszowski & McCarthy, 2003). In 2000, IOSCO approved the Comparability Project and endorsed the core

set of standards developed by IASC (Gornik-Tomaszweski & McCarthy, 2003; Kwok & Sharp, 2005; Radebaugh, Gray, & Black, 2006). The standards have been improved drastically since the 1990s and, therefore, provide motivation for a research based on current and better set of standards.

The adoption of IFRS as a country's accounting standards has become widespread since the establishment of the IASB in 2001 as the successor of IASC. International Accounting Standards (IAS) issued after the establishment of IASB are known as IFRS. IFRS includes a framework for the preparation and presentation of financial statements; this framework was lacking in IAS. This framework states basic principles and grounds of IFRS. IFRS are more comprehensive than their predecessors (IAS) and are considered an improved set of standards (Hicks, 2010; Deloitte, 2010). If IAS are considered less comprehensive and, in general, of a lower quality compared to current IFRS, it is possible that IAS adoption had had a low impact or no impact at all on the economic growth of a country. Conflicting results on the economic growth of adopting countries might be explained by the limited impact of IAS on the quality of the financial statements reported. Also, all three country level studies (Larson, 1993; Larson & Kenny, 1995; Woolley, 1998) are conducted during 1990s. Therefore, the findings of these *studies are potentially outdated* because they studied IAS adoption rather than IFRS adoption. This research fills the gap found in literature by providing more up to date information.

In short, previous country level studies (Larson, 1993; Larson & Kenny, 1995; Woolley, 1998) have focused on IAS adoption between 1973 and 1998. The findings of these studies are potentially outdated. For this study, I include countries that have adopted IFRS by 2007. By including in my sample data from recent years and by examining the adoption of IFRS, I attempt to provide findings that are more up to date.

2.4 Firm Level Studies

Compared to the few studies of IFRS adoption at the country level, a large number of IFRS adoption studies are conducted at the firm level. These studies have tested the effect of IFRS adoption on the market liquidity, stock price, bid-ask spread, and accounting quality among others. Although the level of analysis of the dissertation is at the country level, discussing studies at the firm level is important since market liquidity, stock price, bid-ask spread, cost of equity capital, and accounting quality have an indirect effect on the economic growth of a country (see Figure 2.1). The following discussion presents the impact of voluntary and mandatory IFRS adoption on firms' earnings quality, stock price volatility, bid-ask spread, information asymmetry, cost of equity, stock market liquidity, and accounting quality.

Gassen and Sellhorn (2006) examine the determinants and consequences of IFRS adoption in German firms. The authors find that voluntary adoption of IFRS is influenced by four drivers: (1) firm size, (2) international exposure, (3) dispersion of ownership, and (4) recent IPOs. Gassen and Sellhorn (2006) also compare the quality of earnings of financial statements reported by German firms using IFRS and German firms using German-GAAP. The authors find that reports from firms using IFRS have higher quality earnings compared to reports from firms using German-GAAP. Their findings suggest that firms that adopt IFRS have more persistent and higher quality earnings. Their findings also show that reports from firms adopting IFRS present a lower level of information asymmetry compared to firms that report using German-GAAP. The results show that firms adopting IFRS experience a decline in the bid-ask spread and higher level of volatility in stock prices.

Similarly, Daske (2006) also studies German firms to examine the effect of adopting internationally recognized standards (i.e., IFRS or US-GAAP) on the cost of equity. The author

finds no evidence supporting that the adoption of IFRS reduces the cost of equity capital of adopting firms. Contrary to expectations, the author finds an increase in the cost of equity capital for firms that adopt either IFRS or US-GAAP.

Daske et al. (2007) investigate the impact of voluntary IFRS adoption on a firm's cost of capital and stock market liquidity. Firms vary not only on the standards they use to report their financial information but also on their disclosure policies. For this reason, the impact on cost of capital and market liquidity of firms voluntarily adopting IFRS is heterogeneous. To explain the heterogeneity in the consequences of cost of capital and market liquidity, the authors split the sample into two groups: (1) firms that adopt IFRS just to be designated as IFRS adopters are named "label" adopters (2) firms that adopt the standards as a serious commitment to transparency are named "serious" adopters. Daske et al. (2007) find that compared to "serious" adopters, "label" adopters experience weaker effects on both the cost of capital and the market liquidity. In other words, the authors find a large decline in the cost of capital for "serious" adopters compared to "label" adopters. They also find that "serious" adopters experience a larger increase in the market liquidity and a larger decrease in the bid-ask spreads than "label" adopters. Consistent with their hypothesis, the authors find a positive relationship between "serious" adoptions and cost of capital and between "serious" adoptions and market liquidity.

In a different study, Daske et al. (2008) examine the impact of mandatory IFRS adoption on firms' cost of capital and stock market liquidity. Their results show a significant increase in stock market liquidity as well as a decrease in the firms' cost of capital for mandatory adopters after adopting IFRS. Moreover, their findings suggest that the magnitude of benefits of IFRS adoption is higher for voluntary adopters than for mandatory adopters. The authors find that firms from countries, whether voluntary or early adopters, which have strict enforcement

mechanisms and where transparency of financial statements is promoted or supported by the institutional environment experience capital market benefits.

Barth et al. (2008) conduct a study to examine the impact of IFRS adoption at the firm level and the accounting quality of the financial statements reported. The authors use earnings management, timely loss recognition, and value relevance metrics to measure accounting quality. Their findings suggest that firms reporting under IFRS (IAS) exhibit not only less earnings smoothing and less earnings management, but also more timely loss recognition and higher value relevance of accounting amounts. That is, their results show that, compared to non-adopting firms, firms that adopt IFRS exhibit higher accounting quality. The accounting quality of reports from firms adopting IFRS improves between the pre-adoption and post-adoption period. Overall, the results suggest that the use of IFRS is associated with improved accounting quality.

Studies at the firm level demonstrate several benefits of IFRS adoption; these benefits may in turn indirectly affect the economic growth of a country. For example, higher stock market liquidity, lower bid-ask spread, lower cost of equity capital and higher accounting quality are desired attributes of an efficient market (Leuz & Verrecchia, 2000; Jermakowicz, 2004; Ball, 2006; Jermakowicz & Gornik-Tomaszewski, 2006; Lambert et al., 2007; Armstrong et al., 2008; Barth et al., 2008). An efficient capital market can lead to higher economic growth (Lee, 1987; Larson and Kenny, 1995).

Overall, extant literature does not provide conclusive results on the impact of IFRS adoption on the economic growth of a country. Some studies show positive (Larson, 1993), some negative (Larson & Kenny, 1995) and some show no relationship (Woolley, 1998) between IFRS adoption and economic growth of a country. In addition, the studies have been limited to either a particular geographic location or a group of countries selected according to their economic

development. This study tries to fill the gap found in the literature by proposing a research to examine the impact of IFRS adoption on the economic growth of adopting countries including countries from different geographic regions and degrees of economic development. Therefore, my first hypothesis is:

H₁: There is a positive relationship between IFRS adoption and the economic growth rate of a country.

2.5 Enforcement

Larson and Kenny (1995) suggest that mere adoption of IFRS does not lead to greater equity market development and economic growth. Enforcement plays an important role in this regard. Enforcement is the act of enforcing rules and laws; it is the imposition of compliance or adherence to the designated guidelines. From the perspective of IFRS adoption, enforcement implies that the financial statements that companies report adhere to the regulations established in the IFRS. Enforcement plays a crucial role in the implementation of standards. If a country adopts IFRS but does not enforce them, the reliability of the financial statements reported can be doubtful. When enforcement mechanisms are active, the financial statements reported adhere to IFRS, and the overall accounting quality improves.

The IASB and other international organizations promote IFRS adoption but they cannot enforce their use (Ball, 2006). Only local authorities, such as financial market regulators, have the power to enforce the use of the IFRS (Soderstrom & Sun, 2007). The International Organization of Securities Commissions (IOSCO), which not only develops but also promotes securities regulation standards, advises member countries to adopt IFRS; however, it also lacks the authority to enforce them (Ball, 2006).

The local political and economic circumstances of a country have a significant impact on its financial reporting practices (Ball, 2006). For instance, Pakistan adopted IFRS in 1985 (IAS

at that time), however IFRS adoption did not improve the quality of financial reporting because enforcement mechanisms were not in place (Ashraf & Ghani, 2005). Enforcement mechanisms related to financial reporting include auditing and disciplinary procedures for non-compliance (Mir & Rahaman, 2005). Only countries with strict enforcement mechanisms can experience capital market benefits (Daske et al., 2008).

Ashraf and Ghani (2005), Mir and Rahaman (2005), Ball (2006), Daske et al. (2008), and Armstrong et al. (2008) suggest that the level of enforcement of adopting countries has a significant impact on the economic consequences of IFRS adoption. However, this relationship has not been empirically tested. Based on their argument, the level of enforcement should impact a country's economic growth. I postulate two hypotheses. First, I test the influence of enforcement on the economic growth rate of the countries with hypothesis 2. Developed countries have higher levels of enforcement than developing countries. There is a positive relationship between the level of enforcement and GDP per capita. However, the relationship between the level of enforcement of a country and GDP growth rate is negative due to diminishing returns (Rao, 1998). Developed countries have a high GDP per capita with diminishing returns for increasing GDP per capita further; therefore, GDP growth rates of already developed countries are typically smaller than growth rates of developing countries. Therefore, I expect a negative relationship between the level of enforcement and the growth rate of GDP per capita. Table 2.1 illustrates this negative relationship using (selected data from my sample).

Table 2.1: Level of Enforcement and GDP Growth Rate for Selected Data

Country	LOD	LENF	AGDP3Y
China	1500	2.15	11.57
Romania	3010	2.44	9.29
Chile	4330	3.72	3.83
Netherlands	35430	4.21	2.80
Luxembourg	58630	4.35	2.65

LENF = Level of Enforcement; LOD = Level of Development; AGDP3Y = Average Growth Rate of GDP per Capita Post 3 Years of IFRS Adoption

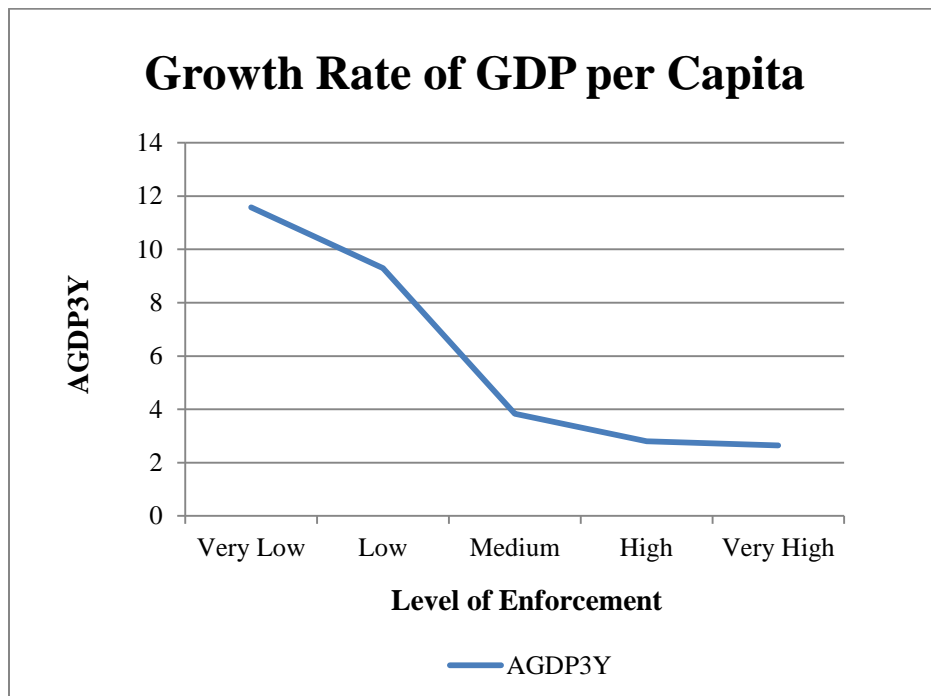


Figure 2.2: Relationship between AGDP3Y and LENS

Figure 2.2 illustrates the relationship between average growth rate of GDP per capita post 3 years of IFRS adoption (AGDP3Y) and the level of enforcement (LENF). The graph depicts a negative relationship between LENS and AGDP3Y. Therefore, my second hypothesis is:

H₂: There is a negative relationship between level of enforcement and the economic growth rate of a country.

Hypothesis 2 assesses the impact of the level of enforcement without considering the accounting standards used. However, as explained above, the level of enforcement can leverage the gains derived from IFRS adoption. Countries should gain more benefits when they adopt IFRS and have a high level of enforcement. The combined impact of IFRS adoption and enforcement level suggests the moderating effect of enforcement level on IFRS adoption. Therefore, I test the level of enforcement as a variable moderating the relationship between IFRS adoption and economic growth rate.

H₃: The level of enforcement moderates the impact of IFRS adoption on the economic growth rate of a country.

2.6 Other Factors Influencing Economic Growth

This study focuses on the impact of IFRS adoption and level of enforcement on the economic growth of adopting countries. However, other factors can also play a role in the economic growth of a country. In the presence of these factors, the expected influence of IFRS would be marginal. Therefore, considering the importance of these factors, I include five factors in the model. These factors are: (1) corruption, (2) level of education, (3) foreign direct investment, (4) level of development, and (5) political stability. These variables have been selected for various reasons. Some have been selected because they were included in past research due to their importance; such as level of education (Larson, 1993; Larson & Kenny, 1995), level of development (Larson, 1993), and political stability (Larson & Kenny, 1995). Corruption is selected because it can impede the economic growth of a country (Bardhan, 1997). Foreign direct investment is included because it can influence the economic growth (De Mello, 1999). In addition, I include European Union as the sixth control variable since most IFRS adoptee countries included in my model belong to the European Union.

Figure 2.3 presents the research model. It shows that the impact of IFRS adoption on the economic growth of the adoptee country is moderated by the country's level of enforcement. The figure shows other factors (control variables) that can also affect the economic growth of the adoptee countries.

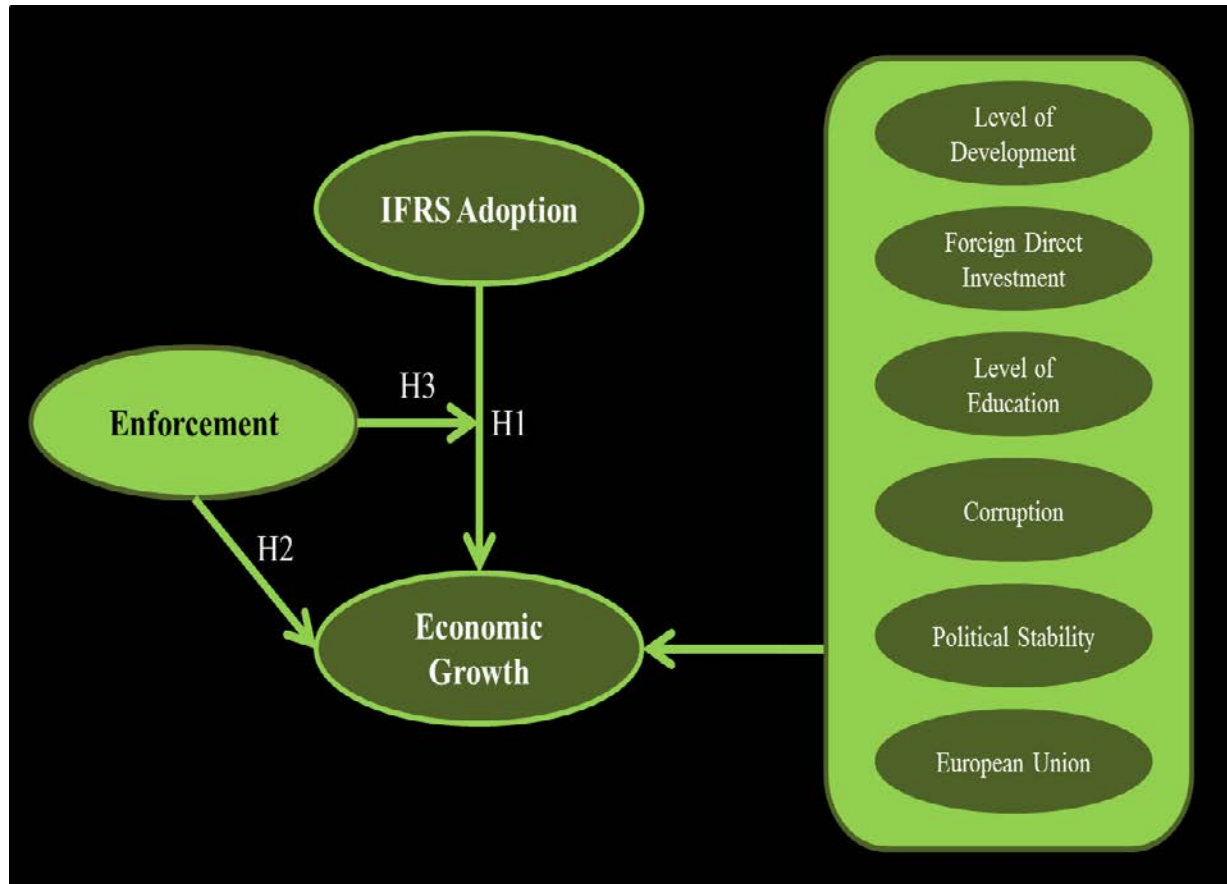


Figure 2.3: Research Model of the Impact of IFRS Adoption on Economic Growth

Chapter 3: Research Method

I use archival data for this study. The sample includes countries that have adopted and have not adopted IFRS. Non-adopting countries are matched to adopting countries based on the average of five years pre-adoption GDP growth rate. This matched-pair strategy is similar to the matching strategy used by Zeghal and Mhedhbi (2006). Ordinary least square (OLS) and two-stage least square (2SLS) regression analyses are performed to test the influence of IFRS adoption and level of enforcement on the three year economic growth rate post-adoption of a country. The following section provides a description of the variables of the study.

3.1 Variables

The dependent variable is the average growth rate of GDP per capita for 3 years after IFRS adoption (*AGDP3Y*). The GDP Data are collected from the World Development Indicators (World Bank Website) current on September 24, 2010. Average growth rate of GDP is considered an adequate proxy for economic growth. Larson and Kenny (1995) also use GDP per capita to investigate the impact of IFRS adoption on the economic growth of adopting countries. GDP growth rate is the change in GDP from one period to another and is an indicator economic wealth. It is unlikely that IFRS adoption would have an immediate effect on the economic growth of a country; most likely the effect will lag several years. Prior research has considered data for more than one year post-adoption (Larson, 1993; Larson & Kenny, 1995). Although it is not clear the number of years after adoption in which the effects of IFRS will take place, previous research has used total percentage change in GDP and GDP per capita from 1983 to 1988 (Larson, 1993) and from 1985 to 1989 (Larson & Kenny, 1995). However, due to lack of GDP data availability, I use the average of three years GDP per capita after IFRS adoption.

Adoption refers to the country-level adoption of IFRS as issued by the IASB. This information is drawn from Deloitte's website (www.iasplus.com). Deloitte's website does not differentiate among adoption, adaption, and convergence and provides the information regarding the direct use of IFRS in countries or regions. Deloitte's website indicates that "direct use means that the basis of preparation note and the auditor's report will refer to conformity with IFRS" (www.iasplus.com; September 29, 2009). Hope et al.'s (2006) use the direct use of IFRS as indicated in the Deloitte's data for classifying a country as an IFRS adopter or not. Following Hope et al., (2006), I also classify a country as IFRS adopter based on Deloitte's data of direct use of IFRS. Adoption of IFRS (*ADOPT*) is an independent variable with a value of zero if a country has not adopted IFRS and one otherwise.

Level of enforcement (*LENF*) is the second independent variable. It measures the "perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" (Kaufmann et al., 2008, p.7). *LENF* is included also as a moderator variable to test whether an interaction exists between level of enforcement and IFRS adoption. I use Kaufmann et al. (2009) rule of law index to measure the level of enforcement in a particular country. I use Kaufmann et al. (2009) indices for two reasons. First, their indices range from 1996 to 2008, which covers the period of my study. Second, they measured indices for 212 countries, including the countries investigated in this study³.

I control for six factors that can have an impact on the economic growth of a country. These factors include: (1) corruption (*CORRUP*), (2) level of education (*LOE*), (3) foreign direct investment (*FDI*), (4) level of development (*LOD*), (5) political stability (*PS*), and (6) European

³ La Porta et al. (1998) reported indices for only 49 countries. Unlike Kaufmann et al. (2009), La Porta et al. (1998) indices are not available for multiple years.

Union (*EU*). Indices for corruption and political stability are taken from Kaufmann et al. (2009). Data regarding level of education, foreign domestic investment, and level of development are taken from the World Development Indicators (World Bank Website). European Union is a dummy variable that identifies membership to the European Union. Table 3.1 provides the description of variables.

Table 3.1 Description of Variables

Variables	Type	Definition	Operationalization
Average growth rate of GDP per capita post 3 years of IFRS adoption (AGDP3Y)	Dependent (continuous)	It is an indicator of economic health which measures the change in GDP from one period to another.	Average of the annual growth rate of GDP per capita of a country during the three years post IFRS adoption.
Adoption of IFRS (ADOPT)	Independent (dummy)	It refers to the direct use of IFRS as issued by the IASB by a country.	Not adopted = 0 Adopted = 1
Enforcement (LENF)	Independent (continuous)	It measures the degree “to which agents have confidence in and abide by the rules of society” (Kaufmann et al., 2008; p.7).	Rule of law index from Kaufmann et al. (2009). This index ranges from -2.5 to 2.5. Higher values indicate higher levels of enforcement.
Corruption (CORRUP)	Control (continuous)	It is the level of exploitation of power for personal gains.	Corruption index is taken from Kauffman et al. (2009) and ranges from -2.5 to 2.5, where higher values indicate lower levels of corruption.
Level of education (LOE)	Control (continuous)	It is the literacy rate in a given country.	LOE is the percentage of primary school enrollment. Data are taken from the WDI and ranges from 0 to 100 where higher values indicate higher levels of education.
Foreign direct investment (FDI)	Control (continuous)	It is the investment received within a country from foreign countries.	FDI is the net inflows of FDI as a percentage of GDP. FDI data are taken from the WDI. Higher values indicate higher levels of FDI.
Level of development (LOD)	Control (dummy)	It is the economic development status of a country, such as developed, emerging, developing, or under developed countries.	Level of development of countries is based on GNI per capita. Higher values indicate higher levels of development.
Political stability (PS)	Control (continuous)	It is the perception that the government will not be overthrown or destabilized by unconstitutional means.	Political stability index is taken from Kauffman et al. (2009) and ranges from -2.5 to 2.5, where the higher values indicate higher levels of political stability.
European Union (EU)	Control (dummy)	It indicates whether a country belongs to the European Union or not.	Not a European Union country = 0 European Union Country = 1

3.2 Model

Ordinary least square and two-stage least square regression analyses are performed to test the hypotheses using the following regression model:

$$AGDP3Y_i = \beta_0 + \beta_1 ADOPT_i + \beta_2 LENF_i + \beta_3 (ADOPT_i) (LENF_i) + \beta_4 CORRUP_i + \beta_5 LOE_i + \beta_6 FDI_i + \beta_7 LOD_i + \beta_8 PS_i + \beta_9 EU_i + \varepsilon_i$$

β_1 and β_2 are the main effects of IFRS adoption and level of enforcement, β_3 is the interaction term between IFRS adoption and level of enforcement, and β_4 through β_9 are control variables.

3.3 Sample

The initial sample for this study includes countries listed in iasplus.com totaling 172 countries. The final sample includes 51 countries that have adopted IFRS by 2007 and 51 countries that had not adopted by the same date. The final number of countries in the sample was the result of the availability of the data. Following is a description of the process followed to compose the sample.

In the first step, I identify countries that have a stock exchange and have adopted IFRS. [Iasplus.com](http://iasplus.com) lists 173 jurisdictions (172 countries) indicating the standards followed by domestic listed and unlisted companies and if a domestic stock exchange exists. When the country has a stock exchange, the list indicates whether the use of IFRS to prepare financial statements is permitted, not permitted, required for all (public and private), or required for some companies.

I exclude from the sample jurisdictions where no stock exchange exists (19 jurisdictions). One of the objectives of IFRS adoption is to assist foreign investors in evaluating investment decisions in a particular country. When no stock exchange exists within a country, investments are not public but private reducing the potential impact of IFRS adoption. I also exclude countries with stock exchanges where IFRS are permitted (26 jurisdictions), not permitted (31

jurisdictions), and required for some (6 jurisdictions). When a country permits but does not require IFRS for financial statement reporting, companies may opt for not reporting using IFRS. That is, when companies have the option of using IFRS, the portion of companies reporting using IFRS is not directly known and the potential impact of IFRS adoption may be diluted. Only when a country requires IFRS for listed companies, can it be certain that companies are using IFRS to report their financial information. Therefore, countries that permit but do not require IFRS have also been excluded from the sample. Considering these requirements, the resulting sample includes 81 jurisdictions with stock exchanges where IFRS is required for all listed companies by 2007.

Countries that adopted IFRS after 2007 are not included in the sample for design purposes. This study analyzes the average growth rate of the GDP per capita for three years after a country adopts IFRS. Given that several years of data after IFRS adoption are required, I limit the year of IFRS adoption to 2007, so the post-adoption data can include 3 years of GDP growth rate. Year of IFRS adoption is obtained mainly from www.iasplus.com and www.ifac.org. When the information about the year of adoption is not available on Deloitte, IFAC, or any other websites, those countries are also dropped from the sample. The final sample consists of 51 IFRS adoptee countries and 51 matched sample for a total sample size of 102 countries.

3.4 Matched Pair Strategy

The final sample consists of 51 IFRS countries that have adopted IFRS between 1997 and 2007. Following Zeghal and Mhedhbi (2006), I include a matched sample of non-adoptees. First, I rank the group of adoptee and the group of non-adoptee countries based on their average GDP growth rate of five years pre-adoption. Then I match the countries in the two groups on the basis of their respective ranks. The matched sample is created based on the closest average annual

growth rate of GDP per capita during the last five years before IFRS adoption. The matched pair strategy is similar to the strategy used by Zeghal and Mhedhbi (2006). Matching procedures and the resulting matched samples are discussed in Appendix B.

Chapter 4: Analysis and Results

I begin my analysis by examining if the variables comply with the assumptions of regression. First, I test for normality and find that the assumption for normality is violated. To fix this problem, I transform the data by calculating the natural log of the dependent variable (LN_AGDP3Y). I retest the assumption of normality for LN_AGDP3Y and I find that assumption of normality is still violated. A box plot reveals the presence of an influential observation (Italy). I, then, use several statistical measures, such as residuals, leverage, Cook's D, DFBETA, and scatter plots, to examine outliers. I find Italy as the influential observation in all analyses. Therefore, I exclude Italy and its matched country Benin from further analyses. Next, I examine if the variables comply with the remaining assumptions of regression. I test for linearity, homoscedasticity, and independence. I do not find any major violation of any assumption. I also test for multicollinearity and found that corruption and level of enforcement are highly correlated.

Table 4.1 reports means, standard deviations, and Pearson bivariate correlations among dependent and independent variables. Bivariate correlation results show that AGDP3Y is significantly correlated with LENF, ADOPT_LENF, PS, LOD, and CORRUP; ADOPT is significantly correlated with LENF, ADOPT_LENF, PS, LOD, CORRUP, LOE, FDI, and EU; LENF is significantly correlated with ADOPT_LENF, PS, LOD, CORRUP, LOE, and EU; ADOPT_LENF is significantly correlated with PS, LOD, CORRUP, LOE, and EU; PS is significantly correlated with LOD, CORRUP, LOE, and EU; LOD is significantly correlated with CORRUP, LOE, FDI, and EU; CORRUP is significantly correlated with LOE and EU; and LOE is significantly correlated with EU.

Table 4.1: Means, Standard Deviations, and Pearson Bivariate Correlations

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10
1. AGDP3Y	3.463	3.325	-									
2. ADOPT	0.490	0.503	-.147	-								
3. LENF	2.722	0.983	-.246**	.429***	-							
4. ADOPT_LENF	1.541	1.707	-.192*	.928***	.639***	-						
5. PS	2.602	0.895	-.180*	.440***	.824***	.571***	-					
6. LOD	10407.930	14562.048	-.306***	.342***	.829***	.561***	.609***	-				
7. CORRUP	2.706	1.045	-.320***	.422***	.958***	.626***	.784***	.860***	-			
8. LOE	89.125	12.544	-.043	.369***	.480***	.404***	.351***	.404***	.427***	-		
9. FDI	6.853	24.660	.078	.098	.135	.144	.114	.299***	.113	.067	-	
8. EU	0.270	0.447	-.037	.624***	.599***	.770***	.489***	.496***	.585***	.354***	.146	-

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption; ADOPT = IFRS Adoption; LENF = Level of Enforcement; ADOPT_LENF = Interaction between ADOPT and LENF; PS = Political Stability; LOD = Level of Development; CORRUP = Corruption; LOE = Level of Education; FDI = Foreign Direct Investment; EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Pearson bivariate correlations show high correlation among corruption, political stability, level of development, and level of enforcement suggesting the possible presence of multicollinearity. Multicollinearity is confirmed by variance inflation factor (VIF) values above 10 (Marquardt, 1970; Cohen et al., 2003) for level of enforcement, corruption, and interaction between IFRS adoption and level of enforcement. In order to reduce VIF, I center all independent variables except dummy variables. The analysis with the centered variables still indicates high VIF for level of enforcement and corruption. Cohen et al., (2003) recommend using model respecification approach to solve multicollinearity problem. The authors suggest two techniques of model respecification: (1) dropping one (or more) independent variables from the regression equation and (2) revising regression model by combining the correlated variables into a single index. Combining highly correlated variables into a single measure can solve multicollinearity problem (O'Brien, 2007)

I use different methods to enter the variables into the regression model to test my hypotheses. These methods include enter, stepwise (results not reported), block (results not reported), and two-stage least square regression. Enter is the most widely used method in this kind of research; therefore, I report results using the enter method. In most of these analyses, I find a negative and significant relationship between LENF and AGDP3Y. However, ADOPT and the interaction between ADOPT and LENF are not significant.

I use different variations of the dependent variable to test the impact of IFRS adoption on the economic growth rate of adopting countries since it is not known how long it takes for the adoption of IFRS to make an impact on the economic growth rate of adoptee countries. Therefore, I modify the original model including all independent variables but different dependent variables as mentioned below. These variations of the dependent variable include, in

addition to the original average growth rate of GDP per capita post 3 years of IFRS adoption (results are reported in Chapter: Table 4.2 and Appendix C: Tables B1, B2, and B3), average growth rate of GDP per capita post 5 years of IFRS adoption (results are reported in Appendix C: Tables B8, B9, B10, and B11), change in the average growth rate of GDP per capita between pre 5 years and post 3 years of IFRS adoption (results are reported in the Appendix C: Tables B14 and B15), growth rate of GDP per capita in 2010 (further discussion is provided in Chapter 4.3); results are reported in Chapter 4.3: Table 4.4 and Appendix C: Tables B4, B5, and B6), and growth rate of GDP per capita post 1 year (results not reported), post 2 years (results not reported), and post 3 years (results not reported) of IFRS adoption. In addition, I also estimate the model using Two-Stage Least Square (2SLS) regression method (discussion is provided in chapter 4.2). Most of these models support Hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country). The 2SLS analysis supports Hypothesis 1 (there is a positive relationship between IFRS adoption and economic growth rate of a country) and the model with GDP2010 as a dependent variable supports Hypothesis 3 (level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of a country). Consistent results are found for Hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country) in most models.

In addition, each model is estimated using different methods to treat missing values including listwise, pairwise (results not reported), and meansubstitution (results not reported). I use several variations as robustness checks to determine whether the methods for treating missing variables influence the results. However, I rely on the most commonly used method, listwise deletion, for reporting purposes. Overall, the results are found to be consistent; however, the level of significance changed from listwise to pairwise to meansubstitution.

I also test all models using two different variations of the sample: (1) adoptee and non-adoptee sample and (2) adoptee only sample (results not reported). These variations are used as robustness check to determine whether the different samples used to test the impact of IFRS adoption on the economic growth of a country influences the results. I find that, exclusion of non-adoptee countries from the sample does affect the results. The results obtained from using adoptee only sample do not support any hypotheses. Two-stage least square regression model, presented in Chapter 4.2, provides support for hypothesis 1 (there is a positive relationship between economic growth rate and IFRS adoption) and hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country).

4.1 Original Model

The results of the ordinary least square regression for four different models are displayed in Table 4.2. I use several variations of the sample to estimate test these models. These variations include: sample excluding countries with a negative growth rate with the dependent variable AGDP3Y (Table 4.2), original sample including countries with a negative growth rate with the dependent variable AGDP3Y (Appendix C: Table C1), more conservative sample excluding countries with a negative growth rate and their matched sample with the dependent variable AGDP3Y (Appendix C: Table C2), and original sample with a log of the dependent variable (LN_AGDP3Y) (Appendix C: Table C3). These variations are used as robustness tests to determine whether changing the sample size or transforming the dependent variable influence the results. Mostly, these variations provide consistent results with slightly different explanatory powers.

The estimated regression model including all independent variables, as proposed in Chapter 3.2 (Model 4 in Table 4.2), indicate multicollinearity problems. The Variance Inflation

Factor (VIF) for C_LEN and C_CORRUP are above the recommended limit of 10 (Marquardt, 1970; Cohen, Cohen, West, & Aiken 2003) (C_LEN = 18.403, C_CORRUP = 16.001). Cohen et al., (2003) recommend using model respecification approach to solve multicollinearity problems. The authors suggest two techniques of model respecification: (1) dropping one (or more) independent variables from the regression equation and (2) revising the regression model by combining the correlated variables into a single index. Combining highly correlated variables into a single measure can solve multicollinearity problem (O'Brien, 2007).

Following model respecification technique 1, several variations of the original proposed model are tested. The original model is identified in Table 4.2 as Model 4. The variations of the model are as follows. Model 1 excludes political stability, level of development, and corruption. Model 2 excludes level of development and corruption. Model 3 excludes corruption. The results show the following effects on the dependent variable (average growth rate of GDP per capita post 3 years of IFRS adoption). IFRS adoption has a significant and negative impact in model 1, model 2, and model 4. Level of enforcement has a significant and negative impact in model 1 and model 2. Corruption has a significant and negative impact in model 4. Foreign Direct Investment has a significant and positive impact in model 3. European Union has a significant and positive impact in model 1, model 2, and model 4. The interaction shows a negative relationship with the dependent variable in all models; however, the results are not statistically significant at 10% level. The R^2 values for model 1, model 2, model 3, and model 4 are 19.7%, 20.3%, 22.5%, and 25.3%. Results from the original model proposed in Chapter 3.2 (Model 4 in Table 4.2) find no support for the hypotheses. However, results from model 1 and model 2 supports hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country).

Table 4.2: Ordinary Least Square Regression Analysis for Predictors of AGDP3Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.236*	-0.253*	-0.228	-0.222*
C_LEN	-0.428**	-0.559**	-0.321	0.200
<i>Interaction</i>				
ADOPT x C_LEN	-0.120	-0.096	-0.009	-0.067
<i>Control Variables</i>				
C_PS		0.138	0.084	0.103
C_LOD			-0.308	-0.128
C_CORRUP				-0.669*
C_LOE	0.118	0.136	0.145	0.111
C_FDI	0.128	0.127	0.185*	0.140
EU	0.321*	0.321*	0.272	0.305*
F-value	3.235***	2.841**	2.796***	2.861***
N	86	86	86	86
R ²	0.197	0.203	0.225	0.253
Adjusted R ²	0.136	0.132	0.145	0.165

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); ADOPT x C_LEN =
Interaction between Adoption and the Level of Enforcement; C_PS = Political Stability
(Centered); C_LOD = Level of Development (Centered); C_CORRUP = Corruption (Centered);
C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU =
European Union; $p < 0.10 = *$; $p < 0.05 = **$; $p < 0.01 = ***$

Following model respecification technique 2, I aggregate the variables that showed multicollinearity with Principal Component Analysis (Varimax Rotation). I create a composite variable and replace the highly correlated variables with the composite variable in the regression. Combining highly correlated variables into a single measure can help solving multicollinearity problem (O'Brien, 2007). I estimate seven different variations of models (model 5 through model 11). These models test different combinations of composite variables as explained below. I use several variations as robustness checks to determine whether the number of variables used to create the composite variable influenced the results. Each model is estimated twice, once with the dependent variable (AGDP3Y) and once with the log of the dependent variable

(LN_AGDP3Y). Most of these models provide consistent results with slightly different explanatory powers.

As discussed earlier, correlations results show high correlation between LENF and CORRUP, PS, and LOD. Therefore, I create several composite variables combining different independent variables through factor analysis. In model 5, the composite variable includes CORRUP, PS, and LOD. I replace the variables CORRUP, PS, and LOD with the composite variable in model 5. I do not find support for any hypotheses in model 5 (Appendix C: Table C12 and Table C13, Model 5). In model 6, the composite variable includes LENF, CORRUP, PS, and LOD. I find support for hypothesis 2 (there is a negative relationship between enforcement level and a growth rate of a country) in this model (Appendix C: Table C12 and Table C13, Model 6). In model 7, the composite variable includes LENF, CORRUP and PS. I exclude LOD from this analysis. I find support for hypothesis 2 in this model (Appendix C: Table C12 and Table C13, Model 7). Model 8 uses the composite variable created for model 7 and includes LOD as a control variable. I do not find support for any hypotheses in this model (Appendix C: Table C12 and Table C13, Model 8). In model 9, the composite variable includes LENF and CORRUP. I exclude the other two correlated variables (PS and LOD) from this model. I find support for hypothesis 2 in this model (Appendix C: Table C12 and Table C13, Model 9). Model 10 and model 11 are similar to model 9 but model 10 includes PS as a control variable and model 11 includes both PS and LOD as control variables. The results obtained from model 10 support hypothesis 2 (Appendix C: Table C12 and Table C13, Model 10); however, a partial support for hypothesis 2 is found in model 11. Model 11 with AGDP3Y (Appendix C: Table C12, Model 11) as the dependent variable does not provide support for any hypotheses, but model 11 (Appendix

C: Table C13, Model 11) with LN_AGDP3Y as the dependent variable does provide support for hypothesis 2. Overall, the results are consistent with a slight fluctuation in explanatory powers.

4.2 Model Endogeneity

Extent literature suggests that a reciprocal relationship may exist between a country's accounting standards and economic growth (Larson, 1993; Zeghal & Mhedhbi, 2006). The high economic growth of a country may lead to the development of accounting standards. This suggests that if countries experience high economic growth, they can chose to adapt or adopt the standards that fits them the best. This means adoption of IFRS does not lead to higher economic growth rather the higher economic growth leads to the adaption or adoption of IFRS. Due to the reciprocal relationship between the dependent variable, average growth rate of GDP per capita, and the independent variable, IFRS adoption, it is not clear whether IFRS adoption leads to the higher economic growth or the higher economic growth leads to IFRS adoption. Therefore, the independent variable, adoption, is an endogenous to the dependent variable, average growth rate of GDP per capita post 3 years of IFRS adoption. Endogeneity refers to a loop of causal relationship between the dependent and independent variable. When endogeneity may be present, the regression coefficient may be biased because the independent variable is correlated with the error term.

Two-stage least square (2SLS) regression allows to control for endogeneity. Chenhall and Moers (2007) indicate that, in stage one, the independent variable, which may be endogenous, is estimated using an instrumental variable. Then, in stage two, this estimated value is used to assess the impact of the independent variable on the dependent variable. Chenhall and Moers (2007) indicates that the estimated value from stage one used in the second stage controls for endogeneity.

I estimate 2SLS regression to control for endogeneity. In the first stage, adoption is the dependent variable and the independent variables are: average growth rate of GDP per capita pre 5 years of IFRS adoption, level of enforcement, political stability, level of development, level of education, foreign direct investment, and European Union. In the second stage, the average growth rate of GDP per capita post 3 years of IFRS adoption is the dependent variable and the independent variables are adoption (as estimated in the first stage), level of enforcement, interaction between adoption and level of enforcement, political stability, level of development, corruption, level of education, foreign direct investment, and European Union.

Table 4.3 shows the results obtained from the 2SLS regression. I test several variations of the original proposed model. The original model is identified in Table 4.3 as Model 4. The variations of the model are as follows. Model 1 excludes political stability, level of development, and corruption. Model 2 excludes level of development and corruption. Model 3 excludes corruption. The results show the following effects on the dependent variable (average growth rate of GDP per capita post 3 years of IFRS adoption). IFRS adoption has a significant and positive impact in model 2, model 3, and model 4. Level of enforcement has a significant and negative impact in model 1 and significant and positive impact in model 3 and model 4. Political stability has a significant and negative impact in model 2, model 3, and model 4. Corruption has a significant and negative impact in model 4. Level of education has a significant and negative impact in model 2, model 3, and model 4. Foreign Direct Investment has a significant and positive impact in model 2, model 3, and model 4. European Union has a significant and negative impact in model 2, model 3, and model 4. The interaction shows a negative relationship with the dependent variable in all models; however, the results are not statistically significant. The R^2 values for model 1, model 2, model 3, and model 4 are 20.5%, 27.0%, 28.2%, and 35.7%.

Results from model 2, model 3, and model 4 supports hypothesis 1 (there is a positive relationship between IFRS adoption and the economic growth rate of a country). Results from model 1 supports hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country). Hypothesis 3 (The level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of a country) is not supported.

For IFRS adoption, results obtained from model 2, model 3, and model 4 of 2SLS regression (Table 4.3) support hypothesis 1 (there is a positive relationship between IFRS adoption and the economic growth rate of a country). However, results from model 1, model 2, and model 4 of the original model (Table 4.2) show a negative and significant relationship between IFRS adoption and the economic growth rate of a country. Endogeneity may be a reason for this negative relationship between IFRS adoption and the economic growth rate of a country. When 2SLS regression model is estimated to control endogeneity, the relationship between IFRS adoption and the economic growth rate of a country become positive and significant. Therefore, hypothesis 1 is supported. In addition, for level of enforcement, results obtained from model 1 of 2SLS (Table 4.3) are consistent with the results obtained from model 1 and 2 of the original model (Table 4.2) with even more explanatory power. However, results from model 3 and model 4 show positive relationship between level of enforcement and the economic growth rate of a country. The interaction between IFRS adoption and level of enforcement is not significant in both the original model (Table 4.2) and the 2SLS regression model (Table 4.3).

Table 4.3: Two-Stage Least Square Regression Analysis for Predictors of AGDP3Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
E_ADOPT	1.336	15.171***	15.816***	22.171***
C_LEN F	-0.443***	0.624	0.883*	2.272***
<i>Interaction</i>				
E_ADOPT x C_LEN F	-0.309	-0.263	-0.182	-0.103
<i>Control Variables</i>				
C_PS		-1.313***	-1.402***	-1.895***
C_LOD			-0.242	0.000
C_CORRUP				-1.222***
C_LOE	-0.037	-0.685**	-0.709**	-1.073***
C_FDI	0.149	0.344***	0.394***	0.407***
EU	-0.889	-14.535***	-15.238***	-21.523***
F-value	3.447***	4.174***	3.839***	4.740***
N	87	87	87	87
R ²	0.205	0.270	0.282	0.357
Adjusted R ²	0.146	0.205	0.209	0.281

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption;
E_ADOPT = IFRS Adoption (Estimate); C_LEN F = Level of Enforcement
(Centered); E_ADOPT x C_LEN F = Interaction between Estimated Value of Adopt and Level of
Enforcement (Centered); C_PS = Political Stability (Centered); C_LOD = Level of Development
(Centered); C_Corruption = Corruption (Centered); C_LOE = Level of Education (Centered);
C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =
; p<0.01 = *

Freidrich (1982), Brambor, Clark, and Golder (2005), and Green (2008) suggest that when interaction terms are involved in regression model, standard errors might become inflated. Therefore, the coefficients on the interaction term are less likely to be significant (Brambor et al., 2005). The authors recommend estimating the appropriate standard errors for interaction terms using the following formulas:

$$S(b_1 + b_3x_2) = \sqrt{Var(b_1) + (x_2)^2 \cdot Var(b_3) + 2x_2 \cdot Cov(b_1, b_3)} \quad (1)$$

$$S(b_2 + b_3x_1) = \sqrt{Var(b_2) + (x_1)^2 \cdot Var(b_3) + 2x_1 \cdot Cov(b_2, b_3)} \quad (2)$$

I analyze the impact of IFRS adoption and level of enforcement at the mean values. I use estimated standard errors to show the impact of IFRS adoption (Eq. 1) and level of enforcement (Eq. 2) on the economic growth rate of a country (Appendix C: Table C16, C17, C18, and C19). Although the coefficients and the significance of the independent variables adoption and level of enforcement have changed, the change was not significant. Overall, the results do not change significantly.

4.3 Modified Model

The original model reported in Chapter 4.1 uses the average growth rate of the three years post IFRS adoption as the dependent variable. However, it is not known how long it takes for the adoption of IFRS to make an impact on the economic growth rate of adoptee countries. Therefore, I explore a different model including all independent variables proposed in the original model but a different dependent variable. In the modified model, I use growth rate of GDP per capita in 2010 (GDP2010) as the dependent variable. Using GDP2010 as the dependent variable allows measuring the impact on economic growth rate at different number of years since IFRS adoption, given that some countries adopted IFRS earlier. Possibly, more than three years are required to observe the economic benefits of IFRS adoption. In the modified model, I add number of years since adoption (NOYA) as another independent variable. NOYA indicates, for each country, the number of years from the year the country adopted IFRS to the year 2010. I also use model respecification to solve the multicollinearity problems as discussed earlier.

Similar to the variations of sample used in the original model, I also use several variations of sample to test these models. These variations include: sample excluding countries with a negative growth rate (Table 4.4), original sample (Appendix C: Table B4), more conservative sample excluding countries with a negative growth rate and their matched sample

(Appendix C: Table B5), and original sample with the log of the dependent variable (LN_GDP2010) (Appendix C: Table B6). Some of these variations provide consistent results with slightly different explanatory powers.

The results for the modified model, including four different variations, are displayed in Table 4.4. As mentioned before, two variables show multicollinearity as indicated by VIF with values above the recommended 10 (Marquardt, 1970; Cohen et al., 1970) ($C_LENF = 17.748$, $C_CORRUP = 16.240$). Similar to the analysis conducted in the original model, I propose four different models. I exclude political stability, level of development, and corruption from model 1, level of development and corruption from model 2, and corruption from model 3. Model 4 consists of all variables.

The results show the following effects on the dependent variable (growth rate of GDP per capita in 2010). Level of enforcement is negative and significant in model 1, model 2, and model 3; the interaction between adoption and level of enforcement is positive and significant in all models; and European Union is negative and significant in all models. The R^2 values for model 1, model 2, model 3, and model 4 are 31.8%, 33.7%, 34.2%, and 35.4%, respectively. The R^2 values for model 1, model 2, model 3, and model 4 of the modified model have slightly improved compared to the R^2 values for model 1 (19.7%), model 2 (20.3%), model 3 (22.5%), and model 4 (25.3%) of the original model. The results from model 1, model 2, and model 3 supports hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country). The third hypothesis that states that the level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of a country is supported in all models of the modified model.

Table 4.4: Ordinary Least Square Regression Analysis for Predictors of GDP2010

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	0.295	0.240	0.243	0.286
C_LEN	-0.397**	-0.642***	-0.514*	-0.192
NOYA	-0.349	-0.331	-0.340	-0.375
<i>Interaction</i>				
ADOPT x C_LEN	0.410**	0.457**	0.469**	0.458**
<i>Control Variables</i>				
C_PS		0.260	0.225	0.240
C_LOD			-0.144	-0.021
C_CORRUP				-0.439
C_LOE	0.128	0.160	0.163	0.143
C_FDI	-0.026	-0.026	0.006	-0.031
EU	-0.567***	-0.572***	-0.566***	-0.562***
F-value	4.655***	4.375***	3.926***	3.669***
N	78	78	78	78
R ²	0.318	0.337	0.342	0.354
Adjusted R ²	0.249	0.260	0.255	0.257

GDP2010 = Growth Rate of GDP per Capita in 2010; ADOPT = IFRS Adoption; C_LEN = Level of Enforcement; NOYA = Number of Years since Adoption; ADOPT x C_LEN = Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD = Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education; C_FDI = Foreign Direct Investment; EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Figure 4.1 illustrates the interaction between IFRS adoption and the level of enforcement. The graph shows as a positive relationship with the level of enforcement and the growth rate of GDP per capita in 2010 for IFRS adoptee countries. This interaction means that as level of enforcement of IFRS adoptee countries increases, the growth rate of GDP per capita also increases. I also test for significance between the growth rate of GDP per capita in 2010 and level of enforcement. I find that at low level of enforcement (mean LENF minus 1 standard deviation), the relationship between growth rate of GDP per capita in 2010 and level of enforcement is not significant. However, at high level of enforcement (mean LENF plus 1

standard deviation), the relationship between growth rate of GDP per capita in 2010 and level of enforcement is significant.

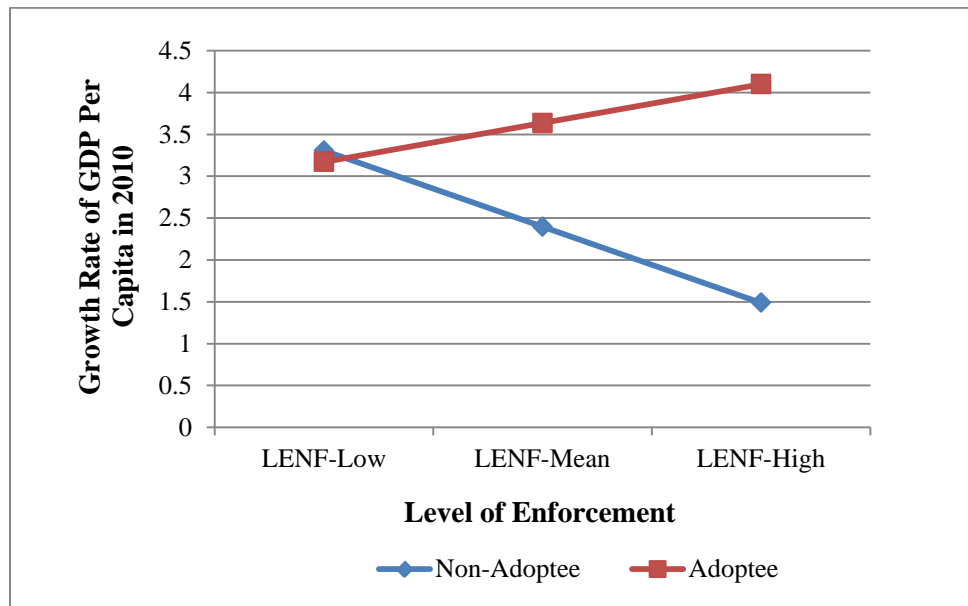


Figure 4.1: Interaction Effect of IFRS Adoption and Level of Enforcement on GDP2010

In addition to using GDP2010 as the dependent variable, I also estimate regression using average growth rate of GDP per capita post 5 years (AGDP5Y) of IFRS adoption (Appendix C: Tables 8, 9, 10, and 11) and the total percent change in the growth rate between the average growth rate of GDP per capita pre 5 years and post 3 years (Chg_GDP) of IFRS adoption (Appendix C: Tables 14 and 15). I estimate the regression using average growth rate of GDP per capita post 5 years of IFRS adoption as a dependent variable since it is not known how long it takes for the adoption of IFRS to make an impact on the economic growth rate of adoptee countries. Using AGDP5Y as the dependent variable allows measuring the impact on economic growth rate after 5 years of IFRS adoption. I use the total percent change in the growth rate

between the average growth rate of GDP per capita pre 5 and post 3 years of IFRS adoption following prevailing practice. Larson (1993) and Larson and Kenny (1995) use similar dependent variable. Several variations are used to estimate these dependent variables (AGDP5Y and Chg_GDP) for the same reasons provided in Chapter 4.1.

The results obtained from estimating regression using AGDP5Y as the dependent variable are consistent with the results obtained from estimating regression using AGDP3Y as the dependent variable with more explanatory power (Appendix C: Tables 8, 9, 10, and 11). Results support hypothesis 2 (there is a negative relationship between enforcement level and the economic growth rate of a country). However, results obtained from estimating regression using Chg_GDP do not support any hypotheses (Appendix C: Tables 14 and 15).

4.4 Summary of Hypotheses Testing

Table 4.5 summarizes the results obtained from the original and modified models using ordinary least square and two-stage least square regression methods. The first column shows the three hypotheses, the second column shows the general results obtained from the original model using average growth rate of GDP per capita post 3 years of IFRS adoption (AGDP3Y) as the dependent variable, the third column shows the general results obtained from the modified model using GDP growth rate in 2010 (GDP2010) as the dependent variable, the fourth column shows the general results obtained from the original model (AGDP3Y) as the dependent variable after creating a composite variable from some variables, the fifth column shows the general results obtained from the modified model using the average growth rate of GDP per capita post 5 years of IFRS adoption (AGDP5Y) as the dependent variable, the sixth column shows the general results obtained from the modified model using the total percent change in the growth rate between the average growth rate of GDP per capita pre 5 and post 3 years of IFRS adoption

(Chg_GDP or Δ in GDP) as the dependent variable, and the seventh and the eighth column shows the general results obtained from the original model (AGDP3Y) and the modified model (GDP2010) using 2SLS to estimate the regression. Hypothesis 1 (there is a positive relationship between IFRS adoption and the economic growth rate of a country) is only supported by estimating regression using 2SLS for both original and modified model (Table 4.5: Columns 7 and 8). Hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country) is supported in all variations of models (Table 4.5: Columns 2, 3, 4, 5, 7, and 8) except when Chg_GDP is used as the dependent variable (Table 4.5: Column 6). Hypothesis 3 (The level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of a country) is supported in the modified model estimating regression using OLS (Table 4.5: Column 3).

Table 4.5: Summary of General Results from OLS and 2SLS Regression

Hypotheses	OLS AGDP3Y	OLS GDP2010	OLS (Factor) AGDP3Y	OLS AGDP5Y	OLS Δ in GDP	2SLS AGDP3Y	2SLS GDP2010
H ₁	Not Supported	Not Supported	Not Supported	Not Supported	Not Supported	Supported	Supported
H ₂	Supported	Supported	Supported	Supported	Not Supported	Supported	Supported
H ₃	Not Supported	Supported	Not Supported	Not Supported	Not Supported	Not Supported	Not Supported

Chapter 5: Discussion

I begin my research by reexamining the idea of whether the adoption of IFRS affects the economic growth rate of the adopting countries. Extant literature does not provide conclusive results of the impact of IFRS adoption on the economic growth of a country. Some studies show positive (Larson, 1993) and some negative relationship (Larson & Kenny, 1995; Woolley, 1998) between IFRS adoption and economic growth of a country. In addition, the studies have been limited to either a particular geographic location or a group of countries selected according to their economic development. This study tries to fill the gap found in the literature by examining the impact of IFRS adoption on the economic growth of adopting countries including countries from different geographic regions and degrees of economic development. In addition, I test the influence of enforcement on the economic growth rate of the countries. The level of enforcement can leverage the gains derived from IFRS adoption. Countries may gain more benefits when they adopt IFRS and have a high level of enforcement. The combined impact of IFRS adoption and enforcement level suggests the moderating effect of enforcement level on IFRS adoption. Therefore, I test the level of enforcement as a variable moderating the relationship between IFRS adoption and economic growth rate. The model proposed also controls for variables that influence the economic growth of a country, namely: political stability, corruption, level of education, foreign direct investment, level of development, and European Union.

In my study, I hypothesize the following effects on the economic growth rate of the IFRS adoptee countries: that the adoption of IFRS has a positive impact (Hypothesis 1), that the level of enforcement has a negative impact (Hypothesis 2), and that the level of enforcement moderates the relationship between IFRS adoption and economic growth (Hypothesis 3). To test these hypotheses, I estimate a regression model including all control variables.

The results from the original model including all variables indicate problems of multicollinearity. To avoid this problem, several variations of the original proposed model are tested. The original model is identified as Model 4. The variations of the model are as follows. Model 1 excludes political stability, level of development, and corruption. Model 2 excludes level of development and corruption. Model 3 excludes corruption. Contrary to expectations, there is a negative and significant relationship between IFRS adoption and economic growth rate in all variations of the original model proposed. Therefore, hypothesis 1 is not supported.

I use a second technique to avoid multicollinearity, namely creating a single composite variable that includes the variables that exhibit multicollinearity. The composite variable replaces the highly correlated variables in the regression. Combining highly correlated variables into a single measure can help solving multicollinearity problem (O'Brien, 2007). Regression results show a negative and significant relationship between IFRS adoption and economic growth rate. Therefore, hypothesis 1 is not supported. This result is similar to the general results obtained from all the variations of original model (variation 1: sample excluding countries with a negative growth rate with the dependent variable AGDP3Y; variation 2: original sample including countries with a negative growth rate with the dependent variable AGDP3Y; variation 3: more conservative sample excluding countries with a negative growth rate and their matched sample with the dependent variable AGDP3Y; and variation 4: original sample including countries with a negative growth rate with a natural log of the dependent variable). These results suggest that adopting IFRS decreases rather than increases the growth rate of adopting countries. Tokar (2005) suggests that the initial adoption of IFRS requires a large investment for regulators and adopting countries. The benefits of IFRS adoption potentially require more than three years having a positive impact on the economic growth of a country. Larson and Kenny (1995) also

find a negative relationship between IFRS adoption and the economic growth of a country. In their study, the economic growth is calculated by the total percentage change in GDP and GDP per capita from 1985 to 1989 (five years). They argue that the economic benefits from IFRS (IAS at that time) adoption may not be evident due to short time period covered in their study.

I estimate 2SLS regression to control for endogeneity. The results show the following effects on the dependent variable (average growth rate of GDP per capita post 3 years of IFRS adoption). IFRS adoption has a positive and significant impact in model 2, model 3, and model 4. Level of enforcement has a negative and significant impact in model 1 and positive and significant impact in model 3 and model 4. In addition, these models include the interaction effect of IFRS adoption and level of enforcement. The interaction shows a negative relationship with the dependent variable in all models; however, the results are not statistically significant at 10% level. Results from model 2, model 3, and model 4 supports hypothesis 1 (there is a positive relationship between IFRS adoption and the economic growth rate of a country). Endogeneity may be a reason for the negative relationship found between IFRS adoption and the economic growth rate of a country in the original model (Table 4.2). Therefore, in the 2SLS regression model, hypothesis 1 is supported. Results from model 1 supports hypothesis 2 (there is a negative relationship between enforcement level and economic growth rate of a country). Hypothesis 3 (The level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of a country) is not supported.

I also hypothesize that a country's level of enforcement affects the economic growth rate of a country (H2). Higher levels of enforcement are related to lower economic growth rates. This hypothesis is supported in different models. The coefficient for level of enforcement is negative and statistically significant in model 1 and model 2 of the original model.

I include the interaction between IFRS adoption and level of enforcement to test my third hypothesis. I hypothesize that the level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of a country. I expect the coefficient of interaction term to be positive and significant. The third hypothesis is not supported in any variation of the original model. One reason for not finding support for this hypothesis could be the fact that the three-year period post IFRS adoption is not a large enough period to observe an impact on the economic growth rate of adoptee countries. It could take several years before a country can experience higher economic growth rates post IFRS adoption. This result is similar to the findings of Woolley (1998).

Therefore, I modify the original model to explore IFRS adoption over a large number of years. In this modified model, the dependent variable is growth rate of GDP per capita in 2010 (GDP2010). This modified model allows variation in the number of years since IFRS adoption; countries that adopted IFRS earlier will have a larger number of years since IFRS adoption. Possibly, more than three years are required to observe the economic benefits of IFRS adoption. In the modified model, all the independent variables of the original proposed model are included. I also add the number of years since adoption (NOYA) as another independent variable. NOYA indicates, for each country, the number of years from IFRS adoption to 2010. Similar to the tests on the original model, I also tests different variations of the modified model. The results indicate that the main effects of IFRS adoption and level of enforcement are not significant. However, the interaction between adoption and level of enforcement is positive and significant. Therefore, the third hypothesis that states that the level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of a country is supported in the modified model. These results suggest that the benefits from IFRS adoption can be achieved when they are enforced.

These results suggest that it may require more than 5 years for countries to observe the benefits from IFRS adoption. The results also suggest that benefits depend on the level of enforcement.

Although the model does not test for diminishing returns of IFRS, it is likely that long-run benefits are not sustainable. Once countries reap the economic benefits of IFRS adoption, the impact of IFRS adoption may fade.

Findings obtained from this study can help regulators from the countries that have not adopted IFRS yet in making adopting decisions. This research provides evidence of the benefits of IFRS adoption. These benefits, however, are contingent on the level of enforcement. Countries adopting IFRS should plan in advance on the mechanisms to enforce the standards. Also, international organizations could develop guidelines to promote IFRS enforcement.

To Analysts, the results suggest the need to consider IFRS and enforcement jointly; expected benefits of IFRS cannot be achieved without enforcement mechanisms. Analysts should consider that the reports from firms from countries where IFRS have been adopted, might not necessarily comply with IFRS, as compliance depends on the level of enforcement.

Chapter 6: Limitations and Future Research

The results from this study should be interpreted considering the following limitations. One limitation is the operationalization of the level of enforcement of IFRS. I am using the level of enforcement, which is a general indicator of a country and does not refer to financial reporting specifically. At this point, country level IFRS compliance indices are not available. Future research can be conducted to test the economic consequences of IFRS adoption using level of IFRS compliance as a moderator variable when they are available.

Also, other factors that might play a crucial role in the economic growth of a country are not included in the present research. For example, productivity, population growth, healthier workforce and ease of doing business can have a significant impact on the economic growth of a country (Sekirin, 2010). However, due to the limited sample size, I can include only a small number of control variables in my model. Therefore, I do not include these factors in my model.

Another limitation is that it is a correlational study. Correlational studies are not a test of causality. Although these studies can suggest that there is a relationship between two or more variables, they cannot imply causation. Since this is a correlational study, I cannot prove if a particular variable is causing a change in the other variable. In addition, there might be a problem of endogeneity. I try to mitigate this problem by estimating the models using 2SLS regression. However, there might be other independent variables that are endogenous to the dependent variable.

Another limitation of this study is the availability of the data. My sample is limited to the available data; therefore, the reduced sample size may be a problem. A larger sample may provide more robust results by strengthening the sample.

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Appendix A

Table A1: Summary of Empirical Studies Examining Economic Consequences of IFRS Adoption

Authors	Research Question	Countries	Results
Larson (1993)	To determine the economic growth rates of countries that adopt or adapt IFRS	African countries	Countries that adapt IFRS experience higher economic growth
Larson & Kenny (1995)	To determine the effects of IFRS adoption on equity market development and economic growth	27 developing countries	No major association is found between IFRS adoption and the equity market development/economic growth
Woolley (1998)	To determine the differences in economic growth rates between IFRS adoptee and non-adoptee countries	Asian countries	No significant differences in the economic growth rates of IFRS adoptee and non-adoptee countries
Murphy (2000)	To examine the effect of IFRS adoption on the harmonization of accounting practices of firms	Switzerland, US, UK, and Japan	Increased level of harmonization
Jermakowicz (2004)	A survey to investigate the impact of IFRS adoption on BEL-20 companies (publicly traded companies), their internal organization, accounting, and finance strategies	Belgium	Perceived benefits: Increased level of harmonization, superior information quality, increased transparency and comparability of financial statements, increased volatility in reported values of assets and earnings, and positive impact on competitiveness and growth
Jong et al. (2006)	To examine the impact of IFRS regulation 32 on preferred stocks	Netherlands	Significant impact on firms' debt ratio and no impact on firms' net earnings. IFRS cause firms to change their capital structure by reducing their capital structure diversity

Authors	Research Question	Countries	Results
Gassen & Sellhorn (2006)	To examine the determinants and consequences of IFRS adoption	Germany	Higher quality, more persistent, and more conditionally conservative earnings, lower level of information asymmetry, higher level of stock price volatility, and lower bid-ask spread
Daske (2006)	To examine the effect of adopting IFRS or US-GAAP on the cost of equity capital	Germany	Increase in the cost of equity capital for firms that adopt either IFRS or US-GAAP
Christensen et al. (2007)	To investigate the economic consequences of mandatory IFRS adoption	UK	Positive relation between stock-price reaction and the firms' willingness to adopt IFRS and negative reaction between implied cost of equity and the firms' willingness to adopt IFRS
Stenka & Ormrod (2007)	To investigate how IFRS adoption impacts on listed firms' reported net profit and equity	UK	Negative impact of IFRS adoption on firms' earnings
Daske et al. (2007)	To investigate the economic consequences of voluntary IFRS adoptions	All over the world	Positive relationship between "serious" adoptions and cost of capital and market liquidity.
Daske et al. (2008)	To examine the relationship between mandatory adopters and the economic consequences	24 countries	Significant increase in the market liquidity and decrease in firms' cost of capital of mandatory adopters
Armstrong et al. (2008)	To investigate market reaction to events associated with mandatory IFRS adoption	Europe	Equity investors in European market react positively to IFRS adoption
Barth et al. (2008)	To examine the association of IFRS application with the accounting quality	Global	Improved accounting quality

Appendix B

This appendix describes the procedure followed to create the match sample. First, I create a list of all countries with the GDP data available from the World Development Indicators. Then I calculate moving average of the annual growth rate of GDP per capita for five years starting from 1992 to 2007. The average annual growth rate of GDP per capita for five years pre-adoption is used to create a matched sample with the non-adopter countries. I also calculate the moving average of the annual growth rate of GDP per capita for three years starting from 1997 to 2010. The average growth rate of GDP per capita for three years is used for the purpose of comparing adopter countries' post-adoption average growth rate of GDP per capita with non-adopter countries.

For creating a matched sample, first, I select countries with the available data that have adopted IFRS by 2007. This sample consists of 51 IFRS adopter countries that have adopted IFRS by 2007. Next I calculate the average growth rate of GDP per capita during last 5 years before the adoption of IFRS for adopter countries. Then I select 159 non-adopter countries for the matched sample. I calculate the average growth rate of GDP per capita for 5 years (same years as IFRS adopter countries' sample) for these countries following the same process that I used to calculate the average growth rates of IFRS adopter countries. The average growth rate of GDP per capita for 5 years (for both adopter and non-adopter sample) is calculated for the following years: 1992-96, 1995-99, 1996-2000, 1997-2001, 1998-2002, 1999-2003, 2000-04, 2001-05, and 2002-06.

Following Zehgal and Mhedhbi's (2006) matched pair strategy, I select the matched samples for IFRS adopter countries. The sample is selected without replacement. First, I rank both IFRS adopter and non-adopter countries based on the average growth rate of GDP per

capita for 5 years. Then I match the countries from matched sample with the IFRS adoptee countries' sample based on their respective ranks. My final sample includes 102 countries (51 IFRS adoptee countries and 51 non-adoptee countries).

The IFRS adoptee countries with their initial match are as follows: Jordan (adopted IAS in 1997) matches with Israel. Guyana (adopted IAS in 2000) matches with Sri Lanka. Malawi (adopted IFRS in 2001) matches with Bolivia. Guatemala and Jamaica (adopted IFRS in 2002) match with Macedonia and Thailand, respectively. Ukraine and the United Arab Emirates (adopted IFRS in 2003) match with Maldives and Cote d'Ivoire, respectively. Iraq, Serbia, and Tanzania (adopted IFRS in 2004) match with Zimbabwe, Chile, and Kyrgyz Republic, respectively.

Thirty-four countries that adopted IFRS in 2005 include: Austria (matches with Mexico), Belgium (matches with the United States), Bulgaria (matches with Georgia), Cyprus (matches with Columbia), Czech Republic (matches with Malaysia), Denmark (matches with Costa Rica), Estonia (matches with China), Finland (matches with Swaziland), France (matches with Dominican Republic), Germany (matches with Syrian Arab Republic), Greece (matches with Lao PDR), Hungary (matches with Bhutan), Iceland (matches with Mali), Ireland (matches with Mozambique), Italy (matches with Benin), Kazakhstan (matches with Azerbaijan), Latvia (matches with Trinidad and Tobago), Liechtenstein (matches with Niger), Lithuania (matches with Belarus), Luxembourg (matches with Turkey), Malta (matches with St. Kitts and Nevis), Namibia (matches with Indonesia), Netherlands (matches with the Libya), Nicaragua (Matches with Cameroon), Norway (matches with Egypt, Arab Republic), Poland (matches with Morocco), Portugal (matches with Switzerland), Romania (matches with Vietnam), Slovak Republic (matches with Singapore), Slovenia (matches with Tunisia), South Africa (matches

with Burkina Faso), Spain (matches with Australia), Sweden (matches with Uganda), and the United Kingdom (matches with New Zealand).

In addition, Mauritius (adopted IFRS in 2006) matches with Belize. Six countries that adopted IFRS in 2007 include: Botswana (matches with Nigeria), Croatia (matches with Cape Verde), Fiji (matches with Canada), Ghana (matches with Philippines), Panama (matches with Bangladesh), and Tajikistan (matches with Cambodia).

However, after the matched sample is formed, I find that the post-adoption GDP data for some countries are not available from the matched sample. Therefore, I drop those countries and replace them with the next available nearest match found. The following is the description of replacement: Channel Islands replaces Aruba, Russian Federation replaces Maldives, Solomon Islands replaces West Bank Gaza, Uzbekistan replaces Bermuda, Macedonia replaces Costa Rica, Georgia replaces Trinidad and Tobago, Swaziland replaces Turkey, Bolivia replaces Switzerland, Morocco replaces Montenegro, Tonga replaces Australia, Lesotho replaces Lebanon, Honduras replaces New Zealand, Cape Verde replaces Grenada, and Afghanistan replaces Sierra Leon.

The matched sample of 51 adoptee countries is provided below in the table:

Table B1: Matched Sample

Adoptee	Non-Adoptee
Jordan	Israel
Guyana	Sri Lanka
Malawi	Bolivia
Guatemala	Macedonia
Jamaica	Thailand
Ukraine	Maldives
United Arab Emirates	Cote d'Ivoire
Iraq	Zimbabwe
Serbia	Chile
Tanzania	Kyrgyz Republic
Austria	Mexico
Belgium	United States
Bulgaria	Georgia
Cyprus	Columbia
Czech Republic	Malaysia
Denmark	Costa Rica
Estonia	China
Finland	Swaziland
France	Dominican Republic
Germany	Syrian Arab Republic
Greece	Lao PDR
Hungary	Bhutan
Iceland	Mali
Ireland	Mozambique
Italy	Benin
Kazakhstan	Azerbaijan
Latvia	Trinidad and Tobago
Liechtenstein	Niger
Lithuania	Belarus
Luxembourg	Turkey
Malta	St. Kitts and Nevis
Namibia	Indonesia
Netherlands	Libya
Nicaragua	Cameron
Norway	Egypt, Arab Republic

Adoptee	Non-Adoptee
Poland	Montenegro
Portugal	Switzerland
Romania	Vietnam
Slovak Republic	Singapore
Slovenia	Tunisia
South Africa	Burkina Faso
Spain	Australia
Sweden	Uganda
United Kingdom	New Zealand
Mauritius	Belize
Botswana	Nigeria
Croatia	Cape Verde
Fiji	Canada
Ghana	Philippines
Panama	Bangladesh
Tajikistan	Cambodia

Appendix C

Table C1: Ordinary Least Square Regression Analysis for Predictors of AGDP3Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.262*	-0.284**	-0.229	-0.224
C_LEN F	-0.269	-0.459*	-0.050	0.570
<i>Interaction</i>				
ADOPT x C_LEN F	-0.126	-0.106	0.068	-0.124
<i>Control Variables</i>				
C_PS		0.203	0.044	0.065
C_LOD			-0.415**	-0.183
C_CORRUP				-0.819**
C_LOE	0.089	0.109	0.119	0.073
C_FDI	0.109	0.107	0.186*	0.129
EU	0.327*	0.335*	0.296*	0.339**
F-value	1.806	1.717	2.216**	2.523**
N	93	93	92	92
R ²	0.112	0.124	0.176	0.217
Adjusted R ²	0.050	0.052	0.097	0.131

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN F = Level of Enforcement (Centered); ADOPT x C_LEN F =
Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD =
Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered);
C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =
; p<0.01 = *

Table C2: Ordinary Least Square Regression Analysis for Predictors of AGDP3Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.270*	-0.286*	-0.256*	-0.240
C_LEN	-0.427**	-0.545**	-0.335	0.161
<i>Interaction</i>				
ADOPT x C_LEN	-0.155	-0.134	0.047	-0.090
<i>Control Variables</i>				
C_PS		0.126	0.088	0.103
C_LOD			-0.276	-0.112
C_CORRUP				-0.636*
C_LOE	0.119	0.135	0.144	0.112
C_FDI	0.132	0.131	0.183	0.140
EU	0.375**	0.373**	0.311*	0.330*
F-value	3.408***	2.970***	2.813***	2.820***
N	84	84	84	84
R ²	0.210	0.215	0.231	0.255
Adjusted R ²	0.148	0.142	0.149	0.165

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); ADOPT x C_LEN =
Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD =
Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered);
C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =
; p<0.01 = *

Table C3: Ordinary Least Square Regression Analysis for Predictors of LN_AGDP3Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.274**	-0.294**	-0.259*	-0.252*
C_LENEN	-0.470***	-0.627**	-0.296	0.294
<i>Interaction</i>				
ADOPT x C_LENEN	-0.122	-0.093	0.028	-0.038
<i>Control Variables</i>				
C_PS		0.164	0.090	0.111
C_LOD			-0.428**	-0.224
C_CORRUP				-0.758**
C_LOE	0.122	0.143	0.156	0.117
C_FDI	0.114	0.112	0.193*	0.142
EU	0.390**	0.391**	0.322*	0.359**
F-value	3.886***	3.448***	3.719***	3.876***
N	86	86	86	86
R ²	0.228	0.236	0.279	0.315
Adjusted R ²	0.169	0.168	0.204	0.233

LN_AGDP3Y = Log of Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption; ADOPT = IFRS Adoption; C_LENEN = Level of Enforcement (Centered); ADOPT x C_LENEN = Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD = Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C4: Ordinary Least Square Regression Analysis for Predictors of GDP2010

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.117	-0.118	-0.043	-0.036
C_LEN	-0.248	-0.254	0.053	0.149
NOYA	-0.097	-0.096	-0.124	-0.130
<i>Interaction</i>				
ADOPT x C_LEN	0.115	0.116	0.090	0.084
<i>Control Variables</i>				
C_PS		0.007	-0.132	-0.128
C_LOD			-0.285	-0.249
C_CORRUP				-0.131
C_LOE	-0.016	-0.015	-0.010	-0.017
C_FDI	0.006	0.006	0.060	0.051
EU	-0.090	-0.090	-0.102	-0.097
F-value	2.208**	1.909*	2.035**	1.822*
N	93	93	92	92
R ²	0.154	0.154	0.183	0.184
Adjusted R ²	0.084	0.073	0.093	0.083

GDP2010 = Growth Rate of GDP per Capita in 2010; ADOPT = IFRS Adoption; C_LEN = Level of Enforcement; NOYA = Number of Years since Adoption; ADOPT x C_LEN = Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD = Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C5: Ordinary Least Square Regression Analysis for Predictors of GDP2010

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	0.330	0.283	0.299	0.362
C_LEN	-0.381*	-0.585**	-0.452	-0.099
NOYA	-0.378	-0.364	-0.380	-0.426
<i>Interaction</i>				
ADOPT x C_LEN	0.417*	0.466*	0.480*	0.462*
<i>Control Variables</i>				
C_PS		0.216	0.187	0.192
C_LOD			-0.146	-0.059
C_CORRUP				-0.420
C_LOE	0.075	0.097	0.098	0.073
C_FDI	-0.031	-0.291	0.002	-0.031
EU	-0.567**	-0.569**	-0.579**	-0.589**
F-value	3.632***	3.330***	2.969***	2.729***
N	63	63	63	63
R ²	0.316	0.330	0.335	0.344
Adjusted R ²	0.229	0.231	0.222	0.218

GDP2010 = Growth Rate of GDP per Capita in 2010; ADOPT = IFRS Adoption; C_LEN = Level of Enforcement; NOYA = Number of Years since Adoption; ADOPT x C_LEN = Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD = Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C6: Ordinary Least Square Regression Analysis for Predictors of LN_GDP2010

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	0.454	0.423	0.427	-0.473
C_LEN	-0.184	-0.323	-0.198	0.147
NOYA	-0.474*	-0.464*	-0.472*	-0.510**
<i>Interaction</i>				
ADOPT x C_LEN	0.373*	0.401*	0.413**	0.403*
<i>Control Variables</i>				
C_PS		0.148	0.115	0.132
C_LOD			-0.144	-0.014
C_CORRUP				-0.472
C_LOE	0.098	0.116	0.119	0.097
C_FDI	0.012	0.012	0.044	0.004
EU	-0.667***	-0.671***	-0.664***	-0.658***
F-value	3.528***	3.138***	2.823***	2.678***
N	76	76	76	76
R ²	0.266	0.273	0.278	0.292
Adjusted R ²	0.191	0.186	0.179	0.183

LN_GDP2010 = Log of Growth Rate of GDP per Capita in 2010; ADOPT = IFRS Adoption; C_LEN = Level of Enforcement; NOYA = Number of Years since Adoption; ADOPT x C_LEN = Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD = Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C7: Two-Stage Least Square Regression Analysis for Predictors of GDP2010

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
E_ADOPT	2.947	15.121***	15.088***	18.422***
C_LENf	-0.439***	0.454	0.683*	1.703***
NOYA	-0.219*	-0.198*	-0.203*	-0.214**
<i>Interaction</i>				
E_ADOPT x C_LENf	-0.246	-0.208	-0.132	-0.065
<i>Control Variables</i>				
C_PS		-1.133***	-1.168***	-1.373***
C_LOD			-0.265	-0.043
C_CORRUP				-1.072***
C_LOE	-0.067	-0.610***	-0.600***	-0.804***
C_FDI	0.154	0.248**	0.291***	0.248**
EU	-2.440	-14.438***	-14.463***	-17.765***
F-value	3.455	4.689***	4.422***	5.109***
N	89	89	89	89
R ²	0.230	0.319	0.335	0.396
Adjusted R ²	0.163	0.251	0.259	0.318

GDP2010 = Growth Rate of GDP per Capita in 2010; E_ADOPT = IFRS Adoption (Estimate); C_LENf = Level of Enforcement (Centered); E_ADOPT x C_LENf = Interaction between Estimated Value of Adopt and Level of Enforcement (Centered); C_PS = Political Stability (Centered); C_LOD = Level of Development (Centered); C_Corruption = Corruption (Centered); C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C8: Ordinary Least Square Regression Analysis for Predictors of AGDP5Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.315*	-0.329**	-0.285*	-0.284*
C_LEN	-0.507***	-0.622**	-0.419	0.098
<i>Interaction</i>				
ADOPT x C_LEN	-0.073	-0.050	0.038	-0.010
<i>Control Variables</i>				
C_PS		0.121	0.092	0.090
C_LOD			-0.269	-0.078
C_CORRUP				-0.669
C_LOE	0.166	0.184	0.185	0.156
C_FDI	0.132	0.131	0.181	0.131
EU	0.374*	0.369*	0.291	0.327
F-value	3.429***	2.973***	2.772***	2.800***
N	76	76	76	76
R ²	0.230	0.234	0.249	0.276
Adjusted R ²	0.163	0.156	0.159	0.178

AGDP5Y = Average Growth Rate of GDP per Capita Post Five Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); ADOPT x C_LEN =
Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD =
Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered);
C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =
; p<0.01 = *

Table C9: Ordinary Least Square Regression Analysis for Predictors of AGDP5Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.338**	-0.360**	-0.256	-0.256
C_LEN	-0.266	-0.537*	-0.138	0.513
<i>Interaction</i>				
ADOPT x C_LEN	-0.151	-0.117	-0.050	-0.101
<i>Control Variables</i>				
C_PS		0.286	0.131	0.120
C_LOD			-0.414*	-0.159
C_CORRUP				-0.854**
C_LOE	0.160	0.196	0.193	0.151
C_FDI	0.130	0.128	0.209*	0.143*
EU	0.333	0.330	0.235	0.285
F-value	1.776	1.828*	2.120**	2.408**
N	79	79	78	78
R ²	0.129	0.153	0.197	0.242
Adjusted R ²	0.056	0.069	0.104	0.141

AGDP5Y = Average Growth Rate of GDP per Capita Post Five Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); ADOPT x C_LEN =
Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD =
Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered);
C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =
; p<0.01 = *

Table C10: Ordinary Least Square Regression Analysis for Predictors of AGDP5Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.315*	-0.329**	-0.285*	-0.284*
C_LEN	-0.507***	-0.622**	-0.419	0.098
<i>Interaction</i>				
ADOPT x C_LEN	-0.073	-0.050	0.038	-0.010
<i>Control Variables</i>				
C_PS		0.121	0.092	0.090
C_LOD			-0.269***	-0.078
C_CORRUP				-0.669
C_LOE	0.166	0.184	0.185	0.156
C_FDI	0.132	0.131	0.181**	0.131
EU	0.374*	0.369*	0.291	0.327
F-value	3.429***	2.973***	2.772***	2.800***
N	76	76	76	76
R ²	0.230	0.234	0.249	0.276
Adjusted R ²	0.163	0.156	0.159	0.178

AGDP5Y = Average Growth Rate of GDP per Capita Post Five Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); ADOPT x C_LEN =
Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD =
Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered);
C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =
; p<0.01 = *

Table C11: Ordinary Least Square Regression Analysis for Predictors of LN_AGDP5Y

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.343**	-0.368**	-0.290*	-0.290*
C_LEN F	-0.547***	-0.757***	-0.399	0.050
<i>Interaction</i>				
ADOPT x C_LEN F	-0.072	-0.030	0.124	0.083
<i>Control Variables</i>				
C_PS		0.221	0.169	0.167
C_LOD			-0.472**	-0.306
C_CORRUP				-0.581
C_LOE	0.167	0.200	0.201	0.176
C_FDI	0.118	0.116	0.202*	0.159
EU	0.447**	0.439**	0.302	0.333*
F-value	3.880***	3.551***	3.794***	3.655***
N	76	76	76	76
R ²	0.252	0.268	0.312	0.333
Adjusted R ²	0.187	0.192	0.230	0.242

LN_AGDP5Y = Log of Average Growth Rate of GDP per Capita Post Five Years of IFRS

Adoption; ADOPT = IFRS Adoption; C_LEN F = Level of Enforcement (Centered); ADOPT x C_LEN F = Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD = Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C12: Ordinary Least Square Regression Analysis for Predictors of AGDP3Y

Variable	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
<i>Main Effects</i>							
ADOPT	0.195	-0.214	-0.235*	-0.210*	-0.254*	-0.278**	-0.236*
C_LEN	0.343						
LCPL		-0.339**					
LCP			-0.287*	-0.055			
LC					-0.348**	-0.592**	-0.282
<i>Interaction</i>							
ADOPT x C_LEN	-0.170						
ADOPT x LCPL		-0.158					
ADOPT x LCP			-0.097	-0.043			
ADOPT x LC					-0.112	-0.083	-0.058
<i>Control Variables</i>							
CPL	-0.656*						
C_PS						0.272	0.137
C_LOD				-0.404**			-0.286
C_LOE	0.070	0.102	0.078	0.121	0.103	0.123	0.132
C_FDI	0.149	0.136	0.106	0.183*	0.107	0.102	0.159
EU	0.325*	0.341**	0.303*	0.287*	0.355**	0.360**	0.323*
F-value	2.383**	2.547**	1.817	2.557**	2.377**	2.416**	2.353**
N	92	92	93	92	93	93	92
R ²	0.166	0.152	0.113	0.176	0.142	0.166	0.185
Adjusted R ²	0.096	0.093	0.051	0.107	0.082	0.097	0.106

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption; ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); LCPL = Index created by factoring LENF, CORRUP, PS, and LOD; ADOPT x C_LEN = Interaction between ADOPT and LENF; ADOPT x LCPL = Interaction between ADOPT and LCPL; ADOPT x LCP = Interaction between ADOPT and LCP; ADOPT x LC = Interaction between ADOPT and LC; LCP = Index created by factoring LENF, CORRUP, and PS; LC = Index created by factoring LENF and CORRUP; CPL = Index created by factoring CORRUP, PS, and LOD; C_PS = Political Stability (Centered); C_LOD = Level of Development (Centered); C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C13: Ordinary Least Square Regression Analysis for Predictors of LN_AGDP3Y

Variable	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
<i>Main Effects</i>							
ADOPT	-0.230*	-0.254*	-0.247*	-0.235*	-0.264*	-0.287**	-0.266*
C_LENf	0.072						
LCPL		-0.510***					
LCP			-0.439***	-0.197			
LC					-0.526***	-0.726***	-0.492*
<i>Interaction</i>							
ADOPT x C_LENf	-0.096						
ADOPT x LCPL		-0.106					
ADOPT x LCP			-0.150	0.018			
ADOPT x LC					-0.115	-0.077	0.005
<i>Control Variables</i>							
CPL	-0.583*						
C_PS						0.217	0.161
C_LOD				-0.449**			-0.288
C_LOE	0.096	0.112	0.091	0.135	0.125	0.146	0.157
C_FDI	0.149	0.143	0.111	0.197*	0.110	0.106	0.163
EU	0.359**	0.375**	0.380**	0.314*	0.412**	0.408**	0.358**
F-value	3.834***	4.477***	3.860***	4.287***	4.740***	4.338***	4.043**
N	86	86	86	86	86	86	86
R ²	0.256	0.254	0.227	0.278	0.265	0.280	0.296
Adjusted R ²	0.189	0.197	0.168	0.213	0.209	0.216	0.223

LN_AGDP3Y = Log of Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption; ADOPT = IFRS Adoption; C_LENf = Level of Enforcement (Centered); LCPL = Index created by factoring LENf, CORRUP, PS, and LOD; ADOPT x C_LENf = Interaction between ADOPT and LENf; ADOPT x LCPL = Interaction between ADOPT and LCPL; ADOPT x LCP = Interaction between ADOPT and LCP; ADOPT x LC = Interaction between ADOPT and LC; LCP = Index created by factoring LENf, CORRUP, and PS; LC = Index created by factoring LENf and CORRUP; CPL = Index created by factoring CORRUP, PS, and LOD; C_PS = Political Stability (Centered); C_LOD = Level of Development (Centered); C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C14: Ordinary Least Square Regression Analysis for Predictors of Chg_GDP

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.220	-0.239*	-0.228	-0.228
C_LENf	-0.197	-0.361	-0.249	-0.304
<i>Interaction</i>				
ADOPT x C_LENf	0.156	0.173	0.188	0.193
<i>Control Variables</i>				
C_PS		0.176	0.138	0.137
C_LOD			-0.121	-0.142
C_CORRUP				0.072
C_LOE	0.283**	0.302**	0.306**	0.310**
C_FDI	-0.011	-0.012	0.010	0.015
EU	0.122	0.129	0.113	0.109
F-value	1.403	1.322	1.109	0.978
N	93	93	92	92
R ²	0.089	0.098	0.097	0.097
Adjusted R ²	0.026	0.024	0.010	-0.002

Chg_GDP = Change in Average Growth Rate of GDP per Capita between Pre Five Years and Post Three Years of IFRS Adoption; ADOPT = IFRS Adoption; C_LENf = Level of Enforcement (Centered); C_PS = Political Stability (Centered); C_LOD = Level of Development (Centered); C_CORRUP = Corruption (Centered); C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union (Centered); p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C15: Ordinary Least Square Regression Analysis for Predictors of LN_Chg_GDP

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-0.172	-0.174	-0.162	-0.147
C_LEN	0.391	0.289	0.153	0.385
<i>Interaction</i>				
ADOPT x C_LEN	0.068	0.098	0.090	0.079
<i>Control Variables</i>				
C_PS		0.100	0.137	0.142
C_LOD			0.140	0.221
C_CORRUP				-0.332
C_LOE	-0.014	-0.116	-0.023	-0.042
C_FDI	0.156	0.162	0.169	0.149
EU	-0.201	-0.201	-0.208	-0.183
F-value	0.942	0.807	0.724	0.673
N	47	47	47	47
R ²	0.124	0.127	0.132	0.141
Adjusted R ²	-0.008	-0.030	-0.050	-0.068

LN_Chg_GDP = Log of Change in Average Growth Rate of GDP per Capita between Pre Five Years and Post Three Years of IFRS Adoption; ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); C_PS = Political Stability (Centered); C_LOD = Level of Development (Centered); C_CORRUP = Corruption (Centered); C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU = European Union (Centered); p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C16: OLS Regression Analysis for Predictors of AGDP3Y (Adjusted Standard Errors)

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-1.484**	-1.587**	-1.428*	-1.392*
C_LEN	-1.670***	-2.043***	-1.251*	0.499
<i>Interaction</i>				
ADOPT x C_LEN	-0.120	-0.096	-0.009	-0.067
<i>Control Variables</i>				
C_PS		0.138	0.084	0.103
C_LOD			-0.308	-0.128
C_CORRUP				-0.669*
C_LOE	0.118	0.136	0.145	0.111
C_FDI	0.128	0.127	0.185*	0.140
EU	0.321*	0.321*	0.272	0.305*
F-value	3.235***	2.841**	2.796***	2.861***
N	86	86	86	86
R ²	0.197	0.203	0.225	0.253
Adjusted R ²	0.136	0.132	0.145	0.165

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); ADOPT x C_LEN =
Interaction between Adoption and the Level of Enforcement; C_PS = Political Stability
(Centered); C_LOD = Level of Development (Centered); C_CORRUP = Corruption (Centered);
C_LOE = Level of Education (Centered); C_FDI = Foreign Direct Investment (Centered); EU =
European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Table C17: OLS Regression Analysis for Predictors of AGDP3Y (Adjusted Standard Errors)

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	-1.709**	-1.859**	-1.508*	-1.472*
C_LEN	-1.189***	-1.775***	-0.333	1.625
<i>Interaction</i>				
ADOPT x C_LEN	-0.126	-0.106	0.068	-0.124
<i>Control Variables</i>				
C_PS		0.203	0.044	0.065
C_LOD			-0.415**	-0.183
C_CORRUP				-0.819**
C_LOE	0.089	0.109	0.119	0.073
C_FDI	0.109	0.107	0.186*	0.129
EU	0.327*	0.335*	0.296*	0.339**
F-value	1.806	1.717	2.216**	2.523**
N	93	93	92	92
R ²	0.112	0.124	0.176	0.217
Adjusted R ²	0.050	0.052	0.097	0.131

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption;
ADOPT = IFRS Adoption; C_LEN = Level of Enforcement (Centered); ADOPT x C_LEN =
Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD =
Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education (Centered);
C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =
; p<0.01 = *

Table C18: 2SLS Regression Analysis for Predictors of AGDP3Y (Adjusted Standard Errors)

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
E_ADOPT	0.447	5.113***	5.332***	7.476***
C_LEN	-2.033***	1.699	2.723*	7.615***
<i>Interaction</i>				
E_ADOPT x C_LEN	-0.309	-0.263	-0.182	-0.103
<i>Control Variables</i>				
C_PS		-1.313***	-1.402***	-1.895***
C_LOD			-0.242	0.000
C_CORRUP				-1.222***
C_LOE	-0.037	-0.685**	-0.709**	-1.073***
C_FDI	0.149	0.344***	0.394***	0.407***
EU	-0.889	-14.535***	-15.238***	-21.523***
F-value	3.447***	4.174***	3.839***	4.740***
N	87	87	87	87
R ²	0.205	0.270	0.282	0.357
Adjusted R ²	0.146	0.205	0.209	0.281

AGDP3Y = Average Growth Rate of GDP per Capita Post Three Years of IFRS Adoption;

E_ADOPT = IFRS Adoption (Estimate); C_LEN = Level of Enforcement

(Centered); E_ADOPT x C_LEN = Interaction between Estimated Value of Adopt and Level of Enforcement (Centered); C_PS = Political Stability (Centered); C_LOD = Level of Development (Centered); C_Corruption = Corruption (Centered); C_LOE = Level of Education (Centered);

C_FDI = Foreign Direct Investment (Centered); EU = European Union; p<0.10 = *; p<0.05 =

; p<0.01 = *

Table C19: OLS Regression Analysis for Predictors of GDP2010 (Adjusted Standard Errors)

Variable	Model 1	Model 2	Model 3	Model 4
<i>Main Effects</i>				
ADOPT	1.231	0.978	0.991	1.184
C_LENf	-0.229	-0.713*	-0.398	-0.325
NOYA	-0.349	-0.331	-0.340	-0.375
<i>Interaction</i>				
ADOPT x C_LENf	0.410**	0.457**	0.469**	0.458**
<i>Control Variables</i>				
C_PS		0.260	0.225	0.240
C_LOD			-0.144	-0.021
C_CORRUP				-0.439
C_LOE	0.128	0.160	0.163	0.143
C_FDI	-0.026	-0.026	0.006	-0.031
EU	-0.567***	-0.572***	-0.566***	-0.562***
F-value	4.655***	4.375***	3.926***	3.669***
N	78	78	78	78
R ²	0.318	0.337	0.342	0.354
Adjusted R ²	0.249	0.260	0.255	0.257

GDP2010 = Growth Rate of GDP per Capita in 2010; ADOPT = IFRS Adoption; C_LENf = Level of Enforcement; NOYA = Number of Years since Adoption; ADOPT x C_LENf = Interaction between Adoption and Level of Enforcement; C_PS = Political Stability; C_LOD = Level of Development; C_CORRUP = Corruption; C_LOE = Level of Education; C_FDI = Foreign Direct Investment; EU = European Union; p<0.10 = *; p<0.05 = **; p<0.01 = ***

Vita

Syed Kashif Raza Zaidi, the first child of Syed Arif Raza Zaidi and Tasneem Zehra, was born and raised in Sindh, Pakistan. He graduated from Government Delhi College, Karachi, Pakistan with a Higher Secondary Certificate (equivalent to the High School Diploma in the United States). He received his Diploma in Computer Science from Petroman Training Institute, Karachi, Pakistan. He earned his Bachelor of Business Administration from Bahria College Karachi affiliated with the University of Peshawar, Peshawar, Pakistan. He came to the United States for higher education in 1998. He earned a Bachelor of Science in Finance from California State University, Long Beach, California. He then joined Nationwide Funding, LLC, Irvine, California, where he worked as an Account Executive. Soon he started his own business ARTA Custom Engraving in Victorville, California. Due to bad economic conditions, he has to soon shut down his business and return to work. He joined HireRight, Inc., Rancho Cucamonga, California, where he worked for four years. While working at HireRight, Inc., he went back to school and earned his Master of Business Administration in Accounting from California State University, San Bernardino, California. In fall 2008, he entered the Graduate School at the University of Texas at El Paso, Texas, in pursuit of a Doctor of Philosophy in International Business with a concentration in Accounting. He has taught various Accounting courses at the University of Texas at El Paso since fall 2008. He has also presented number of articles at the annual meetings of American Accounting Association.

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