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IFRS adoption and accounting regulation in Ethiopia

Yitayew Mihret Wagaw
Department of Accounting and Finance, Addis Ababa University, Addis Ababa, Ethiopia

Dessalegn Getie Mihret
Department of Accounting, Deakin University, Melbourne, Australia, and

Degefe Duressa Obo
Department of Accounting and Finance, Addis Ababa University, Addis Ababa, Ethiopia

Abstract

Purpose – The purpose of this study is to examine international financial reporting standards (IFRSs) adoption in Ethiopia to explain transnational political-economic antecedents of this change and its associated consequences on the regulatory landscape of accounting.

Design/methodology/approach – Using a neo-Gramscian theory of globalization and the state, the study examines interview and document review evidence pertaining to IFRS adoption in Ethiopia by focusing on the period from 1991 to 2014.

Findings – The study illustrates that a dialectical rather than deterministic interaction between global and national forces explains IFRS adoption in Ethiopia, i.e. IFRS adoption falls within the broader scheme of universalizing regulatory institutions in the globalizing world economy. Compared to the commonly understood trends of IFRS adoption circumscribed within a pre-existing regulatory framework, this study illustrates IFRS adoption as a primary driver of major reforms to the accounting regulatory landscape.

Originality/value – This study contributes original theoretically grounded insights into the transnational political-economic rationale for IFRS adoption and consequences of the adoption on the accounting regulatory landscape.

Keywords IFRS, Accounting regulation, Ethiopia, Accounting standards, Neo-Gramscian theory of globalization

Paper type Research paper

1. Introduction

Prevailing demand for improved financial reporting quality is often advocated as a justification for international financial reporting standards (IFRSs) adoption (Ball, 2006), although many developing countries without well-developed market economic environments have adopted IFRS over the past few decades (Hopper *et al.*, 2017). This observation suggests the need to examine the rationale, processes and consequences of IFRS adoption in the diverse political and economic contexts of developing countries to develop a more complete understanding of the increasing prominence of IFRS as a global corporate governance technology (Chua and Taylor, 2008). In particular, it is unclear how IFRS adoption occurs in contexts where the globalizing neo-liberal, i.e. market-led, economic policy paradigm that promotes IFRS encounters ideological climates that are non-market centric. For example, Ethiopia[1], the empirical setting selected for this study, pursues the "developmental state" ideology that advocates a state-led economic development. This

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policy choice challenges neo-liberalism and instead advocates increased involvement of the state in economic management (Bach, 2011; Gudina, 2011).

This study examines IFRS adoption in Ethiopia using the neo-Gramscian theory of globalization and the state to explain how the dialectics of national and global forces facilitated the adoption, which in turn shaped the Ethiopian accounting regulatory architecture. This theoretical lens enables incorporating a broad range of factors than market-based explanations of IFRS adoption that prior research has emphasized. We interviewed key stakeholders of IFRS adoption in Ethiopia and reviewed documentary evidence pertinent to the process. Ethiopian stakeholders articulated IFRS adoption in view of improving the country's financial reporting quality to enhance corporate governance and bolster the country's economic development. This desire intersected with the neo-liberal globalizing push of International Financing Institutions' (IFIs) – i.e. the World Bank (WB) and International Monetary Fund (IMF) – for IFRS adoption. This commonality of interest in the IFRS adoption agenda emerged, despite the overt ideological disparity between international stakeholders and the Ethiopian government because the two parties shared the view that IFRS facilitates accomplishment of economic development goals.

The study's contributions are two-fold. First, it offers theoretically grounded interpretation of IFRS adoption in a non-market centric setting within the unfolding phenomenon of globalization. To the best of the researchers' knowledge, this is the first study to use in a study of IFRS adoption the neo-Gramscian theoretical lens, which enables considering transnational political-economic dynamics. Second, it brings to light the variations in the strength of the institutional frameworks with which IFRS operates in different countries. Such insight would inform transnational investors' and regulators interested in evaluating accounting as a global governance technology (Chua and Taylor, 2008).

The remainder of the paper is structured as follows. The following section provides general country background of Ethiopia and its accounting regulatory framework prior to IFRS adoption; develops theoretical framework for the study and reviews literature relevant to development of international regulatory mechanisms under globalization. Section III outlines the research methods employed, which is followed by analysis of the antecedents, processes and consequences of IFRS adoption in Ethiopia in Section IV. Section V discusses the findings of the study and section six draws conclusion and implications.

2. Background, theoretical framework and literature review

2.1 The Ethiopian context and its link with the international financial architecture

Ethiopia is a sub-saharan African developing country with an estimated population of over 100 million (as on January 2016) (www.worldometers.info/world-population/ethiopia-population/). From 1974 to 1991, Ethiopia was a communist country aligned with the Eastern bloc in the cold war until the Soviet Union disintegrated in the early 1990s. Ethiopia's economy, business and accounting environment have been in transition since the early 1990s (Mihret *et al.*, 2012). As shown in Table I, Ethiopia's gross domestic product, annual growth in gross domestic product and foreign direct investment increased considerably between 1990 and 2015. IFRS adoption occurred in the context of these development trends as a product of Ethiopia's national and international political-economic dynamics.

Similar to the experience in numerous developing and emerging economies, accounting reforms have been undertaken in Ethiopia under the intellectual leadership and funding of the IFIs within the framework of Reports on Standards and Codes (ROSCs) (Mihret and Bobe, 2014). The World Trade Organization (WTO) played a conspicuous role in this process, and reform measures taken in this regard include privatization of state-owned enterprises (Tesema, 2003; Mihret *et al.*, 2012).

The Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), which assumed state power in 1991 by overthrowing a communist military regime through a seventeen-year armed struggle, has been managing the reforms, of which IFRS adoption is a part. The change of government marked Ethiopia's shift from a communist bloc membership to a key ally of Western powers through development partnerships and collaboration in the international war on terror (Verhoeven, 2009). Ethiopia's political-economic context is underpinned by the developmental state ideology, in contrast to neo-liberalism (Jessop, 1994); thus, it potentially undermines the underlying market economic assumptions of IFRS. Ethiopia's developmental state ideology affords the state a central organizing role in a country's political economy and advocates long tenure in power for a "dominant party," i.e. EPRDF (Bach, 2011; Gudina, 2011). As a result, Ethiopia's economic policy reforms in partnership with the globalizing agents spawned dialectical relationship between liberal principles that advocate the central role of market forces in organizing society and the Ethiopian government's developmental state ideology that promotes concentration of power with the state (Feyissa, 2011; Lefort, 2012). For instance, Meles Zenawi, the late leader of EPRDF (1991-2013) rejected neo-liberalism as a "dead-end" and proposed the developmental state paradigm as a viable alternative to realize Africa's development ambitions (Zenawi, 2012; Zenawi, 2006, p. 26). Amidst ideological disparity, the globalizing stakeholders and the Ethiopian government collaborated in advancing Ethiopia's IFRS adoption agenda.

Ethiopia's accounting regulatory framework prior to IFRS adoption lacked not only solid accounting and audit framework but also a legally backed professional accounting body to undertake self-regulation (World Bank, 2007). The responsibility to regulate the accounting profession was given to the Office of the Federal Auditor General (OFAG). Although the Ethiopian Professional Association of Accountants and Auditors (EPAAA) was established in 1973 with the ambition to develop as a self-regulating accounting profession in Ethiopia, the association failed to realize this goal and secure legislative backing as an authoritative body (World Bank, 2007; Mihret *et al.*, 2012). Further, EPAAA has not developed the capacity to provide professional training and certification examinations to its members. As a consequence, the association's membership largely comprises members of the Association of Chartered Certified Accountants (ACCA), a UK-based professional accountancy body that actively operates in the Ethiopian market. Most of the accountants in public practice are members of this association (Mihret and Bobe, 2014).

Ethiopia's private sector audit market is underdeveloped. Further, the financial system barely generates demand for audited financial statements because banks rely on collateral lending. As a result, the tenuous accounting regulatory set up in Ethiopia was fragmented and remained without a defined set of accounting standards, a dedicated regulatory organ or an authoritative professional accounting body (Mihret *et al.*, 2012) until Proclamation No. 847/2014 was issued to establish the institutional platform for developing integrated accounting regulatory framework.

Table I.
World development indicators for Ethiopia

Indicator	1990	2000	2010	2015
GDP (current US$)	12,175,166,763	8,242,392,104	29,933,790,334	61,537,143,095
GDP growth (annual %)	2.73	6.07	12.55	9.61
Foreign direct investment, net inflows (current US$)	–	134,640,000	288,271,568.3	2,167,600,000

Source: Extracted from: http://databank.worldbank.org/data/reports.aspx?source=2&country=ETH#

2.2 Theoretical perspective

This study draws on the neo-Gramscian theory of globalization and the state, to enable an investigation of the dialectical rather than deterministic relationship between the global and national forces that drove IFRS adoption in Ethiopia. Prior studies have used Gramsci's concepts to explain the role of hegemonic control in establishing regulatory systems of accounting within political-economic boundaries of individual countries (Yee, 2012) as well as transnational accounting regulatory issues (Caramanis, 2002). Hegemony refers to ideological leadership that involves the use of consent without disregarding coercive means (Jessop, 1994). The neo-Gramscian extension of the concept of hegemonic control in the context of globalization (Cox, 1981, 1983; Jameson, 1988) could provide a suitable framework to examine the development of IFRS as an international regulatory technology through a dialectical interaction of global and national forces.

The neo-Gramscian version of hegemony transcends the dualistic conception of transnational hegemony that caters to the colonial and post-World War II eras of transnational capitalism (Caramanis, 2002). The neo-Gramscian view contends that the post-cold war mode of transnational hegemony has shifted to a dialectical mode through the globalization phenomenon (Gill and Law, 1989). Global capitalist development assumes the existence of transnational regulatory mechanisms, including accounting. Ideology plays an important role in the development of regulatory institutions of accounting (Edwards, 2001; Robson *et al.*, 1994), e.g. by providing justification for IFRS adoption. The neoliberal ideology, which advocates that globalization as a process of integrating the global economy is natural and inevitable underpins economic policy reforms in numerous countries, underpins the spread of IFRS internationally and associated reforms (Arnold, 2005; Robinson, 2001).

Ideology facilitates transformation of systems (Ricoeur, 1986) by enabling actions and it is advocated by organic intellectuals, i.e. "the thinking and organizing element of a particular fundamental social class, [which direct] the ideas and aspirations of the class to which they organically belong" (Gramsci, 1971, p. 131). The role of IFIs in the globalizing economy is conceptualized as organic intellectuals advancing the global capitalist agenda (Cox, 1983). As transnational capitalist development transformed from an imperialist form to a global one, which is collaborative in nature, transnational power relations shifted from a direct, coercive form to a structural form that operates through hegemonic power of global capital. The neo-Gramscian lens illuminates the structural power of capital in this respect, which is manifested in financial incentives the global financial community offers to countries that comply with the globalizing order or applying sanctions when necessary (Gill and Law, 1989).

In this sense, numerous countries have undertaken market liberalization reforms to align regulatory institutions – including those relating to accounting – to the global order. The neoliberal ideology advocates "market efficiency, free trade, and minimal government" (Arnold, 2005, p. 303). From this perspective, globalization is conceived as a product of market forces. The state serves as a crucial agent in the neo-Gramscian notion of the national-global dialectic. Neo-Gramcians have reformulated the Marxist view of imperialist transnational relations for relevance to the recent trend of globalization. The Marxist view regards the state as the ruling class that advocates the interests of the capitalist class by maintaining prevailing capital labor relations. In the Marxian sense, the state is viewed as a vanguard of national capital that fends off imperialist expansion into the domestic economy. In contrast, the neo-Gramscian view conceives the state in the globalizing world as a mediating agent between global and national capital, which attempts to ensure that the national economy benefits from the globalizing developments (Robinson, 2001).

2.3 Literature review: Globalization, the transnational political-economy and international financial reporting standards

A considerable portion of the literature explains IFRS adoption as a market-driven response aimed at addressing demand for enhanced financial reporting quality. This argument largely originates from the perspective of market-based economies (for a review, please refer to Ali, 2005). An alternative explanation relevant to emerging economies is that the interest to facilitate adopting countries' corporations' access to international capital markets drives IFRS adoption. From this standpoint, IFRS adoption is driven by transnational corporations of adopting countries seeking cross-border stock exchange listings. Another stream of the accounting literature emphasizes the role of broader socio-political and economic factors in driving changes in accounting regulation (Cooper and Sherer, 1984). Consistent with this thinking, recent studies (Hopper *et al.*, 2017) present the neo-liberal globalizing agenda as the driving force behind IFRS adoption by numerous developing countries. This argument builds on economic policy reforms of developing countries undertaken with international development assistance in which many IFRS adoption initiatives are incorporated.

One stream of the IFRS literature poses a critical argument that the IFRS adoption agenda has politico-economic roots in the globalizing financial architecture (Perry and Nölke, 2006) that is spearheaded by IFIs and WTO (Hopper *et al.*, 2017). In this respect, the need for global governance mechanisms such as the IFRS is particularly evident because transnational investment grew three times faster than trade between the 1980s and 1990s (Benería, 1995), and transnational corporations increased their foreign direct investment by 15 per cent per year in the 1990s, which stood at US$974 bn as of 2005 (Manfred, 2003, p. 50). Globalization has witnessed a growing trend of the need to discipline domestic regulation in individual countries, internationalize professional services and universalize regulatory mechanisms such as IFRS (Arnold, 2005).

Development of the global economic order over the last three decades under the leadership of IFIs and the WTO (Manfred, 2003) and the ensuing need for a set of global regulatory technologies has served as a key driving force behind the increasing adoption of IFRS worldwide. The pressure on developing countries for IFRS adoption (Hopper *et al.*, 2017) often encounters individual countries' political-economic and ideological forces that facilitate or inhibit the adoption. The state plays a central role in mediating interactions between national and transnational stakeholders with a view to ensuring that national economies benefit from internationalization (Jessop, 1994). Variations in ideological predispositions of countries may have an important bearing in this respect. In particular, there are two competing extremes regarding the role of the state *vis-à-vis* the market as a primary player in steering economic development. At one end of the continuum, we find neo-liberalism that contends that the market should serve as a key driver of economic development. At the other end, we find the developmental state paradigm that presents the state as the main driver of economic development (Zenawi, 2012; Zenawi, 2006). This disparity in political economic ideology may have a bearing on IFRS adoption because IFRS are underpinned by the assumptions of a market-based economy and a corporate sector characterized by distributed corporate ownership.

Overall, the role of accounting in regulating the economy and the influence of transnational forces in globalizing financial reporting institutions has been well documented (Puxty *et al.*, 1987; Arnold, 2009). However, consistent calls have been made for research on the link between accounting and its political-economic context (Chua and Poullaos, 1993; Ezzamel and Xiao, 2015), and such calls remain open especially in relation to developing economic contexts. This observation raises interest to examine how IFRS adoption takes place in developing economic settings such as Ethiopia, which has an underdeveloped market environment and an ideological climate that contradicts neo-liberalism. With reference to the Ethiopian setting, this study examines IFRS adoption using the following research question and sub questions:

RQ1. How is IFRS adoption realized in a politico-economic setting in the apparent absence of market-driven demand for IFRS-based financial reporting and how does this change interact with the accounting regulatory landscape?

RQ1.1. What are the supporting rationale and processes of IFRS adoption in Ethiopia?

RQ1.2. How does IFRS adoption interact with the accounting regulatory landscape?

3. Research methods

3.1 Research approach

This paper is based on a country-level case study of Ethiopia, using the country's IFRS adoption project, which involved national and international stakeholders during the period from 1991 to 2014. The year 1991 marked a change of government that sparked a major policy shift away from Ethiopia's command economic system. The shift was subsequently followed by developments that engendered IFRS adoption and setting up of accounting regulatory structures formalized in 2014 through an accounting legislation. Conceptualizing IFRS adoption in a defined context requires studying such projects holistically and contextually to capture pertinent political and economic factors. This makes the case study research approach suitable to enable in-depth analysis of the process using multiple data sources as necessary (Yin, 1994; Yin, 1981). This approach enables extending current understanding of IFRS adoption regarding the emerging conceptualization of IFRS as a global governance technology with due consideration of the influence of institutional contexts of individual countries. Data were collected through semi-structured interviews and review of documents pertinent to Ethiopia's IFRS adoption project.

3.2 Document reviews

The documents reviewed include professional and academic publications on Ethiopian accountancy, government policy documents specifically relating to the IFRS adoption project, IFIs' reports on Ethiopia, international consultants' reports on Ethiopia's accounting reforms, minutes of the National Steering Committee (NSC) for accounting reforms in Ethiopia and an accounting legislation issued as an outcome of the IFRS adoption process. Hard or soft copies of these documents were collected from individuals and institutions involved in the IFRS adoption project or from publicly available sources.

3.3 Interviews

Interview participants included key stakeholders directly involved in the IFRS adoption process, namely, members of the NSC comprising its sub-committees (for setting accounting standards, undertaking legal reform and establishing National Accountants and Auditors Board of Ethiopia (NAABE)) and officers of National Bank of Ethiopia as a regulator of financial reporting in the banking sector. Close involvement in the IFRS adoption project was used as the major criterion for selecting interviewees. Interviews were conducted from September 2015 to December 2015 in the office premises of the participants. The interview durations ranged approximately between 30 and 120 min per interview and lasted 61 min on an average. Table II shows the details of the interviews including composition of interviewees. One of the researchers conducted all the interviews. The researcher audio-

Table II.
Interview details

Participant reference	Background	Interview date	Interview duration (min)
1	Audit director	22 September 2015	20
2	Senior audit manager	22 September 2015	40
3	Audit firm partner	23 September 2015	60
4	Audit firm partner	25 September 2015	100
5	Government office/Practitioner	25 September 2015	60
6	Audit practitioner	02 October 2015	90
7	Audit firm partner	03 October 2015	60
8	Audit practitioner	19 October 2015	57
9	Accounting Academic	20 October 2015	60
10	Government office/Higher official	22 October 2015	75
11	Government office/Expert	27 October 2015	60
12	Government office/Higher official	28 October 2015	120
13	Audit manager	28 October 2015	20
14	Accounting Academic	31 October 2015	30

taped the interviews when participants granted permissions or took extensive hand-written notes during the interviews. He then transcribed the interviews in the Amharic[2] language in which the interviews were conducted and then translated the transcripts into English.

3.4 Method for analysis of evidence

Thematic analysis was used for analyzing the interview and document review evidence (Braun and Clarke, 2006). To gain a sense of the whole content of the interview responses (Graneheim and Lundman, 2004), the researchers independently read through the transcripts and interpreted the responses to identify themes that emerged from the data. Then, the researchers refined and strengthened the themes through several iterations of interpretations and discussions before further analysis and write-up commenced. Following prior studies that used thematic analysis (Mihret *et al.*, 2017), we integrated interview and document review data in the analysis to enrich the themes and avoid potential repetitive content.

4. Analysis

This section presents analysis of the antecedents, rationale, process and outcomes of IFRS adoption in Ethiopia.

4.1 Economic liberalization reforms and Ethiopia's international financial reporting standards adoption agenda

Developments that facilitated IFRS adoption in Ethiopia are traced to the early 1990s when the country started engaging globalizing forces in development partnerships. Following the general trend in the globalization era, Ethiopia pursued economic policy reforms undertaken with financial and technical assistance of IFIs since 1991 (Peterson, 2001; Tesema, 2003). In 1997, the British Overseas Development Agency funded an Ethiopian government project entitled "National Accounting and Audit Development Program" that considered ways to strengthen accountancy in Ethiopia. A key policy recommendation that originated from this project was to establish a national board of accountants and auditors to regulate the profession (Mihret and Bobe, 2014). Ethiopia lodged an application for WTO membership in 2003 and the country has been undertaking IFI-led reforms to meet WTO's admission requirements (World Trade Organization, 2011; World Trade Organization, 2007). Ethiopia's move to gain WTO membership re-invigorated the need for accounting reforms because developing Ethiopia's accounting infrastructure was one of the key considerations for WTO membership. The Ministry of Trade and Industry (MOTI) commissioned a project – in 2005 – funded by the Japanese government to explore strategies for developing accounting and auditing standards. The ministry appointed OFAG and the EPAAA to jointly undertake this task, which they outsourced to the ACCA (ACCA, 2005). The ACCA produced a report that set out a "roadmap" for setting up accounting and auditing standards and "investigatory and disciplinary system for audit quality control" (ACCA, 2005, p. 4). This report recommended the need to establish board of accountant and auditors as a (ACCA, 2005, p. 7):

> [. . .] comprehensive body to oversee the [. . .] education and training of the profession [;. . .] registration of accountants and auditors [;. . .] establishment of standards for them [;and . . .] regulating their performance, including investigation of possible shortcomings.

Similarly, Participant 1 stated:

> [. . .] absence of reporting standards in Ethiopia and lack of a reporting frameworks meant that auditors lacked uniform standards to follow in conducting audits and preparing audit reports.

Accordingly, the accounting reform was driven by a perceived need for (ACCA, 2005, p. 41):

> [. . .] Properly legislated regulatory standards governing the presentation of financial statements and the auditing of such statements.

Further, IFIs provided financial support and expert assistance for the reforms (The World Bank, 2007) by funding projects aimed at strengthening the private sector[3] and developing global competitiveness of the Ethiopian economy (The World Bank, 2010). One component of the reforms, which is the most relevant to the present study, focused on modernizing the financial infrastructure of the country. This initiative originated from a joint study of the World Bank and IMF that produced the ROSC report on Ethiopia in 2007 (The World Bank, 2007). This report underscored the need to enhance the financial reporting infrastructure and develop the capacity of auditors and accountants in Ethiopia. This imperative is underpinned by the IFIs interest to support member countries to:

> [. . .] strengthen their systems by improving *compliance with internationally recognized standards and codes of best practice* (MOFED, 2015, p. 6) [emphasis in the original].

ROSC re-enforced the observations documented in the road map study outlined above. The ROSC report articulated the need for a regulatory framework for financial reporting and auditing in Ethiopia. The report presented an assessment of the status of Ethiopia's financial reporting and external audit, and offered recommendations for reform, namely, enacting a financial accountancy law, revising the Commercial Code of Ethiopia, developing financial reporting standards in consideration of IFRS and establishing a NAABE to regulate accounting in Ethiopia (The World Bank, 2007).

4.2 The rationale and process of international financial reporting standards adoption in Ethiopia

Ethiopia's attempt to integrate into the international financial architecture and gain access to the global economic system at large provided the underlying rationale for the interest of the Ethiopian government in IFRS adoption (Mihret *et al.*, 2012). This section presents the rationale and process of Ethiopia's IFRS adoption as well as the resulting changes that followed the adoption.

4.2.1 Rationale. Preliminary discussions on IFRS adoption in Ethiopia started in 2002 (Participant 7). Nevertheless, the agenda gathered momentum after the ROSC report helped establish a frame of reference for articulating the shortcomings of the regulatory landscape of accounting and suggested the way forward to address them. Following understanding of pertinent issues facing the Ethiopian accounting environment stipulated in the ROSC report, initiatives were taken to improve the Ethiopian financial reporting framework mainly centered on IFRS adoption and building pertinent regulatory infrastructure. Participant 11 noted:

> The ROSC is a professional study that reflected the reality of the Ethiopian accounting system and raised awareness of stakeholders. The ROSC study created the foundation for IFRS adoption.

The role of high quality financial reporting for Ethiopia's economic development served as the key rationale underpinning arguments for IFRS adoption. By contrast, concerns raised in initial discussions of IFRS adoption include the fact that Ethiopia does not have a stock market and thus the need for IFRS was not evident. This point is consistent with the argument that IFRS are developed with underlying assumptions of a developed market-based economy. As Interview 6 commented:

> IFRS is formulated based on the developed countries' context. Due to the complexity of IFRS and the nature of Ethiopian business environment, the full IFRS adoption would not be advisable for Ethiopia; rather Ethiopia shall adapt or amend the standards depending on the Ethiopian business context.

Despite such reservations on the need for IFRS adoption, subsequent discussions on IFRS adoption foreshadowed possible establishment of a stock market in Ethiopia in the long run and underscored the central role of financial reporting quality facilitating accomplishment of this goal, i.e. IFRS adoption was presented as antecedent to economic development, which would in turn create conditions for stock market development. As Participant 7 noted:

> [. . .] a financial infrastructure with strong stock market presumes high quality financial reporting.

The National Steering Committee (NSC), a team that coordinated the reforms associated with IFRS adoption, stated that improved financial reporting:

> [. . .] assists in creating a corporate debt market in the short-term to alleviate the current severe shortage of long-term finance. Although establishing a stock market requires strong institutional infrastructures to reduce information asymmetry, establishing a corporate debt market among firms is possible if we improve the current financial reporting practices (Technical Committee for Establishment of NAABE and the Professional Body, 2010a, p. iv).

Furthermore, arguments were forwarded from the standpoint of facilitating economic development. In particular, IFRS was presented as one of the mechanisms to improve the tax collection system of Ethiopia and "attracting foreign direct investment" (MOFED, 2015, p. 20). A further benefit anticipated was the potential of IFRS to facilitate bank lending through high quality financial reporting thereby to transform the country's financial system to allow firms' access to finance. This benefit is raised with reference to collateral-based lending that characterizes Ethiopia's banking system, which was perceived to have inhibited firms' access to finance. Achieving improved transparency and good corporate governance and fulfilling the requirements of international donors and other international institutions provided the context for IFRS adoption discussions (Participant 7). In these discussions, accounting standards were sought to enhance credibility of financial reports presented to

> [. . .] banks for providing finance to the private sector [. . .;] the tax authorities for the determination of tax liabilities [. . .;] trading partners for the extension of credit and support of relationships [. . .; and] shareholders for the evaluation of the businesses in which they have invested (ACCA, 2005, p. 12).

It was also reported that IFRS and the associated reporting framework foster "accountability of professionals and preparers" (MOFED, 2015, p. 20). Furthermore, consistent with the influence of international stakeholders' views, financial reporting transparency was deemed necessary to:

> [. . .] [achieve] compliance objectives set by multilateral and bilateral development partners. (NSCADE, 2009)

The economic development rationale for IFRS adoption bears direct relevance to both the developmental state ideology of the Ethiopian government and the ambitions of the globalizing agents. Following the recommendations outlined in the ROSC report, the NSC headed by the vice Minister of Capacity Building, was appointed in August 2008 (MOFED, 2015) to coordinate the reform tasks of which IFRS adoption was a part. NSC's technical Committee for Establishment of NAABE framed the economic development rationale of IFRS adoption and the need for revamping the financial reporting and audit infrastructure:

> [. . .] [to facilitate] improved tax revenue collections, enable financial statement based lending as opposed to the [. . .] collateral lending, develop corporate debt market to alleviate [. . .] shortage of long-term finance, develop the critical infrastructure for a well-functioning stock exchange in the longer-term, enhance transparency in the [. . .] decentralized financial infrastructure of the Ethiopia government, and [attract] foreign direct investors (Technical Committee for Establishment of NAABE and the Professional Body, 2010a, pp. 3-4).

4.2.2 Process. NSC was established to lead the reforms associated with IFRS adoption. Its membership comprised representatives from key stakeholders, namely, EPAAA, Ethiopian Civil Service College, the Department of Accounting at Addis Ababa University and the OFAG. Two task forces were assigned under the NSC to:

(1) establish accounting regulatory body; and

(2) revise the legal framework of Ethiopia.

The steering committee members debated on whether to adopt or adapt IFRS where the former would call for implementing IFRS as is, whereas the latter would involve customizing them to the Ethiopian context. Adapting IFRS was regarded demanding in terms of both human and financial resources beyond Ethiopia's capacity (Technical Committee for Establishment of NAABE and the Professional Body, 2010a, p. 8). Participant 6 noted:

> [. . .] the country lacks sufficient number of local experts that can carry-out a full-fledged research to develop standards. The maximum the country can do with its current stock of manpower in the field is to adopt international standards for local use.

While acknowledging the challenges associated with limited relevance of full IFRS version, the NSC was convinced that the small and medium enterprises version addresses:

> [. . .] the long time worry of many countries for the relevance of the standards for small and medium size firms and for developing countries (Technical Committee for Establishment of NAABE and the Professional Body, 2010a).

In view of pragmatic considerations, the committee decided in favor of adopting both full and SMEs versions of IFRS with a view to accommodating the needs of reporting entities of different sizes.

4.3 Consequences of international financial reporting standards adoption in Ethiopia: emerging accounting regulatory institutions

IFRS adoption spurred changes to the accounting regulatory framework. This change introduced new institutions in Ethiopia's regulatory landscape of accounting including the financial reporting law, NAABE, and Institute of Certified Public Accountants of Ethiopia (ICPAE).

4.3.1 Issuance of a financial reporting law. The issuance of the financial reporting proclamation in 2014 (Proclamation No. 847/2014) (Federal Democratic Republic of Ethiopia, 2014) constitutes one of the major regulatory changes introduced as a result of IFRS adoption. This legislation was deemed necessary because the accounting regulatory environment was too fragmented to support IFRS-based reporting. Although the Commercial Code of Ethiopia (CCE) (1960) shows that pre-IFRS financial reporting in Ethiopia was to be conducted in accordance with *generally accepted accounting principles*, the code neither defines the principles nor specifies the source of the principles. To address this shortcoming, the NSC worked for revision of the CCE such that "the adopted IFRSs shall form a separate [framework to which the code] refers" (Minute No. 02, NSC). There was also a lack of a regulatory agency to effectively monitor accounting practice and an authoritative professional accounting body to undertake professional development and self-regulation. Participant 7 stated:

> [. . .] the pre-2000 accounting and auditing practices of Ethiopia were criticized on the absence of accounting standards. Despite a reference to generally accepted accounting principles in financial reporting, this concept lacked clarity because there was not any accounting framework that Ethiopia accepted.

To address these shortcomings in the regulatory setup of accounting, Proclamation No. 847/2014 requires financial reporting to be undertaken using IFRS effective from 2017. Article 5 (1) states that:

> [. . .] the financial reporting standards to be used shall be: (a) [. . .] International Financial Accounting Standards; or (b) [. . .] International Financial Accounting Standards for Small and Medium Size Enterprises (IFRS for SMEs) issued by the International Accounting Standards Board or its successor, (c) International Public Sector Accounting Standards (IPSAS) applicable for charities and societies.

The legislation also provides the institutional platform for the establishment of NAABE and a professional accounting body. Article 4 of the proclamation provides for establishing NAABE as a standards setter and regulator of accountancy in Ethiopia.

As part of the reforms, IFRS training sessions have been provided to higher education accounting educators with a view to incorporating IFRS in the accounting curriculum. The market al.so has started to respond as the private sector started to provide IFRS training. For example, as Interviewee 1 stated:

> Deloitte Consulting is promoting IFRS adoption training and is providing training to its clients and other organizations on demand. Deloitte clients have already adopted IFRS.

4.3.2 National accountants and auditors board of Ethiopia. Establishment of NAABE constitutes another major development in the emergence of the new accounting regulatory landscape of Ethiopia (Technical Committee for Establishment of NAABE and the Professional Body, 2010a). This development was justified by the need to regulate accounting in both the public and private sectors. This move was meant to relieve the OFAG from its responsibility for regulating auditing and accounting especially in the private sector. As noted in the road map report (ACCA, 2005, p. 8):

> The OFAG, while it could represent the public interest, does not directly reflect the interests of the users of private sector financial reporting. OFAG might not have the necessary technical expertise to set the private sector standards.

The board took over the licensing activities which OFAG had been conducting for decades.

At the time of writing, NAABE has been established and it has commenced staffing, registering certified auditors and practicing accountants, and providing awareness creation training to stakeholders. The accounting legislation also stipulated establishing another regulatory institution under NAABE, i.e. ICPAE.

4.3.3 Institute of certified public accountants of Ethiopia. Understanding was reached about the need to organize a professional body to deal with issues of professional development and practice monitoring. The constitution and by-laws of the ICPAE proposed by NSC stipulate the role of the institute to train (Article 3) and certify professionals (Article 4) as well as undertake self-regulation by issuing a code of conduct (Article 5) (Technical Committee for Establishment of NAABE and the Professional Body, 2010b). On the basis of this perceived need, the financial reporting law stipulates the formation of a self-regulatory body, i.e. an authoritative professional accounting institute with anticipated membership to the International Federation of Accountants.

The requirement of the financial reporting law to establish ICPAE was regarded as an opportunity to: "[. . .] consolidate the fragmented professional accounting associations into an authoritative body" (Participant 7). At the time of writing, the constitution and by-laws of ICPAE were prepared (Technical Committee for Establishment of NAABE and the Professional Body, 2010b) and awaiting implementation by appropriately organized practitioners.

5. Discussion of findings

This study has attempted to explain the antecedents and outcomes of IFRS adoption in the Ethiopian environment. The study has documented that IFRS adoption was driven by the desire to develop the infrastructure considered necessary to facilitate Ethiopia's primarily state-led national economic development underpinned by the "developmental state" paradigm. Compared to the well-documented experience of IFRS adoption as a response to a market-driven demand for improved financial reporting quality, the Ethiopian case illustrates that global, political and economic factors drove the agenda on the basis of a normative rationale. Despite the overt ideological dialectic between the state-led and market-led economic policy choices of national stakeholders and IFIs respectively, IFRS adoption in Ethiopia took place as part of IFI-led economic policy reforms. Ethiopian stakeholders' articulation of financial reporting quality as a lubricant to bolster economic development and the desire to gradually build a market-based economy intersected with the neo-liberal globalizing push for IFRS adoption. This convergence of interests of the national and international stakeholders transpired as the two parties tended to share the view that IFRS accelerates economic development.

IFRS adoption in Ethiopia illustrates that this process can take place amidst the interplay of national and transnational forces in the context of the globalizing world economy. The non-market centric nature of the economy and absence of publicly listed companies in Ethiopia tended to reduce the urgency for IFRS adoption from the market perspective. The common market-based argument for IFRS adoption bears limited relevance for Ethiopia. Instead, Ethiopia's efforts to integrate into the globalizing economy through policy reforms served as an antecedent for IFRS adoption, which in turn spurred a major re-formation of the regulatory framework of accounting.

The Ethiopian experience offers new insights into the IFRS literature on developing countries. While prior research has documented that IFRS adoption is largely a consequence of a well-functioning market economy (Barth *et al.*, 2008; Ali, 2005; Ahmed *et al.*, 2013), the Ethiopian case illustrates a situation where IFRS adoption is conceptualized as an antecedent to a developed market. The present study provides evidence consistent with a recent study that emphasized global neo-liberal push for IFRS adoption by developing countries (Hopper *et al.*, 2017). The study illustrates that neither global pressure alone nor existing demand for financial reporting quality may fully explain interest in IFRS adoption by developing countries. Instead, complex dialectical interactions between local and global forces provide the antecedents and determine the consequences of IFRS adoption in particular politico-economic environments. This view re-enforces Rodrigues and Craig's (2007) observation that complex dialectical interactions often accompany international harmonization of accounting such as through IFRS adoption.

Compared to the commonly documented experience where the established regulatory setup largely dictates IFR adoption (Brown and Tarca, 2005), the Ethiopian case shows that IFRS adoption spurred transformation of the regulatory landscape of accounting. This is consistent with the neo-Gramscian theory of globalization regarding the imperative to universalize regulatory institutions. Compared to prior research that tends to presume IFRS as an add-on to existing accounting regulatory mechanisms, the Ethiopian case illustrates that IFRS adoption could drive transformation in the regulatory infrastructure of accounting, i.e. IFRS adoption spurred the emergence of an accounting regulatory landscape in Ethiopia that resulted in the issuance of a financial reporting law and two other regulatory institutions, namely, the NAABE and ICPAE. The emergence of these institutions constitutes a major change in the internal architecture of the relationships among regulatory agencies. The OFAG and the accounting profession relationships are disentangled following the transformation of the regulatory architecture of accounting in Ethiopia. OFAG is no longer a key regulator given that the NAABE is established and the accounting legislation empowers ICPAE to undertake self-regulation. Overall, the new regulatory framework draws sharper boundaries between elements of the accounting regulatory system.

6. Conclusion

The antecedents and outcomes of IFRS adoption are grounded in the intricate links between global forces and political economic goals of adopting countries. A theory-based investigation of the intricacies enables better grasp of the dynamics of IFRS adoption in any particular environment. The analysis of IFRS adotion in Ethiopia using the neo-Gramsian theoretiocal lense suggests the need to take a transnational politico-economic rationale instead of relying on a mere market-based explanation for the increasing IFRS adoption in contexts developing economies. Such a consideration of broader issues enables incorporating in the analysis realities pertinent to financial reporting environments in which IFRS are implemented.

The insights from this study may be of interest to transnational investors' and regulators in evaluating the efficacy of IFRS as a global governance technology. The findings illuminate the variations in the level of strength of the institutional frameworks with which IFRS operate in different countries. Stakeholders of other countries that have similar contexts as Ethiopia could draw lessons from the Ethiopian experience regarding issues of broader accounting regulatory reforms that need to be undertaken to provide the platform for IFRS implementation. The study may also be of relevance to accounting researchers and educators aiming to develop their students' critical, theoretically grounded understanding of IFRS adoption in the era of globalization. The theorization offered in this study enables accommodating broader political-economic drivers of IFRS adoption in investigating such processes in accounting research and education.

Notes

1. Ethiopia is a Sub-Saharan African developing country. Detailed background about Ethiopia is provided in section 2.
2. Amharic is the official language of the Federal Government of Ethiopia.
3. Fostering competition is regarded as one way to achieve this goal.

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Corresponding author
Yitayew Mihret Wagaw can be contacted at: yita2000@yahoo.com