FACTORS THAT AFFECT THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN LIBYAN COMPANIES WITH MODERATING EFFECT OF FOREIGN OWNERSHIP

KAMAL MASOUD AB ABONWARA

SULTAN IDRIS EDUCATION UNIVERSITY

2023

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ABSTRACT

International Financial Reporting Standards (IFRS) is a set of international accounting standards, which facilitate the reporting of financial results of companies. The purpose of this study is to examine the predictors and the effect of adopting IFRS on the organizational level in Libya. The population consists of 2,212 respondents. Using the random sample technique, the sample size accounted for 425 and a total of 248 responses were collected. The data was analysed using SPSS and AMOS. SPSS was used to examine the data and conduct the descriptive analysis while AMOS was used to conduct the regression analysis. The study proposed that perceived organizational factors (POF) (accounting capabilities (AC), top management support (TMS), and organizational readiness (OR), perceived technical factors (PTF) (compatibility (COMP) and complexity (COX), and perceived environmental factors (PEF) (government regulation (GR) and external pressure (ER) will affect the adoption of IFRS which in turn will affect the organizational performance (OP) of accounting companies in Libya. Foreign ownership (FO) is expected to be a moderating variable. The findings showed that the POF (Coefficient=.284, $P<0.05$) are the most important constructs followed by the PEF (Coefficient=.260, $P<0.05$) and the PTF (Coefficient=.203, $P<0.05$). AC is the most important components of the POF followed by TMS. In the PEF, only the External Pressure (EP) has a significant effect on the adoption of IFRS. In the PTF, COMP has a positive effect on the adoption of IFRS while COX has a negative effect. The adoption of IFRS has a positive effect on OP. The moderating effect of FO was confirmed only between the POF and the adoption of IFRS. Decision makers are advised to conduct training to enhance the AC of the personnel in Libyan companies. They are also advised to adopt the IFRS because it has a positive impact on the OP of Libyan companies.

PENGARUH FAKTOR PENENTU ORGANISASI, TEKNIKAL-DAN PERSEKITARAN TERHADAP PENGGUNAAN PIAWAIAN PELAPORAN KEWANGAN ANTARABANGSA (IFRS) DI FIRMA LIBYA: PENGARUH MODERATOR PEMILIKAN ASING

ABSTRAK

Piawaian pelaporan kewangan antarabangsa (IFRS) merupakan satu set piawai perakaunan antarabangsa yang menjadi panduan bagi tujuan pelaporan kewangan syarikat. Kajian ini bertujuan mengkaji ramalan dan pengaruh penggunaan piawaian laporan kewangan antarabangsa (IFRS) pada peringkat organisasi di Libya. Secara keseluruhan, populasi terdiri daripada 2212 responden. Dengan menggunakan teknik sampel rawak, sampel berjumlah 425 dan maklum balas yang diterima adalah dari 248 responden. Data dikumpulkan menggunakan borang soal selidik. Data yang diperolehi dianalisis dengan menggunakan perisian Statistical Package for Social Science (SPSS) dan AMOS. SPSS digunakan untuk memeriksa data dan menjalankan analisis deskriptif manakala AMOS digunakan untuk menjalankan analisis regresi. Hasil kajian mendapati bahawa faktor penentu organisasi (POF) iaitu (kemampuan perakaunan, sokongan pengurusan atasan, dan kesediaan organisasi), faktor teknikal (PTF) iaitu (keserasian dan kerumitan), faktor persekitaran (PEF) iaitu (peraturan kerajaan dan tekanan luar) mempengaruhi penerapan piawaian laporan kewangan antarabangsa (IFRS) yang seterusnya akan mempengaruhi prestasi organisasi (OP) syarikat perakaunan di Libya. Pemilikan asing (FO) dicadangkan sebagai pemboleh ubah penyederhanaan. Hasil kajian menunjukkan bahawa faktor organisasi (Coefficient=.284, P<0.05) merupakan konstruk paling signifikan diikuti oleh faktor persekitaran (Coefficient=.260, P<0.05) dan faktor teknikal(Coefficient=.203, P<0.05). Manakala, keupayaan perakaunan (AC) adalah komponen terpenting dalam faktor organisasi diikuti oleh sokongan pengurusan atasan (TMS). Kesediaan organisasi tidak mempengaruhi penggunaan piawaian laporan kewangan antarabangsa (IFRS). Pengaruh pembolehubah moderator bagi pemilikan asing hanya disahkan perkaitannya diantara faktor-faktor organisasi dan penerimaan piawaian laporan kewangan antarabangsa (IFRS). Secara rumusan, pembuat dasar di Libya disarankan untuk melaksankan program Latihan di syarikat perakaunan untuk meningkatkan kebolehan pegawai perakaunan. Pembuat dasar juga dinasihatkan untuk menerima pakai piawaian laporan kewangan antarabangsa (IFRS) kerana kesan yang positif kepada prestasi organisasi syarikat di Libya.

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LIST OF ABBREVIATIONS

AC	Accounting Capabilities
AVE	Average Variance Extracted
CA	Cronbach's Alpha
CFA	Confirmatory Factor Analysis
COMP	Compatibility
COX	Complexity
CPA	Certified Public Accountant
CR	Composite Reliability
D.V	Dependent Variable
EP	External Pressure
GAAPs	Generally Accepted Accounting Principles
GR	Government Regulation
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
I.V	Independent Variable
KMO	Kaiser-Meyer-Oklin
LAAA	Libyan Accounting and Auditing Association
OP	Organizational Performance
OR	Organizational readiness
PLS	Partial Least Square
SEM	Structural Equation Modeling

SM	Structural Model
SPSS	Statistical Package for the Social Sciences
TMS	Top management support
TOE	Technology-Organization-Environment
VIF	Variation Inflation Factor

APPENDIX LIST

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

During the last decades, the need has increased for standardized accounting practices in preparing financial reports. Investors, shareholders, and stakeholders require companies to present their operations using a standardized approach to allow for comparability as well as an easy and simple way of reading the performance of companies. For this reason, in 2001, the International Accounting Standards Board (IASB) replaced the commonly used International Accounting Standards (IAS), with International Financial Reporting Standards (IFRS). This was an effort by the European Union to create a common language that all stakeholders across the continent understand and easily interpret the financial information (Morais et al., 2018). Increasing transparency, caliber, and comparability in financial reports generated by businesses regardless of their nation of origin was the goal of the introduction of the IFRS (Hamberg et al., 2011; Tran et al., 2019; Song & Trimble, 2022).

With 120 nations adopting IFRS in 2018, the standard has expanded around the globe (Krishnan & Zhang, 2019; Okafor et al., 2019). It competes with the Generally Accepted Accounting Principles (GAAPs), an American standard that is still used by American businesses (Krishnan & Zhang, 2019; Okafor et al., 2019; Shibasaki & Toyokura, 2019). But the IFRS is being adopted by nations in Asia, Africa, and Europe (dos Santos et al., 2016; Özcan, 2016). However, several failures have made nations and businesses reluctant to implement the IFRS (Song & Trimble, 2022).

The hindering factors that made countries hesitant are related to accounting capabilities as well as compatibility, complexity, and government regulation (Bengtsson, 2022; A. Eltweri et al., 2022; Garefalakis, 2022). In addition, the consequence of adopting the IFRS are mixed. Some studies found that adopting the IFRS requires additional costs and negatively affects the performance of companies. Other indicates that the cost is mitigated in the long term and IFRS will impact positively the performance of companies (Gingrich et al., 2018; Opare et al., 2019; Samaha & Khlif, 2016).

Among the predictors of IFRS, researchers indicated that government legislation and accountant education, as well as economic growth and external auditors, are key predictors of the IFRS (Alferjani et al., 2018). Other researchers referred to the important factors that hinder the adoption of IFRS are related to training programs, accountants' lack of adequate skills, awareness, and capabilities, accounting education, English language, absence of enforcement from external auditors, and the governance mechanisms are weak (Coetsee et al., 2022; Garefalakis, 2022). Zakari (2014) related the adoption to the legal system, economic structure, accounting education, and cultural structure.

In terms of the consequence, the findings of the study of Gingrich, Kratz, and Faraci (2018) who examined the adoption of IFRS in eight developing countries from Asia and Africa, and Latin America (Nigeria, Pakistan, Sri Lanka, Indonesia, Cambodia, Malaysia, Myanmar, Peru) found that IFRS adoption has a positive impact on four developing countries (Malaysia, Indonesia, Pakistan, Peru) while the insignificant effect on other four (Nigeria, Sri Lanka, Cambodia, Myanmar). Samaha and Khlif (2016) found that there are mixed results regarding the level of adopting IFRS. In addition, theories that are used in the field are limited. Characteristics of companies have mixed results on the adoption of IFRS. Economic consequences of IFRS adoption are still limited in developing countries, especially with respect to the impact of IFRS adoption on foreign direct investment, cost of equity capital, and earnings management (Alnaas & Rashid, 2019; Alzeban, 2018; Nefissa & Jilani, 2020; Oshodin, 2018).

Previous studies focused on the implications of the IFRS in European countries (Abdallah et al., 2018; Guermazi & Halioui, 2020; Kim et al., 2019; Morais et al., 2018; Zeghal et al., 2012; Zeghal & Lahmar, 2016). In addition, previous studies focused on the adoption of developed nations and the consequence of the adoption of the market of these nations. For instance, researchers examined the adoption of IFRS and its impact on comparability and relevance of financial reporting as well as examined the readability of notes after adopting IFRS, the motives of companies to adopt IFRS, and the reaction of the stock market after adopting IFRS (Gray, Nagata, Nakamura, and Ozu 2019; Hamberg et al., 2011; Cheung & Lau, 2016).

Previous studies also look at the adoption from a macroeconomic approach and examined it by taking a global perspective (Bonito & Pais, 2018; Kanagaretnam et al., 2020), or taking developed and developing nations together and comparing the adoption practices and rates as well as the consequence (Abhimantra et al., 2013; Özcan, 2016; Shima & Yang, 2012). Few of the previous studies examined the adoption of the IFRS in a single country and especially in developing countries (Ismail et al., 2013; Opare et al., 2019).

Libya is a developing country in North Africa. The country is in the developing phase of its economy after a decade of instability. IFRS is not mandatory in the country. However, there are some companies that are utilizing the IFRS along with the GAAPs and the national accounting standards which are mainly adopted from the United Kingdom as well as the US due to colonialism in the past and the economic ties with the US (Alferjani et al., 2018; Barghathi, 2019; Binomran, 2021; Hussein et al., 2020).

The majority of previous studies in Libya regarding the IFRS are either a literature review (Elhouderi, 2014; Laga, 2012; Masoud, 2014) to identify the benefits and challenges of adopting the IFRS or a conceptual (Lihniash et al., 2019) and empirical studies (El-Firjani, 2010; Zakari, 2014b) to examine the macroeconomic factors that can affect the adoption of IFRS.

In Libya and from a global perspective, few of the previous studies attempted to understand the impact of the factors that are related to individual, organizational, and environmental factors which belong to the Technology-Organization-Environmental (TOE) framework. For example, a study conducted by Rosli, Yeow, and Siew (2012) proposed that the adoption of GAAPs could be affected by individual, organizational, technological, and environmental factors. The individual factors included performance expectancy, effort expectancy, social influence, and facilitating conditions. The technological factors included the technology cost-benefit, technology risk, and technology risk fit. The organizational factors included size, readiness, and top management support, and the environmental factors included complexity. Nevertheless, the study was conceptual, and no results were shown.

A similar study conducted by Lihniash et al. (2019) used the TOE and propose that there are organizational (awareness, commitment), technological (human resource, technology resource, and users' readiness), and perceived environmental factors (government and user's attention) that can affect the adoption of Internet Financial Reporting (IFR). The study also is conceptual, and no results were derived.

Accordingly, this study is classifying the factors or the determinants under three main constructs which are the perceived organizational factors, which include the factors of accounting capabilities of the companies, top management support to the adoption of IFRS, and the organizational readiness to adopt IFRS. The study also includes perceived technical factors which include the compatibility of the existing systems in the Libyan companies with the IFRS as well as the complexity of the IFRS. For the perceived environmental factors, it includes government regulation such as financial reporting regulation. It also includes external pressure which includes the request of business partners for the companies to have IFRS.

Accounting capability, compatibility, complexity, and government regulation are some of the considerations that have caused governments to be reluctant (Bengtsson, 2022; A. Eltweri et al., 2022; Garefalakis, 2022). Furthermore, the consequences of switching to the IFRS are varied. Adopting the IFRS has been shown to have a detrimental impact on company performance and incur extra costs, according to certain research. Evidence suggests otherwise, with the long-term cost being reduced and IFRS having a beneficial effect on company performance (Gingrich et al., 2018; Opare et al., 2019; Samaha & Khlif, 2016).

Government legislation and accountant education, as well as economic development and external auditors, were shown to be significant predictors of IFRS adoption (Alferjani et al., 2018). Other studies have pointed to the importance of accounting education, the English language, the lack of enforcement from external auditors, and insufficient governance structures as barriers to the widespread implementation of IFRS (Coetsee et al., 2022; Garefalakis, 2022). Adoption was explained by Zakari (2014) in terms of the law, the economy, accounting education, and social norms.

Research by Gingrich, Kratz, and Faraci (2018) on the effects of IFRS adoption in eight developing countries in Asia, Africa, and Latin America (Nigeria, Pakistan, Sri Lanka, Indonesia, Cambodia, Malaysia, Myanmar, Peru) found that IFRS adoption has a positive impact on four developing countries (Malaysia, Indonesia, Pakistan, and

Peru) while the insignificant effect on other four (Nigeria, Sri Lanka, Cambodia, Myanmar). Samaha and Khlif (2016) discovered contradictory findings about the extent to which IFRS is being adopted. There is also a lack of flexibility in the field's prevailing theoretical frameworks. The effects of a company's characteristics on the implementation of IFRS are not uniform. The developing world has yet to feel the full economic effect of IFRS adoption, notably in terms of the impact on foreign direct investment, the cost of equity capital, and earnings management (Alnaas & Rashid, 2019; Alzeban, 2018; Nefissa & Jilani, 2020; Oshodin, 2018).

Previous research has mostly focused on how the IFRS would affect European nations (Abdallah et al., 2018; Guermazi & Halioui, 2020; Kim et al., 2019; Morais et al., 2018; Zeghal et al., 2012; Zeghal & Lahmar, 2016). In addition, prior research has concentrated on the impact of adoption in the markets of industrialized countries. Research has looked at the influence of IFRS adoption on financial reporting comparability and relevance, as well as the readability of notes after IFRS adoption, the motivations of firms to adopt IFRS, and the response of the stock market following IFRS implementation (Gray, Nagata, Nakamura, and Ozu) (2019; Hamberg et al., 2011; Cheung & Lau, 2016).

Other studies have taken a macroeconomic approach to adoption (Bonito & Pais, 2018; Kanagaretnam et al., 2020) or compared the adoption rates and practices of industrialized and developing countries (Abhimantra et al., 2013; Özcan, 2016; Shima & Yang, 2012). There has not been a significant amount of research conducted on the impact of IFRS adoption on a single country, much less on developing nations (Ismail et al., 2013; Opare et al., 2019).

Libya is a developing nation located in the north of Africa. After a decade of uncertainty, the country's economy is now in the development stage. As such, IFRS is not mandated there. Some businesses, however, use IFRS in addition to GAAPs and national accounting standards that were mostly taken from the United Kingdom and the United States owing to historical colonization and commercial links (Alferjani et al., 2018; Barghathi, 2019; Binomran, 2021; Hussein et al., 2020). Literature reviews (Elhouderi, 2014; Laga, 2012; Masoud, 2014) and conceptual (Lihniash et al., 2019) and empirical (El-Firjani, 2010; Zakari, 2014b) research have been conducted before in Libya to identify the advantages and obstacles of implementing the IFRS.

Few prior research has tried to investigate the influence of individual, organizational, and environmental components that make up the Technology-Organization-Environment (TOE) framework in Libya or elsewhere throughout the world. Factors at the personal, organizational, technical, and environmental levels were hypothesized to influence GAAP adoption in research by Rosli, Yeow, and Siew (2012). Personal aspects included goals, motivation, social pressure, and supportive environments. In terms of technology, we considered things like cost-benefit analysis, risk, and compatibility. Size, preparedness, and buy-in from upper management were organizational variables; environmental complexity was an issue. Nonetheless, this was theoretical research, and no tangible outcomes were shown.

Similarly, Lihniash et al. (2019) used the TOE to propose that organizational (awareness, commitment), technological (human resource, technology resource, and users' readiness), and perceived environmental factors (government and user's attention) can all influence the rate at which organizations adopt Internet Financial

Reporting (IFR). No concrete findings were reached since the research was purely theoretical.

Accordingly, the factors or determinants are categorized in this study according to the three main constructs of the perceived organizational factors, which include the factors of accounting capabilities of the companies, top management support for the adoption of IFRS, and the organizational readiness to adopt IFRS. Perceived technical factors, such as whether the current systems in Libyan firms are compatible with the IFRS and whether or not the IFRS is too complicated, are also included in the research. Government regulation, such as financial reporting legislation, is included in the perceived environmental factors. There is also the need from business partners that corporations to use IFRS, which is an example of external pressure.

Some companies in Libya are owned partially by foreign owners or have business relationships with other companies in different countries. This relationship requires the companies to have commonly used standards such as IFRS. However, when the ownership structure is family-based or state-based, the adoption of IFRS might not be a necessity. Foreign ownership is measured in this study "as a percentage of shares owned by foreigners divided by total shares" and it is deployed as a moderating variable (Aljifri, 2014; Doaa, 2017; Sartawi et al., 2014; Sharma, 2014).

Therefore, the purpose of this study is to investigate the factors that affect the adoption of IFRS among accounting companies in Libya. In addition, the study aims to examine the moderating role of foreign ownership and examine the consequence of adopting the IFRS on the performance of these companies.

1.2 Statement of Problem

IFRS is a considerably new standard for reporting accounting information, and it is being adopted in more than 120 countries (Okafor et al., 2019; Shibasaki & Toyokura, 2019). However, the adoption of IFRS in Libya is still weak and still in its infancy stage (Binomran, 2021). The Law of 134 of 2006 Article 55; requested that listed companies should follow specific guidelines for developing the financial statement and reports. In addition, the law also specifies the auditing process that should be followed by the companies (Alferjani et al., 2018). Nevertheless, there is still a lack of monitoring and supervision of the regulatory framework made by authorities in Libya. The government established the Libyan Accounting and Auditing Association (LAAA). But little progress has been made which urged the government of Libya authorized the General People's Committee and its agencies to regulate the accounting and auditing practice in Libya (Eltweri et al., 2022; Hussein et al., 2020).

Studies in Libya related the weak adoption to several reasons such as the accounting capabilities, the readiness of the companies, the management beliefs and perception about the IFRS, the compatibility as well as the complexity due to the lack of accounting professionals and weak level of English language, and the government regulation (Binomran, 2021; A. Eltweri et al., 2022).

Against this view, previous studies did not focus on the adoption or the consequence of adopting IFRS in Libya and they were merely a literature review or conceptual studies to identify the benefits, barriers, obstacles, and challenges that are related to the adoption of IFRS (Bengtsson, 2022; El-firjani, 2010; Elhouderi, 2014;

Faraj & El-Firjani, 2014; Garefalakis, 2022; Laga, 2012; Zakari, 2014a). Additionally, the literature on IFRS is dominated by studies conducted and collected data from Europe and US (Abdallah et al., 2018; Guermazi & Halioui, 2020; Ismail et al., 2013; Kim et al., 2019; Morais et al., 2018; Opare et al., 2019; Zeghal et al., 2012; Zeghal & Lahmar, 2016).

Previous studies were also interested in the macroeconomic level of the adoption of IFRS and for this reason, predictors of the adoption of IFRS were also industry-level or country levels such as the quality of financial information (Callao et al., 2007), market reaction (Armstrong et al., 2010), the stock market (Hamberg et al., 2011), earning quality (Hassan, 2015; Ismail et al., 2013; Zeghal et al., 2012) systems of the country such as the legal, political, economic, and culture of the country (Shima & Yang, 2012; Zakari, 2014a), economic growth, gross domestic product (GDP), and foreign direct Investment (FDI) (dos Santos et al., 2016; Özcan, 2016).

Limited studies in the literature focused on using theories such as the TOE theory and the agency theory to explain the adoption of IFRS. For instance, two conceptual studies attempted to investigate the effect of individual, organizational, technological, and perceived environmental factors on the adoption of GAAPs (Rosli et al., 2012) and the adoption of IFR (Lihniash et al., 2019). Therefore, there is a need for a study that takes a closer approach to the users and the firms and determines the factors that affect their decision to use the IFRS and determines the consequence of IFRS on the organizational level using the TOE framework (Lihniash et al., 2019).

Previous studies also collected only secondary data (Armstrong et al., 2010; Fuad et al., 2019; Guermazi & Halioui, 2020; Hamberg et al., 2011; Kanagaretnam et al., 2020; Putra & Mita, 2019; Tran et al., 2019) which are historical in their nature and present only the past performance (Kaplan & Norton, 1992). Primary data in the form of a questionnaire was deployed in a few previous studies (Bananuka et al., 2019; Gray et al., 2019; Zakari, 2014a). The number of respondents is limited to 30 and 40 respondents and the first generation of statistical software such as Statistical package for social science (SPSS) is widely used by previous studies (Bananuka et al., 2019; Gray et al., 2019). The use of advanced statistical software embedded under structural equation modelling (SEM), which is the second generation of statistical software (Awang, 2014; Lowry & Gaskin, 2014) are limited in previous studies.

Further, few previous studies deployed intervening variables such as moderators and mediators. It is believed that when the company shares or ownership include foreign national or foreign entities, the use of IFRS will be more likely to create a common language and makes stakeholder better understand the performance of the companies (Shima & Yang, 2012; Tran et al., 2019). The use of foreign ownership as a moderator was suggested in several previous studies (Alkurdi et al., 2019; Makhlouf et al., 2017) and examined in a few studies as a moderator (Hashim, 2015; Liu et al., 2016).

To bridge the gaps in the literature, this study has classified the factors into organizational, technical, and environmental and will use a primary data approach. Foreign ownership is deployed as a moderator in this study. The adoption of IFRS from the organizational rather than macroeconomic level is investigated in this study. The study aims to provide the decision makers with a reference that can be used in increasing the adoption of IFRS and knowing the consequence of the adoption of IFRS from the accounting companies' perspective.

1.3 Objectives of the Study

The general objective of this study is to identify the predictors and the consequence of adopting the IFRS by accounting companies in Libya. Specifically, this study aims to fulfil the following objectives:

1- To examine the effects of perceived organizational factors (accounting capabilities, top management support, and organizational readiness) on the adoption of IFRS by accounting and large scales companies in Libya.

2- To determine the effect of perceived technical factors (compatibility and complexity) on the adoption of IFRS by accounting and large scales companies in Libya.

3- To investigate the effect of perceived environmental factors (government regulation and external pressure) on the adoption of IFRS by accounting and large scales companies in Libya.

4- To examine the effect of the adoption of IFRS on the performance of the accounting and large scales companies in Libya.

5- To examine the moderating role of foreign ownership on the effect of perceived organizational, technical, and environmental factors on the adoption of IFRS among accounting and large scales companies in Libya.

1.4 Research Questions

Based on the issue of this research, this study aims to answer the following questions.

1- What are the effects of perceived organizational factors (accounting capabilities, top management support, and organizational readiness) on the adoption of IFRS by accounting and large scales companies in Libya?

2- What are the effects of perceived technical factors (compatibility and complexity) on the adoption of IFRS by accounting and large scales companies in Libya?

3- What are the effects of perceived environmental factors (government regulation and external pressure) on the adoption of IFRS by accounting and large scales companies in Libya?

4- What are the effects of the adoption of IFRS on the performance of the accounting and large scales companies in Libya?

5- Does foreign ownership moderate the effect of perceived organizational, technical, and environmental factors on the adoption of IFRS among accounting and large scales companies in Libya?

1.5 Research Hypotheses

Based on the review of the literature and the existing theories as well as framework and models, the following hypotheses are proposed. Further support from previous studies to each hypothesis is given in Chapter 2.

H1: Perceived organizational factors have a significant positive on the adoption of IFRS.

H1a: Accounting capabilities have a significant positive effect on IFRS adoption.

H1b: Top management support has a significant positive effect on IFRS adoption.

H1c: Organizational readiness has a significant positive effect on the adoption of IFRS.

H2: Perceived technical factors have a significant positive effect on the adoption of IFRS among companies in Libya.

H2a: Compatibility has a significant positive effect on IFRS adoption.

H2b: Complexity has a significant negative effect on the adoption of IFRS.

H3: Perceived environmental factors have a significant positive effect on the adoption of IFRS.

H3a: Government regulation has a significant positive effect on the adoption of IFRS.

H3b: External pressure has a significant positive effect on the IFRS adoption.

H4: Adoption of IFRS has a significant positive effect on the financial performance of companies.

H5a: Foreign ownership moderates the effect of perceived organizational factor on the adoption of IFRS.

H5b: Foreign ownership moderates the effect of perceived technical factors on the adoption of IFRS.

H5c: Foreign ownership moderates the perceived environmental factors on the adoption of IFRS.

1.6 Conceptual Framework

Previous research focused on industrialized countries' market adoption and its consequences (Pinto & Ng Picoto, 2016; Shibasaki & Toyokura, 2019; Lin et al., 2019; Khan et al., 2019; Krishnan & Zhang, 2019; Okafor et al., 2019). Few studies have evaluated IFRS adoption in a single nation, especially developing ones (Ismail et al., 2013; Opare et al., 2019). This study examines adoption in Libya. Previous research focused on macroeconomic factors as predictors of IFRS (Zeghal et al., 2012; Shima & Yang, 2012; Zakari, 2014a; Dos Santos et al., 2016). Few research has examined the influence of individual, organizational, and perceived environmental variables. Only two conceptual research investigated individual, organizational, technological, and perceived environmental factors on GAAPs (Rosli et al., 2012) and IFR adoption (Lihniash et al., 2019). Therefore, research is needed that focuses on users and companies to discover the elements that influence their choice to apply IFRS and the organizational impact of IFRS.

The research uses foreign ownership as an intervening variable. When a company's shares or ownership involve foreign nationals or foreign entities, using IFRS may help stakeholders comprehend the company's performance. Several research (Alkurdi et al., 2019; Makhlouf et al., 2017) proposed using foreign ownership as a moderator (Hashim, 2015; Liu et al., 2016).

Based on the agency theory which pointed out that the decision of management is dependent on the ownership structure and based on the TOE framework which suggested that adopting new technology or innovation is dependent on three groups of factors that are technological, organizational, and environmental and based on the review of previous studies, this study proposes that the adoption of IFRS is anticipated to be affected by the perceived organizational factors (accounting capabilities, top management support, and organizational readiness), perceived technical factors that are related to the compatibility of the IFRS with the existing code that is used by the company and the complexity of the IFRS. In addition, the study proposes that the perceived environmental factors such as the regulation of the government and the pressure of external stakeholders, as well as the need to be involved in international business will increase the likelihood of adopting the IFRS by companies in Libya.

The study also proposed that the adoption of the IFRS will have a positive impact on the organizational performance of companies represented by their ratio such as ROE and ROI as well as ROA. Lastly, the study proposes the foreign ownership as a moderator that can affect the relationship between organizational, technical, and perceived environmental factors on one hand, and the performance of companies on the other hand. Figure 1.1 presents the conceptual framework of this study.

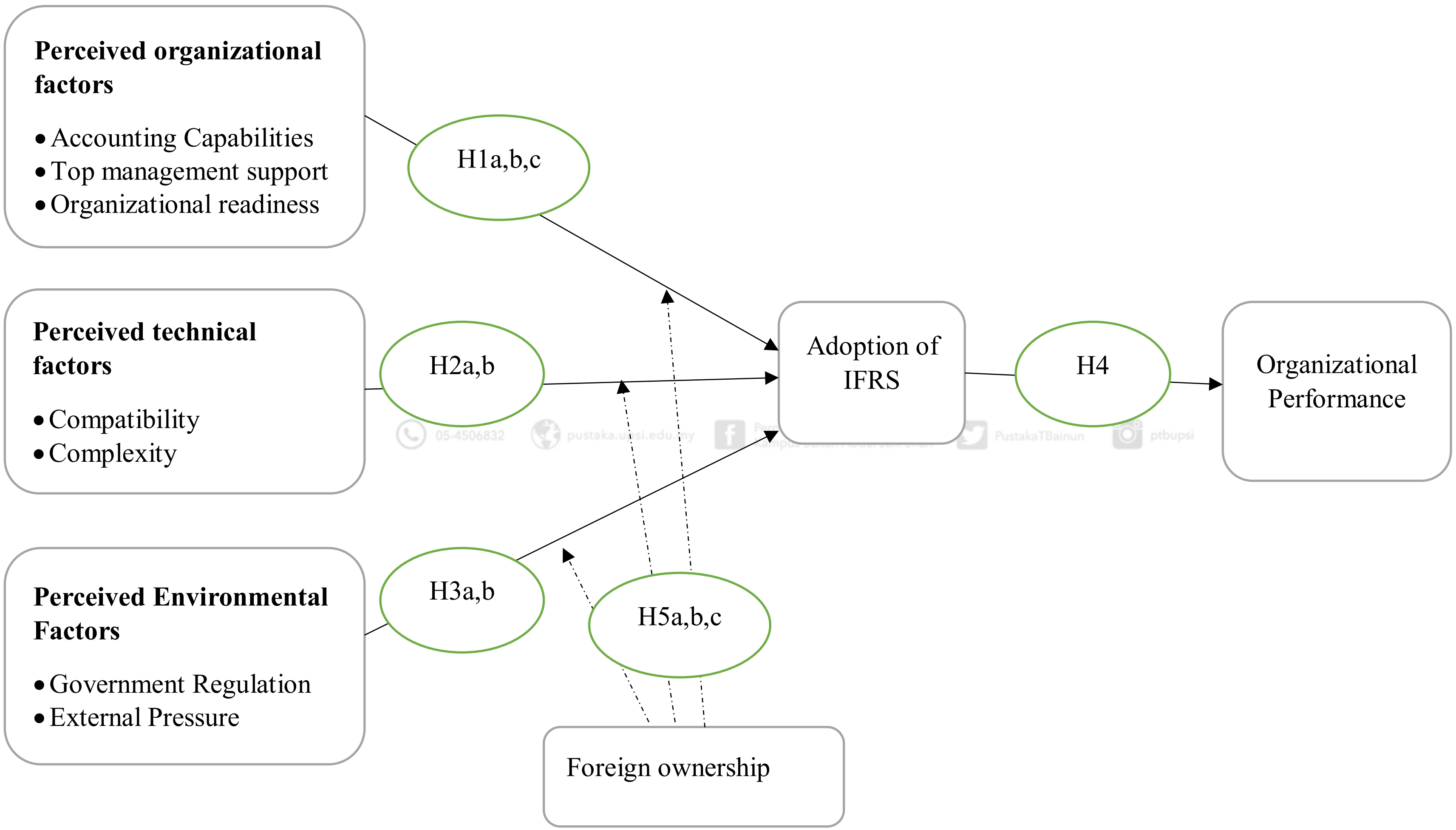

Figure 1.1. Conceptual Framework

1.7 Significance of the Study

This study is important because it bridges the gaps in the literature and enriches the body of knowledge. The study is important because it investigates the predictors of the adoption of IFRS in Libya. Previous studies focused mainly on the EU and the US. The study is important because it will investigate the predictor from the companies' perspective. Previous studies focused on macroeconomic variables. The study examines the consequence of the adoption of IFRS from the organizational rather than the macroeconomic level. In addition, the study is important because it tests the validity of the TOE framework and agency theory in the context of developing countries. The study is also important because it responds to the suggestions of previous studies to examine the adoption of IFRS using the TOE framework. The study uses the SEM approach and collects primary data rather than secondary data, which dominates the previous studies.

From a practical perspective, the study is important for the Libyan people, economy, companies, and accounting professionals. The importance for the Libyan government is to have an accepted standard of reporting which avoid the economy to be in a crisis and enhances the reporting so that companies can pay more tax which will be reflected in the revenue of government. Adopting the IFRS encourages companies to adopt the IFRS and this will increase the FDI in the country and helps in rebuilding the country after decades of instability.

For accounting companies, this study is important because it makes them more attractive to foreign and local investors as it helps in increasing the transparency of reporting information and the comparability with other companies and countries. The study will help the economy as more reporting based on IFRS will increase the collected tax from companies. Accounting professionals can benefit from this study in the sense that adopting the IFRS will enhance the capabilities of the accountant and increase their exposure to the global perspective of accounting.

Overall, the citizens of Libya will benefit from this study in the sense that having transparency in reporting the financial performance of companies, will make these companies more secure for employment and will improve the economic growth of the country which will be reflected in more employment on the national level and increase the tax will lead to more public services that the citizens can enjoy.

1.8 Scope of this Study

This study is conducted in Libya. The study investigates the adoption of IFRS and the consequence of the adoption. Thus, the focus is on the IFRS only. Further, the study collects data from accounting departments in accounting companies, listed and non-listed companies, and banks. Thus, other companies are not included in this study. In addition, the study deploys theories such as TOE and agency theory due to their relatedness to the topic and variables of this study. Accordingly, other theories are marginally used in this study such as the Resource-based view.

1.9 Operational Definitions

The following definitions are given in this study to facilitate the understanding of the reader (s) of the terms that are used in this study.

a. Perceived organizational factors

Perceived organizational factors refer to the perception of the factors that affect the organizational level of adopting a new system or technology (Wang et al., 2010). It is also defined as “the descriptive measures related to organizations such as firm scope, firm size, and managerial beliefs” (Mousa, 2020). In this study, it is operationalized to accounting capabilities, top management support, and technological readiness and it refers to the perception of organizational capabilities and resources to enable and support the adoption of IFRS among companies in Libya.

b. Accounting Capabilities

It is the ability of accountants to perform their duties and tasks based on the IFRS regulation and instructions (El-Firjani, 2010). In this study, it refers to the capabilities of the Libyan accountants working for Libyan companies to fulfil the requirement of reporting using the IFRS.

c. Top management support

Top management support is defined as “the financial and non-financial support that the management provides for adopting a new system” (Rosli et al., 2012). It is also defined as the willingness of top-level management in providing the resources that are needed and the authorities to succeed using a new system (Carolina & Susanto, 2017). In this study, it refers to the support of the management of Libyan companies toward the adoption of IFRS.

d. Organizational readiness

Organizational readiness was defined as “the managers’ perception and evaluation of the degree to which they believe that their organization has the awareness, resources, commitment, and governance’ to adopt an innovation” (Tan et al. 2007). It is also defined as “the extent to which members of an organization are psychologically and behaviourally prepared to implement a change in their setting” (Ruest et al., 2019). In this study, it refers to the technological and human resource readiness of the Libyan companies to adopt the IFRS.

e. Perceived technical factors

Perceived technical factors refer to “the variables that influence an individual, an organization, and an industry’s adoption of innovations” (Tsai & Huang, 2008). It refers to technical characteristics and availability for firm (Rosli et al., 2012). In this study, it refers to perception of the compatibility of the existing system in the Libyan companies with the IFRS and the easiness of combing the systems and performing the reporting based on IFRS.

f. Compatibility

Compatibility is defined as co-existence between IFRS and the existing accounting systems in the companies (Delsaux, 2010; Kaufhold, 2015). It is the ability to integrate the existing systems in Libyan companies with the IFRS.

g. Complexity

Complexity is defined as "the degree to which an innovation is perceived as relatively difficult to understand and use" (Rogers, 2004). In this study, it is defined as the perception of users regarding the difficulty of using and understanding the IFRS to be used by companies in Libya.

h. Perceived environmental factors

The perceived environmental factors are defined in the TOE framework as "the factors that affect the organization, and it comes from external sources that are relevant to the environment of the organization" (Alsaad et al., 2017; Rosli et al., 2012). In this study, it refers to the perception of factors that come from the external environment of the companies and encourage the adoption or the non-adoption of IFRS.

i. Government regulation

Government regulation refers to "the law and regulations made by the government" (Amron et al., 2019). It is the regulations and codes that the government enacts and requests companies to comply with these regulations. This includes the code of governance and financial disclosures among others.

j. External pressure

External pressure refers to "the stakeholder's influence on the decision of organizations" (Tu, 2018; Grimmelikhuijsen & Welch, 2012; Tung & Rieck, 2005). In this study, it is the pressures from business partners, shareholders, stakeholders, creditors, and customers for the adoption of IFRS by companies.

k. Foreign ownership

It is the percentage of shares owned by an individual or entity to the total share of a company (Majumder et al., 2017). In this study, it is the shares that are owned by foreign nationals in Libyan accounting and large-scale companies.

l. Organizational Performance

Organizational performance is defined as "the achievement of the financial and non-financial objectives of an organization within a specific period of time and resource"

(Alaarj et al., 2016). In this study, it is the financial and non-financial indicators that enhance the effectiveness of Libyan accounting and large-scale companies.

1.10 Summary

This chapter discussed the background information of this study. The chapter identified the issues and gaps and presented the problem statement of the study. The research objectives and questions were stated along with the significance and scope of the study. The limitation of the study as well as the definitions of terms was discussed, and a summary of the chapter was provided. In the next chapter, the literature is reviewed to develop the conceptual framework of this study.