

Key Influences On the Awareness and Adoption of International Financial Reporting Standards in West African Small and Medium Enterprises.

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Abstract

This study investigates the awareness, compliance, and challenges of IFRS adoption among SMEs in West Africa, revealing moderate levels of awareness and compliance with notable gaps in regular reviews and external audits. The study used an explanatory design of the quantitative approach underpinned by a positivist philosophy. Data were collected through structured questionnaires administered both online and face-to-face, following ethical clearance from the university's ethics committee. The sample included respondents from SMEs across four West African countries: Ghana (347 respondents), Nigeria (70 respondents), Senegal (58 respondents), and Ivory Coast (42 respondents). With the aid of Smart PLS software, Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to test hypotheses. An asymmetric analysis was conducted using fsQCA software.

It was found that while coercive regulatory pressures negatively impact adoption, mimetic and normative pressures show no significant influence, suggesting SMEs do not adopt IFRS based on peer imitation or professional norms. Interestingly, challenges in implementation positively correlate with adoption, as heightened awareness of difficulties prompts SMEs to embrace IFRS, though compliance alone does not bridge the gap between awareness and action.

It is recommended that relevant regulatory bodies, such as national accounting boards and professional institutions, review and refine policies that impose compliance with IFRS. Also, institutions should focus on providing comprehensive support systems to mitigate these challenges. This could involve setting up dedicated helpdesks or consultancies for SMEs that offer tailored assistance, making IFRS adoption more manageable. Furthermore, practical guides and tools should be developed to assist SMEs in understanding complex IFRS requirements.

Keywords: IFRS, adoption, awareness, SMEs, SEM analysis, fsQCA, West Africa

1. Introduction

Over time, Small and Medium Enterprises (SMEs) have demonstrated their importance in the growth and development of every economy. They have played a significant role in boosting the production capacity of emerging economies, and have provided employment opportunities and income sources for individuals

and households around the world (Cobbinah et al., 2020; Olango, 2014). Through their manufacturing, import/export, and other economic activities, SMEs have made significant contributions to the gross domestic product of nations (Dhliwayo, 2017). SMEs typically prepare periodic financial reports in a standardized format to summarize their economic activities and contributions for stakeholders.

The International Accounting Standards Board (IASB) created the International Financial Reporting Standard (IFRS) for SMEs in recognition of the important role that SMEs play and the need to report their economic activities to stakeholders. The purpose of this standard was to provide SMEs with a coordinated and standardized approach to reporting their financial activities, and to simplify the adoption process compared to the full IFRS, which was mandatory for IFAC member countries to comply with. Small businesses have expressed concerns that the full IFRS are too complex and not necessary for their needs and capabilities. This has prompted the International Accounting Standards Board (IASB) to formulate a "simplified" standard designed to accommodate the requirements and capabilities of smaller enterprises (IASB, 2016). The standard-setting process for SMEs commenced in 2001 and was officially published in October 2009 (IASB, 2009). The latest amendment to the standard occurred in 2015 (IASB, 2016). Since that time, the IASB has been endeavouring to facilitate the standard's adoption across many countries.

The Institute of Chartered Accountants, Ghana (ICAG) issued a document detailing the roadmap for the adoption of IFRS for SMEs, which it oversees in coordinating accounting practice in Ghana. The institute instructed SMEs to initiate the adoption process for financial periods concluding on or after December 31, 2013. The institute also offered a two-year grace period, extending the compliance deadline to financial periods concluding on or after December 31, 2015. This indicates that SMEs in Ghana have adequately examined the detailed requirements of the standard and are now fully compliant.

Local SMEs have raised concerns regarding the rigidity of the full International Financial Reporting Standards (IFRS) and their challenges in compliance, in contrast to the less complex Ghana National Accounting Standard (GNAS) [Bunea-Bontas et al., 2011; Onalo et al., 2014]. The International Accounting Standards Board (IASB) developed the IFRS for SMEs in response to these concerns, anticipating full compliance from SMEs. The situation in West Africa seems to diverge from prior expectations.

Research conducted in West Africa indicates that many SMEs are facing difficulties in adopting the International Financial Reporting Standard (IFRS) for SMEs, resulting in a low adoption rate. The few SMEs that have adopted the standard only did so partially, according to studies by Arhin et al. (2017) and Mawutor et al. (2019). Mawutor et al. (2019) reported that many of these SMEs expressed the need to learn about the standard and its requirements before adopting it. Conversely, studies by Abakah (2017) and, Rudzani and Charles (2016) suggested that some SMEs in certain parts of the country have complied with the standard's requirements to some degree.

The implementation of IFRS for SMEs in West Africa continues to be uneven and slow, even though it holds the promise of improving financial transparency, easing access to credit, and drawing foreign investment (World Bank, 2019). Empirical studies reveal that low awareness and inconsistent adoption rates continue to exist due to various obstacles, such as insufficient knowledge among SME owners, accountants, and auditors (Uwuigbe et al., 2018; Diallo & Mohamed, 2020). Additional obstacles consist

of regulatory fragmentation (Ofoegbu & Odoemelam, 2020), a lack of skilled professionals (Alade et al., 2021), and elevated compliance costs (Eze & Okoye, 2019).

Some countries, including Nigeria and Ghana, have advanced in aligning their national standards with IFRS for SMEs, whereas others, especially Francophone nations, still adhere to alternative frameworks such as OHADA. This divergence results in inconsistencies in financial reporting throughout the region (Kouakou et al., 2021). Furthermore, the reluctance to embrace change and the perceived intricacies of IFRS pose additional challenges to its adoption, as numerous SMEs tend to favor conventional, tax-oriented bookkeeping practices instead of fully complying with IFRS (Johnson et al., 2020; Quartey & Turkson, 2021).

This research provides insights into the factors that influence the adoption of IFRS for SMEs in West Africa and emphasizes the significance of IFRS adoption in enhancing SMEs' financial reporting, as well as accessing capital, investments, and other financial resources. Finally, it assists regulators and policymakers in developing effective strategies to promote the adoption of IFRS by SMEs in the region. A few studies have delved into IFRS compliance in listed companies, including research conducted by Amoako, Marfo, Gyabaah, and Gyamfi (2014). Other studies (Sappor et al., 2023) have focused on IFRS for SMEs in the northern sector of Ghana. In their study, Mir and Rahaman (2005) found that institutional legitimization drives standard accounting adoption on institutions. According to the institutional theory of legitimization, there are three isomorphic pressures namely: coercive, mimetic and normative, that influence adoption. Although, Sappor et al. looked at these pressures, the influence of these pressures depends on the context and the study area

This study seeks to explore the critical elements that affect the understanding and implementation of IFRS for SMEs in West Africa, considering the existing challenges. This analysis seeks to offer policy recommendations for governments, accounting bodies, and financial institutions to enhance the adoption of IFRS. Therefore, enhancing financial transparency and stimulating economic growth in West Africa hinges on tackling these obstacles and encouraging a more consistent implementation of IFRS for SMEs.

2. LITERATURE

Influence of coercive isomorphism on SMEs' adoption of IFRS

In a survey of 800 northern Ghanaian SMEs, Sappor et al. (2023) explored how familiar these businesses were with the IFRS for SMEs standard and how widely adopted it was. They also examined how different pressures – including legal requirements (coercive), imitation of others (mimetic), industry norms (normative), and broader economic factors (environmental) – influenced these companies' use of the standard. The researchers used a quantitative approach with a closed-ended questionnaire and a statistical technique called PLS-SEM to analyze the data. Their findings showed that most SMEs were well aware of the IFRS for SMEs, but full compliance in financial reporting was uncommon. Interestingly, the study revealed that legal pressure and broader economic factors were the main drivers of IFRS for SMEs adoption, while mimicking others or following industry norms didn't significantly influence the decision. Additionally, the level of awareness had a stronger impact on adoption when companies already had some level of compliance. Surprisingly, the complexity and cost of implementing IFRS for SMEs (challenges) actually encouraged adoption, possibly because companies saw it as a way to improve their financial standing.

Several studies (DiMaggio & Powell, 1983; Al-Akra et al., 2009; Judge et al., 2010) highlight the pressure international organizations like the IASB, IMF, and World Bank exert on countries to adopt IFRS. This aligns with the idea of coercive isomorphism, where regulations push organizations towards certain practices. Further research (Ritsumeikan, 2011; Damak-Ayadi et al., 2020; Kossentini & Othman, 2014) suggests that enforced adoption is particularly effective in developing economies. However, Kaya and Koch (2015) found no such impact on small businesses (SMEs) adopting the IFRS for SMEs standard. This inconsistency necessitates further investigation into the exact role of coercive pressure in IFRS adoption. This conflicting evidence led to examining the influence of coercive isomorphism on SMEs' adoption of IFRS in this study.

Influence of mimetic isomorphism on SMEs' adoption of IFRS

In a 2019 study, Kyei-Baffour investigated the impact of adopting IFRS for SMEs on the financial reporting quality of SMEs in Accra, Ghana. The researcher used a quasi-experimental approach, analyzing financial data from 20 randomly selected SMEs over six years. This included three years before (2011-2013) and three years after (2014-2016) the adoption of IFRS for SMEs. Kyei-Baffour focused on the "decision usefulness" of financial reporting, which encompasses characteristics like relevance, verifiability, understandability, and comparability. The study employed statistical techniques to compare these qualities between the pre- and post-adoption periods.

The findings revealed a positive impact. The financial reports of SMEs became more relevant, verifiable, understandable, and comparable after adopting IFRS for SMEs. This suggests that the standardized format improved the overall usefulness of financial information for decision-makers like investors and creditors. Interestingly, the study did not find a significant improvement in "faithful representation". This characteristic refers to the accuracy with which financial statements reflect a company's true financial position and performance. This could indicate that while the format improved, some SMEs might still struggle with accurately applying the accounting standards. Based on these findings, Kyei-Baffour recommends that policymakers encourage wider adoption of IFRS for SMEs at the individual firm level. Additionally, implementing measures to increase compliance with the standards could further enhance the quality of financial reporting for this important sector.

Salem and Damak Ayadi (2023) examined the reasons behind the varying rates of IFRS standards adoption among countries, utilising a social psychology model that accounts for cultural differences. A hierarchical cluster analysis was conducted on a sample of 30 countries. The findings classified the countries into seven categories according to their level of IFRS adoption. Ordinal regression was employed to identify the cultural and institutional factors that influence IFRS adoption. The results demonstrate that interpersonal communication promotes the adoption of international standards, whereas open-mindedness, ethnocentrism, and familiarity with the host culture impede the transition to IFRS. The study offers empirical evidence for two forms of institutional isomorphic pressures—coercive and mimetic—that influence national-level IFRS adoption. The findings indicate that interaction with the global economy facilitates IFRS adoption, while civil liberties, political rights, taxation, and innovation serve as impediments.

Wijekoon, Samkin, and Sharma (2022) examined the necessity of International Financial Reporting Standards (IFRS) for small and medium-sized entities (SMEs) in Sri Lanka, as well as the institutional pressures that affected the adoption of IFRS for SMEs. The research employed a theoretical framework grounded in new institutional sociology theory. Interviews were conducted with accountants, SME

owners, and representatives from government agencies and the accounting standards-setting authority in Sri Lanka as part of a qualitative research study. The research indicates that the demand for international accounting standards for SMEs, influenced by global frameworks and operations, is not a priority for SMEs in Sri Lanka. These entities are not subject to requests from trade partners for financial statements that are comparable on an international scale, and their business operations are unaffected by international activities such as foreign exports, borrowings, and ownerships. The adoption of IFRS for SMEs in Sri Lanka was mainly driven by institutional pressures rather than the anticipated advantages of internationally comparable financial information. The findings suggest that local user needs and government intervention were not significant factors in the development of accounting standards in Sri Lanka.

Souleymanou and Mouafo (2020) examined the transition of the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA) accounting system towards International Financial Reporting Standards (IFRS) following recent reforms. Using a sample of 10 companies, including two local firms, two international firms, three publicly traded companies, and three non-listed companies, we demonstrate that the current convergence towards international accounting standards is driven by coercive and mimetic isomorphism. The implementation of these standards in Cameroon is influenced by various structural and environmental factors, raising questions about their relevance.

However, there are also contrasting findings. Damak-Ayadi et al. (2020) found no significant influence of mimetic pressure on the adoption of IFRS for SMEs. This suggests that for smaller businesses, factors beyond imitating larger players might be more important in the decision-making process. Costs associated with implementing IFRS, the complexity of the standards, or the specific needs of the SME sector could outweigh the pressure to mimic larger companies. This conflicting evidence highlights the need for further research to understand the nuanced role of mimetic isomorphism in IFRS adoption.

Influence of normative isomorphism on SMEs' adoption of IFRS

Sellami and Gafsi (2018) analysed the implementation of IFRS for SMEs across 70 developing and transition nations, with 38 of these countries adopting the standard in 2014. Their findings demonstrated that the quantity of SMEs within a country, in conjunction with coercive and mimetic isomorphism, positively affects the adoption of IFRS for SMEs. The tax system and governance quality were negatively correlated with the decision to adopt. Normative isomorphism and the previous adoption of full IFRS did not influence the adoption of IFRS for SMEs.

Damak-Ayadi, Sassi, and Bahri (2020) investigated the influence of environmental and institutional factors on the adoption of the International Financial Reporting Standard for small and medium-sized entities (IFRS for SMEs). This study examines the factors influencing countries' decisions to adopt IFRS for SMEs through the lens of neo-institutional theory and economic network theory. The logistic regression analysis of 177 countries, comprising 77 jurisdictions that adopted IFRS for SMEs from 2009 to 2015, indicates that the adoption of IFRS for SMEs is significantly affected by law enforcement quality, cultural factors, trading networks, and economic growth. The study identifies a positive association between coercive and normative isomorphism and the adoption of IFRS for SMEs at the institutional level. Sappor et al. (2023) explored how familiar these businesses were with the IFRS for SMEs standard and how widely adopted it was. They also examined how different pressures – including legal requirements (coercive), imitation of others (mimetic), industry norms (normative), and broader economic factors (environmental) – influenced these companies' use of the standard. The researchers used a quantitative

approach with a closed-ended questionnaire and a statistical technique called PLS-SEM to analyse the data. Their findings showed that normative isomorphism had a significant positive influence on adoption of IFRS.

Influence of environmental factors on SMEs' adoption of IFRS

Yeap and Shabri (2023) examined the influence of external environmental factors on the adoption of IFRS by SMEs in Perlis, Malaysia. This study employed real-time data and examined existing literature regarding the factors affecting IFRS implementation for SMEs across different nations. A quantitative method was utilised to gather and analyse data from the population in Perlis, Malaysia. The results demonstrated that institutional pressure, economic development, and project governance positively affected the IFRS adoption initiative, whereas cultural factors did not exert a significant influence. This study offers key stakeholders in SMEs a means to promptly tackle internal and external factors influencing IFRS adoption and future success. The study's findings provide important insights and practical recommendations, assisting SMEs in addressing challenges and leveraging the advantages of IFRS adoption, thereby improving their financial reporting processes, transparency, compliance, competitiveness, and credibility in the global market.

Blay, Cudjoe, and Okyere (2020) examined the degree of compliance with International Financial Reporting Standards (IFRSs) among Small and Medium Enterprises (SMEs) in the Cape Coast Metropolis (CCM). The study also analysed firm characteristics, including size, profitability, audit type, international presence, type of SME, and leverage, that affect the degree of IFRS compliance among SMEs. A descriptive research design was utilised, and data were gathered from 89 SMEs within the metropolis, with 67 medium-sized enterprises included in the final analysis. The primary instrument utilised was a self-constructed compliance index (CINDEX) checklist. Data were analysed employing descriptive and inferential statistics. The results revealed that the mean level of IFRS compliance among medium-sized enterprises was 77.9%. Firm attributes, including type, profitability, and audit type, explained 70.6% of the variance in IFRS compliance levels. The study suggested that the National Board for Small Scale Industries (NBSSI) and SME owner/managers should work together with the Institute of Chartered Accountants Ghana (ICAG) to establish regular training programs for accountants in the sector, offering practical guidance for adherence to the International Accounting Standards Board (IASB) requirements.

Conceptual Framework

The conceptual model depicted in Figure 1 illustrates the framework for investigating the adoption of International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) in West Africa through a structural equation modeling approach. This model encompasses various latent variables hypothesized to influence the adoption process, including regulatory environment, perceived benefits, firm characteristics, and external pressures. Additionally, the moderating effect of firm size on the relationship between these determinants and the adoption of IFRS is represented by the square dot line. By integrating these elements, the model aims to provide a comprehensive understanding of the factors driving IFRS adoption among SMEs in the West African context, thereby contributing to the literature on financial reporting standards and SME development.

Conceptual Model of the Study

Figure 1 shows the conceptual framework of the study.

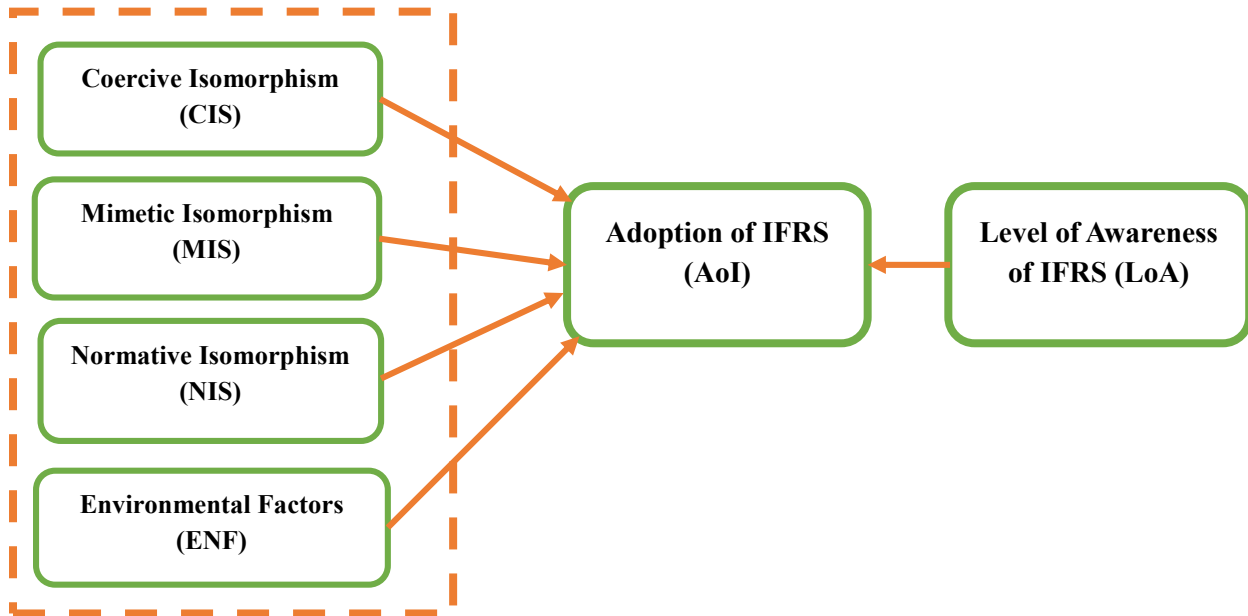


Figure 3: Conceptual Framework

Source: Author's Construct

3. METHODS

The study aimed to assess the influence of isomorphic pressures and environmental factors as well as challenges on the adoption of IFRS. The study used an explanatory design of the quantitative approach underpinned by a positivist philosophy. Data were collected through structured questionnaires administered both online and face-to-face, following ethical clearance from the university's ethics committee. The questionnaire was made up of nine sections: demographic characteristics; level of awareness; IFRS adoption; level of compliance; Coercive Isomorphism (CIS); Mimetic Isomorphism (MIS); Normative Isomorphism (NIS); and Environmental Factors (ENF). Aside from the demographics, the other sections were measured using a four-point Likert scale, from strongly disagree (1) to strongly agree (4). The sample included respondents from SMEs across four West African countries: Ghana (347 respondents), Nigeria (70 respondents), Senegal (58 respondents), and Ivory Coast (42 respondents). With the aid of Smart PLS software, Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to test hypotheses. An asymmetric analysis was conducted using fsQCA. fsQCA addresses the configurational complexity of adoption by identifying multiple, potentially divergent pathways that can lead to high IFRS adoption outcomes (Kraus et al., 2018; Kumar et al., 2022; Pappas & Woodside, 2021). This combination of methods allowed for a more comprehensive view of the adoption process, demonstrating how varied configurations of institutional pressures and challenges can achieve similar outcomes, which is particularly relevant for the unique contexts of SMEs. As proposed by Hair et al. (2020), the validity and reliability of the instrument was tested using: Cronbach Alpha, composite reliability, Average Variance Extracted (AVE), Variance Inflation Factors (VIFs), Fornell-Larcker criteria, Heterotrait-Monotrait Ratio (HTMT), and factor loadings and all the constructs passed these tests.

and other preliminary test for running SEM analysis. Ethical considerations, including informed consent and data confidentiality, were rigorously maintained throughout the research process.

4. RESULTS

Path Coefficients and Significance

The path from CIS to AOI revealed a negative relationship with a path coefficient (β) of -0.383, indicating that higher coercive pressures result in a decrease in the adoption of IFRS. The T-value for this path was 2.558, and the p-value was 0.005, which is statistically significant, further supporting the negative impact of coercive isomorphism on IFRS adoption. The confidence interval (CI) ranged from -0.651 to -0.152, indicating a relatively robust effect. The f^2 value for this relationship was 0.041, suggesting a small effect size (Table 1).

Conversely, the path from COI to AOI demonstrated a positive relationship ($\beta = 0.395$), suggesting that the challenges associated with IFRS implementation enhance the adoption of IFRS. With a T-value of 3.137 and a p-value of 0.001, this path was highly significant. The confidence interval (0.211 to 0.627) and f^2 value of 0.056 suggest a moderate effect size for this relationship.

The relationship between COI and LOA was particularly strong, with a path coefficient of 0.618, and a T-value of 20.222, which indicates a very high level of significance ($p < 0.001$). The CI ranged from 0.564 to 0.666, confirming a robust effect. The f^2 value of 0.619 indicates a large effect size, demonstrating the importance of the challenges of IFRS in increasing awareness.

For the path from ENF to AOI, the coefficient was virtually zero ($\beta = 0.002$), and the T-value was 0.085 with a p-value of 0.466, indicating no significant effect. The confidence interval ranged from -0.027 to 0.031, which further supports the negligible impact of environmental factors on IFRS adoption.

The path from LOA to AOI yielded a significant positive relationship ($\beta = 0.460$, T-value = 7.320, $p < 0.001$), indicating that greater awareness of IFRS positively influences its adoption. The CI (0.352 to 0.557) and f^2 value (0.427) suggest a moderate to large effect size for this relationship (Table 1).

Similarly, the path from LOC to AOI revealed a positive relationship ($\beta = 0.398$), with a T-value of 5.500 and a p-value of 0.000, indicating statistical significance. The CI (0.283 to 0.520) and f^2 value (0.178) suggest a small to medium effect size, further confirming the importance of compliance in driving IFRS adoption.

The relationship between MIS and AOI was negative ($\beta = -0.112$), but the T-value of 1.167 and p-value of 0.122 indicated that this path was not statistically significant. The CI ranged from -0.283 to 0.033, reinforcing the lack of significant influence of mimetic isomorphism on IFRS adoption.

Table 1: Structural Model

	B	Sample Mean (M)	SD	T-value	P Values	5.0%	95.0%	f^2	R^2	Q^2
CIS -> AOI	-0.38	-0.37	0.15	2.56	0.005	-0.65	-0.15	0.04	0.86	0.65
COI -> AOI	0.39	0.39	0.13	3.14	0.001	0.21	0.63	0.06		
COI -> LOA	0.62	0.62	0.03	20.22	0.000	0.56	0.67	0.62	0.38	0.18
ENF -> AOI	0.00	0.00	0.02	0.09	0.466	-0.03	0.03	0.00		
LOA -> AOI	0.46	0.46	0.06	7.32	0.000	0.35	0.56	0.43		
LOC -> AOI	0.39	0.40	0.07	5.50	0.000	0.28	0.52	0.18		
MIS -> AOI	-0.11	-0.11	0.09	1.17	0.122	-0.28	0.03	0.01		
NIS -> AOI	0.06	0.06	0.05	1.111	0.133	-0.02	0.14	0.01		

Note: β = path coefficient; M = Sample Mean; SD = Standard Deviation

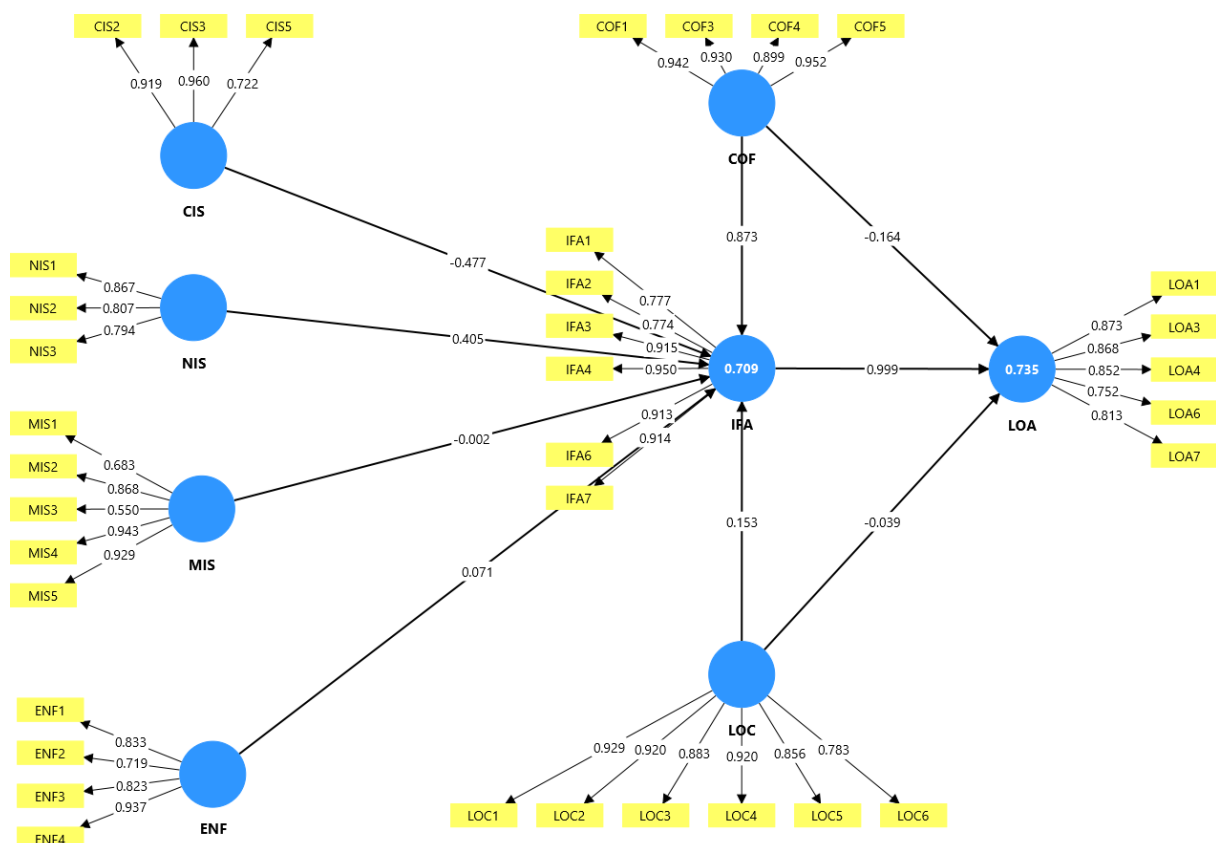


Figure 2: PLS-SEM Bootstrapping results

Asymmetric Results

This research applies fuzzy-set Qualitative Comparative Analysis (fsQCA) to explore how different factors collectively influence AOI, aiming to overcome the limitations of Partial Least Squares (PLS) in capturing complex interactions. Unlike traditional methods that focus on isolated effects (Xia et al., 2024), fsQCA identifies configurations of factors that jointly contribute to the outcome of interest, in this case, AOI (Bley et al., 2024; Fiss, 2011; Manosuthi, 2024; Pappas et al., 2021). To enhance this analysis, necessity analysis is employed to pinpoint essential predictors of usage (Dul, 2016; Eastman et al., 2024; Pappas & Woodside, 2021). The method identifies necessary configurations based on specified thresholds for consistency (≥ 0.8) and coverage (≥ 0.2), with antecedents requiring a consistency and coverage of over 0.9 (Pappas & Bley, 2023; Ragin, 2008). After calibrating the variables, a truth table (Table 2) is created using the fsQCA software to determine the configurations.

The configuration table for predicting high Adoption of IFRS (AOI) in small and medium-sized enterprises (SMEs) highlights two key configurations that reveal the complex interplay of factors influencing IFRS adoption in West Africa. As shown in Table 3, the two configurations, M1 and M2, provide valuable insights into the underlying dynamics of AOI.

M1: LOA*LOC*COI*CIS*MIS*NIS

Configuration M1 demonstrates that high AOI is achieved when SMEs exhibit high levels of Level of Awareness (LOA), Level of Compliance (LOC), Challenges of IFRS (COI), Coercive Isomorphism (CIS), Mimetic Isomorphism (MIS), and Normative Isomorphism (NIS). This configuration, with a raw coverage of 0.697 and a unique coverage of 0.682, is characterized by a very high consistency of 0.988, indicating that these conditions consistently lead to the adoption of IFRS among SMEs. The significant influence of awareness and compliance points to the crucial role that knowledge and adherence to IFRS standards play in driving adoption. Meanwhile, the inclusion of isomorphism factors suggests that the adoption is also influenced by the pressures SMEs face from external forces, including government regulations and industry norms. These findings align with the tenets of institutional theory, which posits that organizations adopt practices to align with institutional expectations (Scott, 2008).

M2: ~LOA*~LOC*COI*~CIS*~MIS*~NIS*ENF

In contrast, Configuration M2 highlights a different path to high AOI. This configuration demonstrates that even when awareness and compliance are low, SMEs may still adopt IFRS if they face significant challenges (COI) and environmental factors (ENF). The raw coverage of 0.073 and unique coverage of 0.058, along with a consistency of 0.909, suggests that while this configuration is less common, it still presents a significant route for adoption. The lack of isomorphism factors in this configuration implies that SMEs may not be as strongly influenced by institutional pressures but are instead motivated by the direct challenges they face in adopting IFRS and the surrounding environmental context. This finding suggests that SMEs might be driven to adopt IFRS when confronted with external challenges or when the business environment compels them to do so, even if they lack full awareness or compliance with the standards. This configuration resonates with the contingency theory, which emphasizes the role of contextual factors in shaping organizational decisions (Donaldson, 2001).

Solution Coverage and Consistency

The solution coverage of 0.755 and solution consistency of 0.982 further underscore the robustness of the identified configurations in predicting AOI. These results suggest that a combination of institutional pressures, awareness, compliance, and external challenges plays a critical role in the adoption process. The high consistency values also affirm that these configurations are reliable predictors of IFRS adoption across SMEs in the context of West Africa.

The results (Table 3) from these configurations provide important insights for both theory and practice. From a theoretical perspective, the results expand our understanding of the institutional factors driving IFRS adoption, particularly within the context of SMEs in developing regions. The interplay of institutional theory and contingency theory provides a nuanced view of how different factors such as isomorphism pressures, awareness, compliance, and external challenges combine to shape organizational decisions regarding IFRS adoption.

From a practical standpoint, policymakers and regulatory bodies can leverage these insights to design targeted interventions that address the specific needs and challenges faced by SMEs in adopting IFRS. For instance, initiatives aimed at improving awareness and compliance with IFRS standards could be coupled with efforts to address the challenges and environmental factors that influence SMEs' decisions. Additionally, understanding that institutional pressures (such as coercive, mimetic, and normative isomorphisms) may not always be the dominant factors could lead to more flexible strategies that take into account the unique circumstances of SMEs.

Therefore, the study's findings contribute to the broader literature on institutional theory and IFRS adoption by highlighting the specific configurations of factors that lead to high adoption rates among SMEs in West Africa. These configurations provide a valuable framework for understanding how SMEs navigate the complexities of adopting international accounting standards and offer practical guidance for policymakers seeking to enhance IFRS adoption in similar contexts.

Table 2: Truth Table

CLO A	CLO C	CCO I	CCIS	CMI S	CNIS	CEN F	numb er	CAO I	raw consist.	PRI consist.	SYM consist
1	1	1	1	1	1	1	128	1	0.985	0.983	0.983
1	1	1	1	1	1	0	35	1	0.983	0.977	0.978
0	0	1	0	0	0	1	10	1	0.909	0.782	0.782
1	0	0	0	1	1	0	3	0	0.710	0.042	0.042
0	0	1	1	1	1	0	3	0	0.709	0.264	0.264
0	1	1	1	1	1	1	20	0	0.645	0.441	0.4411
0	0	0	1	1	1	1	4	0	0.623	0	0
1	0	0	0	0	0	1	3	0	0.619	0.105	0.105
0	0	0	0	1	1	1	10	0	0.576	0	0
1	0	0	0	1	0	1	12	0	0.559	0.270	0.277
1	0	0	0	1	1	1	40	0	0.465	0.006	0.0061
0	0	0	1	0	0	1	18	0	0.430	0.031	0.0314
1	0	0	1	1	0	1	72	0	0.272	0.032	0.032
0	0	0	1	1	0	1	10	0	0.259	0.009	0.009
0	0	0	0	0	0	1	98	0	0.242	0.033	0.033

Table 3: Sufficient Recipes for Predicting High AOI

Configurations for AOI [AOI = f (LOA, LOC, COI, CIS, MIS, NIS, ENF)]	LO A	LO C	C OI	CI S	MI S	NI S	EN F	“Raw Cov erage”	“Uniqu e Cov erage”	“Consiste ncy”
M1: LOA*LOC*COI*CIS*MIS*NIS	●	●	●	●	●	●		0.697	0.682	0.988
M2: ~LOA*~LOC*COI*~CIS*~MIS*~NIS*ENF	⊗	⊗	●	⊗	⊗	⊗	●	0.073	0.058	0.909

Note: Solution Coverage: 0.755; Solution Consistency: 0.982

“●” indicates the presence (affirmative) of an antecedent condition.

“⊗” indicates the negation of an antecedent condition.

Blank cells represent conditions that do not impact the configuration outcome (don’t care conditions).

“~” denotes the negation of a condition (e.g., ~LOA means “not LOA”)

Table 4: Analysis of Necessary Conditions for AOI

Conditions	Consistency	Coverage
LOA	0.897	0.721
LOC	0.823	0.781
COI	0.835	0.870
CIS	0.866	0.627
MIS	0.920	0.540
NIS	0.876	0.679
ENF	0.811	0.453

Note: “Italic values represent necessary conditions (consistency > 0.90); MIS is a necessary predictor of AOI”.

The analysis of necessary conditions for Adoption of IFRS (AOI), as presented in the Table 4, reveals that several conditions are crucial for determining the adoption process. Notably, Mimetic Isomorphism (MIS) stands out with the highest consistency value of 0.920, suggesting that it is an indispensable factor in promoting high AOI.

Additionally, Level of Awareness (LOA) and Level of Compliance (LOC) also show relatively high consistency (0.897 and 0.823, respectively), highlighting their importance in driving the adoption of IFRS. The coverage values further indicate that Challenges of IFRS (COI) and Coercive Isomorphism (CIS) play a significant role, with COI having the highest coverage (0.870), suggesting that challenges in adopting IFRS are widely experienced and can impact adoption. Conversely, Environmental Factors (ENF) exhibit

lower coverage (0.453), implying a less pronounced, though still relevant, role in adoption. Therefore, the findings underscore the importance of institutional pressures and awareness for successful IFRS adoption.

5. DISCUSSIONS

Research Hypothesis One

H₀: There is no statistically significant influence of coercive isomorphism on SMEs' adoption of IFRS.

The influence of Coercive Isomorphism (CIS) on SMEs' Adoption of IFRS (AOI) shows a significant negative relationship, with a path coefficient of -0.383, a T-value of 2.558, and a P-value of 0.005. This result suggests that coercive pressures negatively impact SMEs' adoption of IFRS, indicating that as coercive pressures increase, IFRS adoption decreases. Thus, the null hypothesis is rejected, demonstrating that coercive isomorphism significantly influences IFRS adoption.

The finding of a significant negative relationship between coercive isomorphism (CIS) and SMEs' adoption of International Financial Reporting Standards (IFRS), with a path coefficient of -0.383 and a p-value of 0.005, offers a nuanced perspective on how regulatory pressures impact IFRS adoption in the SME sector. This relationship implies that as coercive pressures increase, SMEs' likelihood of adopting IFRS decreases, which suggests that regulatory or legislative mandates may inadvertently dissuade, rather than encourage, adoption of these standards among SMEs. The rejection of the null hypothesis affirms that coercive pressures indeed exert a notable, albeit negative, influence on IFRS adoption.

Research into the influence of coercive isomorphism on IFRS adoption across varying contexts offers mixed results. Sappor et al. (2023), in a survey of SMEs in northern Ghana, found that regulatory pressures, categorized as coercive isomorphism, were one of the main drivers of IFRS adoption. However, they also identified that other factors, such as the level of awareness of IFRS and broader economic motivations, were significantly influential, while mimetic or normative pressures showed limited impact. This result aligns with DiMaggio and Powell's (1983) theory, which posits that coercive isomorphism, stemming from legal requirements and pressures from authoritative institutions, can push organizations toward adopting standardized practices. However, as shown by the negative relationship in the present study, the imposition of regulatory mandates might add to perceived burdens, deterring SMEs from IFRS adoption.

Further supporting this perspective, Kaya and Koch (2015) found no significant relationship between coercive pressures and IFRS adoption among SMEs in different contexts, highlighting the importance of firm size and sectoral characteristics in shaping responses to regulatory requirements. For SMEs, regulatory mandates are often perceived as costly and complex due to limited resources, which can discourage adoption despite awareness of the standards. This is echoed by Wijekoon, Samkin, and Sharma's (2022) findings in Sri Lanka, where local SMEs showed limited motivation to adopt IFRS standards as international comparability was not perceived as immediately relevant to their operations. This evidence suggests that coercive isomorphism may not uniformly encourage IFRS adoption in all settings and sectors, particularly among resource-constrained SMEs.

The negative influence observed in this study might also be linked to the unique economic and regulatory landscape in which Ghanaian SMEs operate. In many developing economies, compliance with international standards, such as IFRS, can impose financial and operational strains on smaller enterprises. As Boolaky, Tawiah, and Soobaroyen (2020) highlight in their study on IFRS adoption in Africa, coercive

pressures can lead to resistance if SMEs perceive them as irrelevant or burdensome to their local operations. This aligns with the current study's finding, suggesting that regulatory mandates may not effectively encourage IFRS adoption in cases where SMEs lack the financial or technical capacity to comply.

The study's results might also reflect SMEs' apprehension toward the anticipated costs and complexity associated with IFRS compliance. Sappor et al. (2023) identified that SMEs often perceive IFRS adoption as a costly endeavor that demands significant financial and managerial resources. When coercive pressures are perceived as compounding these challenges, SMEs may prioritize other financial commitments over compliance. This perception aligns with findings by Al-Akra et al. (2009) and Judge et al. (2010), which underscore that, in some cases, coercive pressures can have unintended consequences, where the perceived difficulty and resource requirements associated with IFRS compliance discourage adoption.

Despite the strong theoretical basis supporting the role of coercive isomorphism in promoting IFRS adoption (DiMaggio & Powell, 1983), the empirical findings of this study suggest that SMEs in Ghana may interpret regulatory pressures as obstacles rather than motivators. Therefore, while regulatory bodies play a critical role in pushing for IFRS adoption, this study's findings imply a need for supportive mechanisms that alleviate SMEs' concerns over costs and complexity. Implementing phased or scaled compliance measures, coupled with financial incentives and training programs, could foster a more favorable attitude toward IFRS adoption among SMEs.

Research Hypothesis Two

H₀: There is no statistically significant influence of mimetic isomorphism on SMEs' adoption of IFRS.

The effect of Mimetic Isomorphism (MIS) on AOI shows a negative, non-significant path coefficient of -0.112 (T-value = 1.167, $p = 0.122 > .05$). This implies that mimetic pressures do not have a statistically significant influence on SMEs' adoption of IFRS. Therefore, the null hypothesis is retained, indicating no significant influence of mimetic isomorphism on IFRS adoption.

The analysis reveals that mimetic isomorphism (MIS) exerts a negative but statistically non-significant effect on the adoption of IFRS among SMEs, indicating that mimetic pressures do not substantially influence SMEs' decision to adopt these standards. This outcome aligns with findings by Damak-Ayadi et al. (2020), who also reported that mimetic pressure had minimal impact on SMEs' adoption of IFRS, likely due to the distinct financial and operational constraints faced by smaller firms. For SMEs, factors such as implementation costs, complexity, and sector-specific requirements can overshadow the perceived benefits of aligning with larger entities' practices.

While some studies, such as those by Kossentini and Othman (2014) and Sellami and Gafsi (2018), have highlighted the potential of mimetic isomorphism in encouraging IFRS adoption—especially as SMEs and countries may seek legitimacy by emulating the practices of established multinational corporations (MNCs)—this study's findings suggest that such pressures are less influential for SMEs in the selected countries for this study. Kyei-Baffour (2019), in a quasi-experimental study on Ghanaian SMEs, observed that adopting IFRS enhanced the relevance, verifiability, and comparability of financial reports. However, the lack of a significant effect from mimetic pressures implies that SMEs' adoption motivations may be more internally driven or influenced by local regulatory and economic conditions than by the practices of larger, international entities.

This nuanced role of mimetic isomorphism echoes the insights of Wijekoon et al. (2022) regarding Sri Lankan SMEs, where institutional pressures, rather than mimetic tendencies, primarily drove IFRS adoption. Similarly, Boolaky et al. (2020) found that social and political factors, rather than economic or mimetic influences, played a more prominent role in the adoption of IFRS across Africa. This supports the view that while mimetic isomorphism can be influential at a macro level or for larger firms aiming for international comparability, SMEs may weigh practical, cost, and regulatory considerations more heavily in their adoption decisions.

The finding that mimetic isomorphism exerts no significant influence on SMEs' adoption of IFRS can be attributed to the unique operational constraints and resource limitations faced by smaller firms, which often prioritize practical considerations over emulating larger, established entities. Unlike multinational corporations or larger firms that may adopt IFRS to enhance legitimacy or align with global standards, SMEs may perceive the costs and complexities associated with IFRS as disproportionate to their scale and immediate needs. Prior studies, such as those by Damak-Ayadi et al. (2020) and Wijekoon et al. (2022), similarly indicate that for SMEs, external pressures to mimic larger organizations hold limited relevance, particularly in contexts where localized economic conditions, regulatory guidance, or sector-specific needs are more salient. Thus, the non-significant effect of mimetic isomorphism in this study underscores that IFRS adoption among SMEs may require incentives beyond imitation of successful peers, emphasizing instead policies and support mechanisms that address the distinct financial and reporting challenges within the SME sector.

H₀: There is no statistically significant influence of normative isomorphism on SMEs' adoption of IFRS.

The relationship between Normative Isomorphism (NIS) and AOI has a small positive path coefficient of 0.057, but this is not statistically significant, with a T-value of 1.111 and a P-value of 0.133. This suggests that normative pressures do not significantly affect SMEs' adoption of IFRS. As such, the null hypothesis is retained, showing no significant influence of normative isomorphism on IFRS adoption.

The study reveals that normative isomorphism does not significantly impact SMEs' adoption of IFRS, indicating that industry norms and professional standards may have limited influence on smaller firms' financial reporting practices. Studies have suggested varying effects of normative pressures depending on the institutional and professional landscapes within which businesses operate. For example, Damak-Ayadi et al. (2020) identified normative isomorphism as a factor in IFRS adoption among SMEs in certain regions, particularly where professional organizations and networks actively promote IFRS for SMEs. However, Sellami and Gafsi (2018) found that normative pressures were not a significant driver for IFRS adoption among SMEs in 70 developing countries, suggesting that SMEs may not be strongly tied to professional bodies or networks that advocate for IFRS adoption. Instead, these entities may focus on meeting regulatory and economic requirements rather than aligning with the professional standards upheld by larger corporations or accounting institutions.

Other research emphasizes that normative isomorphism tends to play a stronger role in IFRS adoption when there are well-established professional associations and widespread adherence to industry standards. Sappor et al. (2023) observed that in contexts where industry norms are robust, normative isomorphism positively influences IFRS adoption among SMEs, as firms tend to follow accepted industry practices endorsed by professional networks. However, the contrasting findings across studies suggest that

normative pressures may be less effective in influencing SMEs in regions where professional networks lack the authority or reach to impact smaller businesses. Given that SMEs often prioritize local compliance over global standards, the absence of normative isomorphic influence in this case might highlight a gap in support structures or advocacy from professional bodies that encourage IFRS compliance.

This finding can be attributed to several factors. SMEs may lack strong connections with professional accounting bodies that promote IFRS, focusing instead on meeting local regulations and economic goals rather than international standards. Additionally, SMEs typically operate with limited resources, making it difficult to align with complex global standards such as IFRS without tailored support. Furthermore, in regions where professional norms are not reinforced through structured networks, the influence of normative isomorphism may remain weak, with SMEs more likely to adopt financial practices that prioritize immediate business needs over alignment with professional expectations. Thus, the limited impact of normative isomorphism on IFRS adoption among SMEs highlights the need for industry-specific support systems to help smaller firms integrate global standards into their operations.

H₀: There is no statistically significant influence of environmental factors on SMEs' adoption of IFRS.

The path from Environmental Factors (ENF) to AOI has a minimal, non-significant coefficient of 0.002, with a T-value of 0.085 and a P-value of 0.466. This finding indicates that environmental factors do not meaningfully impact the adoption of IFRS among SMEs. Consequently, the null hypothesis is retained, showing no significant influence of environmental factors on IFRS adoption.

The analysis indicates that environmental factors do not significantly influence SMEs' adoption of IFRS, as evidenced by the minimal path coefficient and non-significant p-value. This finding suggests that external environmental influences, such as economic development, governance, or institutional pressures, may not be strong enough to drive smaller firms toward adopting international financial standards like IFRS. This aligns with previous studies where environmental factors showed mixed or weak associations with IFRS adoption in SMEs. For instance, Yeap and Shabri (2023) highlighted that while economic development and institutional pressures positively impacted IFRS adoption in SMEs, cultural factors were found to have no significant effect. Similarly, Blay, Cudjoe, and Okyere (2020) noted that firm-specific attributes like size, profitability, and audit type had a stronger influence on IFRS compliance than broader environmental factors, which underscores the importance of internal firm characteristics over external pressures. In contrast, Tawiah and Boolaky (2019) observed that compliance with IFRS was driven more by internal governance factors such as the competence of audit committees and the presence of chartered accountants on the board rather than external environmental forces.

These findings can be attributed to the unique nature of SMEs, which often face more immediate, localized challenges than larger firms. While environmental factors such as economic growth or governance might impact larger corporations, SMEs are typically more concerned with practical, day-to-day operations and compliance with local regulations. Additionally, the lack of significant influence from environmental factors may reflect a gap in institutional support or a lack of pressure from stakeholders to adopt global standards. Many SMEs may not view IFRS adoption as an urgent necessity if they are operating in regions where local standards are perceived as sufficient for their business needs. Moreover, external pressures such as cultural factors or economic conditions may not be compelling enough for SMEs to undertake the

complex and resource-intensive process of adopting IFRS. Therefore, the absence of a significant impact of environmental factors on SMEs' adoption of IFRS highlights the need for tailored strategies that address the specific barriers faced by SMEs in adopting international financial standards.

6. CONCLUSION

This study examines SMEs' awareness, compliance, and challenges related to IFRS adoption in selected West African countries. The findings indicate moderate awareness and compliance levels, with significant gaps in regular reviews and external auditing. Challenges such as IFRS complexity, high compliance costs, and insufficient training highlight the need for targeted support, including training programs and simplified reporting guidelines.

The study also explores institutional pressures influencing IFRS adoption. Coercive isomorphism (regulatory pressures) negatively impacts adoption, suggesting that rigid mandates may deter SMEs rather than encourage compliance. Mimetic isomorphism (imitation of larger firms) and normative isomorphism (influence from professional bodies) show no significant impact, indicating that SMEs do not adopt IFRS based on peer influence or professional recommendations. Additionally, environmental factors (market conditions and economic policies) do not significantly drive IFRS adoption.

From a practical perspective, the findings offer insights for accountants, auditors, and policymakers. Instead of enforcing compliance, professionals should provide tailored support, demonstrating IFRS benefits such as financial transparency and access to finance. Training programs should address SMEs' specific challenges and highlight strategic advantages rather than focusing solely on compliance. Given the weak influence of mimetic and normative pressures, practitioners should prioritize customized solutions that cater to SMEs' unique operational needs.

7. RECOMMENDATIONS

The significant negative influence of coercive isomorphism on SMEs' adoption of IFRS, as evidenced by the findings, suggests that SMEs are struggling with external pressures that hinder the integration of IFRS into their operations. It is recommended that relevant regulatory bodies, such as national accounting boards and professional institutions, review and refine policies that impose compliance with IFRS. These organizations should consider creating more flexible implementation timelines or tiered compliance requirements, particularly for smaller SMEs. Government agencies could provide targeted financial and technical support to alleviate coercive pressures, such as offering subsidies for training, consultation services, or tools to help SMEs better understand and integrate IFRS without fear of immediate and overwhelming regulatory penalties.

The non-significant effect of mimetic isomorphism on SMEs' adoption of IFRS suggests that SMEs are not primarily influenced by mimicking the practices of other businesses in the adoption of IFRS. This finding suggests that peer influence or imitation does not drive IFRS adoption, and therefore, efforts to encourage SMEs to adopt IFRS should focus less on mimetic pressures and more on demonstrating the practical and long-term benefits of adoption, such as improved access to capital, better financial transparency, and enhanced credibility. Institutions, such as local business associations or chambers of commerce, could organize seminars and workshops where successful case studies of SMEs benefiting

from IFRS adoption are shared, focusing on tangible advantages and providing SMEs with the tools they need to implement these standards effectively.

Given the minimal influence of normative isomorphism on IFRS adoption, it is evident that normative pressures, such as those from professional associations, have a limited impact on SMEs' decisions. It is recommended that professional organizations play a more proactive role by strengthening their influence through the provision of practical resources, training, and support services for SMEs. These organizations can collaborate with financial institutions and government agencies to develop simplified IFRS guidelines that are more applicable to the unique challenges faced by SMEs.

The lack of a significant relationship between environmental factors and IFRS adoption suggests that external environmental elements, such as market conditions or regional economic factors, do not heavily influence SMEs' decisions to adopt IFRS. However, SMEs may still benefit from more favorable environmental conditions created through government initiatives, such as tax incentives or favorable policies that reduce the financial burden of implementing IFRS. Therefore, policy makers should consider integrating IFRS adoption as part of broader economic development strategies, offering incentives that encourage SMEs to adopt better financial reporting practices without facing significant economic hardships.

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