

International Accounting Standards in Africa: Selective Recursivity for the 'Happy Few'?

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Abstract

This study explores recursivity in international accounting standard-setting, focusing on participation of actors from African countries. While the International Financial Reporting Standards (IFRS) Foundation bases its legitimacy claims as a global standard-setter on a combination of expertise and a formally transparent set of recursive procedures for consultation of stakeholders, empirical results show that participation in the latter is geographically very uneven. The article argues that conceptual mismatch between the standard-setter's objectives on the one hand and the socio-economic, cultural and political conditions in many African countries on the other leads to selective recursivity that is problematic for the former's legitimacy and effectiveness. These findings are of wider relevance for debates on global standard-setting and development.

Policy Implications

- As standard-setters expand their reach to developing countries, they are well-advised to review their objectives, procedures and stakeholder definitions in light of a possible mismatch with conditions and perceived needs of actors in these countries.
- Financial standard-setters like the IFRS Foundation should open their agenda-setting to a much broader set of constituents beyond the investor community and actively solicit input from developing country stakeholders.
- Global standard-setters should explore how mutual recognition and equivalence assessments can contribute to bridge conceptual mismatch with realities in developing countries.

Transnational standards and the Global South

The proliferation of transnational standards governing a wide range of policy fields, such as environment, development, health, food safety and finance, has raised concerns about the challenges that they pose for developing countries. As many of these standards have been predominantly created by actors from the Global North, their diffusion to developing countries with very different economic, social and political conditions raises questions about their effectiveness and legitimacy (Andrews, 2013). Existing research shows that actors from developing countries are often underrepresented in transnational standard-setting processes (Dingwerth, 2008). If the latter are included at all, participation is often limited to the 'happy few' who share a similar professional outlook and background with those from the Global North (Botzem, 2012). Without a voice in the development of global standards, other developing

country actors may consider these standards inappropriate. Such problems of acceptance, moreover, may result in a reduction of the standard-setter's governance capacity.

Hence, as transnational standard-setters expand their reach to developing countries, they are confronted with intertwined challenges to their effectiveness and legitimacy. Such challenges are particularly an issue for recursive governance schemes because these base their claims for both legitimacy and effectiveness on the involvement of a broad range of regulatory addressees, affected parties and broader publics, together with their responsiveness to these audiences. Existing research emphasizes how power asymmetries, lack of resources and paucity of knowledge deter actors from developing countries from participating in transnational standard-setting even when procedures for doing so are formally open (Nölke, 2015). However, less is known about how the conceptual underpinnings of global standards in relation to perceived needs of actors in

developing countries might affect the latter's motivation to participate or not.

In this article, we focus on international standard-setting in accounting by the IFRS Foundation, which has established a recursive procedural system based on periodic 'due process' review and consultation of users, preparers and other interested parties. We explore why there is low participation of actors from African countries although an increasing number of these have adopted IFRS. This focus enables us to observe different degrees of mismatch between the assumptions of international accounting standards and socio-economic, cultural and political conditions in African countries. The analysis draws on a literature review, data published by the standard-setter and field research on IFRS in Africa by one of the authors (Zori, 2015). Our results suggest that conceptual mismatch is likely to have motivational effects that contribute to the geographically unequal participation of actors from African countries in recursive standard-setting.

We begin by introducing our conceptual framework. We then present the objectives, governance and recursive standard-setting procedures of the IFRS Foundation, before analyzing the participation of actors from African countries. The analysis of the reasons for their quasi-absence leads us to identify conceptual mismatch as a source of selective recursivity. Based on our results, we discuss broader implications for the effectiveness and legitimacy of transnational governance schemes.

Mismatch in transnational governance recursivity

Building on the conceptual framework of this special section, we use the concept of recursivity to emphasize the cyclical nature of rule-setting. We conceptualize recursivity as a complex cycle through which addressees' responses to transnational rules continuously feed back into the rulemaking process and may lead to rule revision (Malets and Quack, 2017). Recursivity in cross-border standard-setting has recently attracted increased attention because of its relevance for legitimacy and effectiveness of transnational governance (Halliday and Carruthers, 2009; Botzem and Dobusch, 2012). However, recursivity can be organized very differently and these organizational properties matter for participation in governance schemes. In this article we contribute evidence from accounting to the three comparative dimensions of recursive standard-setting addressed in the case studies of this special section: First, we analyze the design and organization of recursive procedures of the IFRS Foundation. Second, we study the actual use of feedback channels by regulatory addressees, affected groups and broader publics. Third, we consider the responsiveness to feedback by those in charge of the governance organization (Malets and Quack, 2017).

In this article, we are particularly interested in the factors that make recursive standard-setting selective. Such selectivity can arise at two stages of the standard-setting cycle. First, formally open feedback channels for stakeholder consultation may be accessible and/or used to varying degrees

by different addressees, affected groups and interested publics. The results of consultation hence may present the standard-setter with incomplete and possibly biased information about the local needs, preferences and contexts of application. It may also prevent relevant stakeholder groups from having a voice in developing standards that they are supposed to follow. Second, there may also be varying degrees of responsiveness on the side of the standard-setter to feedback from different groups, and it depends on the accountability procedures in place whether such selectivity would become visible or not. Again, such selectivity might negatively impact the standard-setter's legitimacy and effectiveness.

In transnational governance, mismatch can take two distinctive forms. Actor mismatch, understood as the absence from transnational standard-setting arenas of those affected by or responsible for implementing and enforcing global standards at the national and local level, has been shown to vary with organizational design. For example, Dingwerth (2008) reports that capacity-building, explicit politicization and a reliance on multi-level decision-making contribute to a more even representation of Southern interests in private transnational governance schemes. Actor mismatch has also been shown to vary with knowledge and institutional infrastructures in developing countries (Hopper et al., 2012).

Scholars have also pointed towards conceptual mismatch, broadly defined as a misfit between the underlying 'Western' assumptions of standards and the contextual realities of implementation in developing countries (Andrews, 2013; Evans, 2004). Conceptual mismatch refers particularly to situations in which underlying causal assumptions about problem diagnosis and solutions inscribed into transnational standards are not matched by those of the actors who are subsequently supposed to adopt and implement them at the national and local level. Such conceptual mismatch is particularly likely to occur when an international standard-setter expands its reach to developing countries which were not originally included in the design of its standards and procedures. We argue that in such situations conceptual mismatch might influence developing country actors' participation in feedback processes of transnational standard-setters.

The IFRS Foundation as a transnational governance scheme

Since the early 1970s, cross-border accounting standards have been developed by a private transnational standard setter, the International Accounting Standards Committee and its successor the International Accounting Standards Board (IASB). Since 2001, the IASB operates as part of the IFRS Foundation, a non-profit organization registered under US law, aiming 'to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles' (IFRS Foundation, 2016). The proliferation of IFRS is closely tied to the internationalization of financial markets, the rise of cross-border capital flows and

the financialization of many economies worldwide. Incentives for developing countries to adopt IFRS include economic networking benefits (Ramanna and Sletten, 2014) as well as coercive, normative and cognitive pressures arising from international organizations such as the World Bank and IMF (Samaha and Khelif, 2016; Zori, 2015).

From a self-mandated and expertise-based technical body, the IASB has developed into a transnational governance scheme whose financial reporting standards are increasingly made mandatory by national governments (Camfferman and Zeff, 2017). A turning point was the decision of the European Union to make IFRS binding for the consolidated financial statements of publicly listed companies from 2005 onwards. Supported by international financial institutions like the World Bank, IMF, Financial Stability Board (FSB) and G20, IFRS have become the global 'gold standard' in accounting. Notwithstanding continued resistance from the United States, the number of jurisdictions which require IFRS for all or most domestic publicly accountable entities reached 126 in 2017 (IFRS Foundation, 2017c). As part of this trend, IFRS have also been increasingly considered for adoption by developing countries.

As a private organization, the IASB has sought to legitimate its global standard-setting role by developing an elaborate set of oversight and decision-making bodies, formalized procedures for public consultation with stakeholders (Botzem, 2012; Richardson and Eberlein, 2011). As we will show, this recursive standard-setting process despite its formal openness produces selective effects that favor participation by some actors over others. We begin by delineating the objectives and assumptions of the IFRS Foundation, its governance bodies and organization of recursivity, before examining the role of African actors in international accounting standard-setting and discussing possible sources for their absence. For reasons of space, we will focus on recursivity in standard-setting, leaving issues of implementation and enforcement of the standards on the ground for future research (for a review see Samaha and Khelif, 2016).

Objectives and assumptions of IFRS

The IASB produces IFRS predominantly for publicly listed companies. These standards are intended to foster global capital flows and spur investments across borders, increase accountability and transparency, and provide standardized information for financial regulators. Since its beginnings in the 1970s, the objectives and assumptions of international accounting standard-setting have significantly changed: from harmonization to convergence of rules, from a variety of purposes to a primary focus on capital market efficiency, and from the information needs of a range of addressees to a more exclusive focus on those of investors (Camfferman and Zeff, 2007; 2015).

Uniformity of accounting standards around the globe is a major concern of the IASB as the organization's primary objective remains 'to develop a single set of global financial reporting standards that bring transparency, accountability and efficiency to financial markets around the world' (Pacter,

2015). Thus, the IASB aims at the full adoption of IFRS in as many jurisdictions as possible rather than partial adaptation to national accounting rules.

The IASB has favored a specific purpose of financial reporting and a specific set of addressees over others. IFRS standards aim primarily to 'help investors, other participants in the world's capital markets and other users of financial information make economic decisions' (IFRS Foundation, 2016: 6). They have evolved into a set of requirements for capital market-oriented accounting, with increasing emphasis on fair value (Botzem, 2012). IFRS standards rely on – and further strengthen – active financial markets in which capital is provided and shares of companies are traded. As a private standard, IFRS is assumed to operate separately from tax reporting, which poses a problem for many jurisdictions with a strong link between the two (Kaya and Koch, 2015).

The focus on the utility of accounting information for capital providers has been further enhanced in the revised joint framework of IASB and FASB published in 2010 (Pelger, 2016). Zhang and Andrew (2014) find that the definition of primary users has shifted towards a narrow focus on 'investors, lenders and creditors' that disregards other formerly listed stakeholder groups such as employees, suppliers, governments or the public. These authors also observe that the purpose of accounting information is now entirely focused on usefulness for investors, abandoning its role in monitoring the performance of management, which was previously included under the rubric of 'stewardship' (Pelger, 2016). Furthermore, by concentrating on fair value accounting, the new Framework assumes a highly financialized environment and functioning liquid markets. Overall, it can be argued that the new Framework has shifted the underlying assumptions of IFRS standard-setting in an opposite direction to the prevailing conditions in developing countries.

Governance bodies

In the IFRS Foundation, three types of bodies exercise different functions and cater to different audiences: (1) those concerned with oversight and accountability of private standard-setting; (2) those that develop standards and provide guidance for their interpretation and implementation; and (3) those that provide advice on standard-setting by involving third parties. All of these bodies play a role in the recursive procedures of international accounting standard-setting, albeit in different ways.

First, bodies concerned with oversight and accountability mostly address legitimacy issues and are geared towards important veto players (such as US and European regulators), towards representatives of different private interests or towards interest groups from jurisdictions in which IFRS are intended to be diffused in the future. The IFRS Foundation is overseen by a self-mandated Board of Trustees whose members are recruited on the basis of expertise in international accounting and finance. Since 2009, six of its members must come from Asia/Oceania, six from Europe, six from the Americas, one from Africa and one from the rest

of the world. Following criticism of the Board of Trustees' lack of accountability to public authorities, a Monitoring Board was added in 2009 which comprises representatives of national, European and international capital market regulators. The Monitoring Board's task is to oversee whether the Board of Trustees fulfills its functions according to the IFRS Foundation's Constitution (Botzem, 2013).

Second, bodies concerned with standard-setting follow an expert logic, seeking to integrate individuals with specific technical and professional knowledge and experience in distinct ambits of accounting and auditing. In the IFRS Foundation, standard-setting is the domain of the IASB, whose members are appointed by the Board of Trustees based on their practical experience in international accounting standard-setting and preparing, auditing, or using financial reports with IFRS. The IASB can have up to 16 members and is responsible for technical agenda setting, approval of standards, exposure drafts and interpretations. For specific projects, the IASB establishes working groups of experts, who often come from national standard-setters, large accounting firms or large corporations using IFRS. The IASB is supported by its London-based secretariat. Issuing interpretations on the application of IFRS standards is the task of a second body, the IFRS Interpretations Committee with up to 14 members, who are also appointed and overseen by the Foundation's Board of Trustees.

Third, the IFRS Foundation includes two advisory bodies, which seek to channel information from external stakeholders into the organization's agenda and standard-setting. The Advisory Council includes a wide range of representatives from groups that the IFRS Foundation considers as 'affected by and interested in the Board's work', who are appointed by the Board of Trustees. In 2017, the Advisory Council consisted of 49 individuals from 43 organizations including private companies, investors, financial analysts, accounting firms, professional accounting bodies, regulators and standard-setters. The second advisory body is the newly established Accounting Standards Advisory Forum (ASAF), whose objective is to liaise with national and regional accounting boards and bodies with an interest and expertise in financial reporting to obtain a broad range of input on technical issues and to mobilize support for IFRS (IFRS Foundation, 2017a). Within the IFRS Foundation, members of the advisory bodies are recruited or selected by the organization itself, and hence operate on the basis of cooptation of relevant experts and interest groups rather than encompassing bottom-up stakeholder representation.

Organization of recursive standard-setting

The IFRS Foundation's Constitution stipulates that no standard or revision of a standard may be adopted without a consultation process. The objective of the formalized 'due process' is to ensure that the standard-setter takes notice of the views of interested actors and that standards are in line with its constitutional objectives. Since 2006, the mandatory and recommended elements of this process are laid down in a comprehensive Due Process Handbook (IFRS Foundation, 2016). While the primary purpose of the due process is

to provide the IASB with information relevant to standard-setting, it also provides a channel for feedback from interested constituencies and affected third parties (Botzem, 2012). According to Camfferman and Zeff (2017), IFRS Foundation has been increasingly emphasizing its due process since the 2000s as more and more countries adopted IFRS on a mandatory basis to balance rising tensions between its expert model of standard-setting and legitimacy claims from constituents for more participation (see also Botzem, 2014).

IASB's due process is characterized by public disclosure of agendas, discussion papers, project progress reports, exposure drafts, standards and annual reports. For its standard-setting projects, the IASB formally invites comments on discussion papers and exposure drafts with a response period of 120 days. The organization also makes use of the internet for digital accessibility of its documents, meetings and webcasts of its meetings and comment letters of its due process. The feedback process, however, is strongly influenced by the IASB's staff through the preparation of papers, the compilation of comment letters and the rewriting of proposals and standards, which shape the substantive content of discussions. The highly technical character of many of the documents posted for comments, however, raises hurdles for participation. Furthermore, the analysis of comment letters lies in the hands of the IASB's staff and its Board has full discretion in decision-making, though it is required to provide explanations why comments made during the consultation were considered or not (Botzem, 2012: 117).

Among the actors using the due process as a feedback channel for criticisms and suggestions to the IASB are mostly those with a primary interest in international financial reporting, such as preparers, accountants and users, as well as professional bodies and standards boards. Numerous studies of the comment letter submissions procedure show that repeat players predominate (Bamber and McMeeking, 2016; Jorissen et al., 2013; Larson and Herz, 2013; Perry and Nölke, 2005).

The due process also includes a very uneven number of responses from different jurisdictions. On average, the IASB receives more responses from countries with developed equity markets where most donations to the IASB originate than from others. Although since 2001, letters have been submitted from a wider range of countries, including some developing countries, there remains a strong geographic bias in favor of actors from jurisdictions with higher levels of investor rights, enforcement quality, common law and Anglo-Saxon accounting traditions. Most letters from developing countries come from a small number of predominantly Asian countries (Larson and Herz, 2013). Jorissen et al., (2013: 261) conclude that 'comments from constituents of jurisdictions characterized by lower investor protection, by lower quality of enforcement, more code law oriented and with less transparency might be perceived as minority positions due to their lower response rate driven by elements of bias and unequal access'.

Compared to the analysis of comment letters, research on the responsiveness of the IASB to the feedback received in

the course of the due process remains quite rare. As highlighted above, the procedures foreseen in the Due Process Handbook for reviewing, discussing and deciding upon comment letters are relatively vague and leave considerable discretion to the IASB. Richardson and Eberlein (2011: 236) state that 'it is not clear on which (evidential) basis the IASB comes to the conclusion that a given comment is "appropriate" or not'. Bamber and McMeeking (2016) find that comments from the US were more likely to be discussed and also accepted than those from Britain. Pelger (2016) found that the staff exercised significant discretion by reintroducing early discussion paper suggestions in the final document that had been discarded by constituents and parts of the Board earlier in the process. In another study, Erb and Pelger (2015: 13) found that a group of Board and staff members was able to make changes on the concept of 'reliability' that pushed IFRS more in the direction of fair value accounting 'in spite of (and partly taking advantage of) constituents' concerns and widespread confusion about the terms'. These examples suggest that the IASB displays a limited and selective responsiveness to feedback received during the comment letter process.

Having reviewed the objectives and assumptions of the IFRS, the governance of the IFRS Foundation and the organization of recursive standard-setting by the IASB, we now move on to analyzing the role of African countries in this process.

IFRS in Africa: Increasing adoption, but continued underrepresentation

In order to understand the pattern of recent adoption of IFRS in Africa, some reference to the history of accounting on this continent is useful, since here, as in other parts of the world, reactions to IFRS are shaped by historical, institutional and cultural factors (Nobes, 2013). Until today, accounting systems used in different parts of Africa reflect to some extent colonial influences. Whereas countries that had been under British colonial rule continued to develop their accounting systems in the Anglo-Saxon tradition (as for example, Ghana and Nigeria in Western Africa, and many countries in Eastern and Southern Africa), others colonized by France or Belgium established national and regional accounting systems based on revised versions of the French *Plan Comptable* after independence (such as the OHADA countries in Western Africa discussed below). As elaborated by Elad (2015) these influences still shape approaches towards accounting by giving priority to investors or broader sets of stakeholders, providing more or less scope for professional judgement, assuming a weak or strong link between taxation and accounting, and prioritizing a true and fair view or accordance with legal rules. Spanish and Portuguese as well as Islamic influences add to the heterogeneity of accounting systems and cultures in contemporary Africa (Elad, 2015: 89). Not all African countries developed national accounting systems after independence which explains why some of them adopted early on International Accounting Standards (IAS), the precursor of IFRS (Zori, 2015).

In parallel to the global diffusion of IFRS, the number of African states adopting IFRS has also increased since the mid-1990s. Nineteen out of 55 African countries adopted IFRS between 1996 and 2014 (see Table 3 in the online appendix). However, adopting IFRS can mean different things. While some jurisdictions made IFRS as issued by the IASB obligatory for all listed or public companies (full adoption), others permitted them on a voluntary basis, required them for some companies or adopted nationally modified versions (partial adoption). Many other countries do not require or even prohibit the use of IFRS because they have other systems in place (non-adoption). Building on prior work by Ramanna and Sletten (2014) and Elad (2015), Table 1 in the online Appendix provides a first comprehensive overview of the adoption status of IFRS in African countries (see also Zori, 2015).

The results in Table 1 in the online Appendix show that full, partial and non-adoption, defined in the above mentioned way, are geographically unequally distributed across Africa. Countries with an Anglo-Saxon accounting tradition and close economic relations to South Africa as an early adopter have mostly adopted IFRS. In Northern Africa, countries have integrated elements of IFRS into their Generally Accepted Accounting Principles (GAAP). Francophone countries in Western and Central Africa have resisted pressures from the World Bank and IASB to adopt IFRS because of their alternative OHADA accounting system, which was developed to serve the financial reporting needs of companies in emerging economies. The regional patterns are also a result of coordination within different regional economic unions in Africa that serve as platforms for the development of common accounting systems (Zori, 2015). In addition, a comparison of adoption patterns in Africa with other world shows remarkable differences. The proportion of 64 per cent of non-adopting jurisdictions in Africa is significantly higher than for example in Asia (28 per cent) or among all developing countries (41 per cent), providing a first indication of considerable detachment of African jurisdictions from the standard-setting of the IASB.

An analysis of individuals or organizations from Africa in the governance bodies of the IFRS Foundation shows that the growing number of African countries adopting IFRS has so far not been reflected in their representation. As Table 2 in the online Appendix shows, between 4 and 7 per cent of all members of the listed bodies of the IFRS Foundation during the period 2001–14 came from Africa. This roughly reflects Africa's 5 per cent share of global GDP, but a more detailed analysis reveals that all of these individuals came from South Africa, mostly having worked in the financial industry, large mining corporations and for the national accounting board. While, overall, the composition of IASB governance bodies has been diversified since 2001 through the recruitment and cooptation of individuals from the BRICS (Nölke, 2015), its African membership is still confined to South Africa. In terms of GDP, however, the contribution of South Africa to total GDP of all African countries, according to World Bank indicators measured in US dollars, has decreased from 22 per cent in 2007 to 14 per cent in 2016, which reflects a shrinking of the South African economy and

growth in other parts of Africa like Nigeria and Kenya (own calculations based on World Bank, 2017).

However, the absence of African countries from the accounting standard-setting process extends far beyond the people serving on the IFRS Foundation's bodies. Our analysis of comment letters on IFRS 9 and the Conceptual Framework show that participation of African stakeholders in the IASB's due process is as low as 3 per cent of all submitted letters (Tables 4 and 5 in the online Appendix). These findings are reinforced by Dobler and Knospe (2016) who report that on average only 4.5 comment letters on different IFRS projects came from Africa during the period 2006–12, compared to 50.2 from Europe, 46.8 from North America, 28.5 from Asia/Oceania, and 1.8 for South America. According to this study, 63 per cent of all African comment letters came from South Africa alone and the remaining letters mostly from countries with active capital markets or strong ties to the Anglo-Saxon accounting tradition with arguably less conceptual mismatch than in countries with French or other accounting influences. Jorissen et al. (2013: 253) show that actors from jurisdictions with low investor protection, low transparency and weak enforcement – factors prevalent in many African countries – participate less frequently in the public consultation of the IASB than others.

Pelger and Spieß (2017: 84) observe that in the IASB agenda consultation project conducted from 2009 to 2012 'no efforts were made to engage [...] individuals/organizations from developing countries'. While agenda setting as compared to technical standard setting could be expected to have lower entry barriers, actors from developing countries, including Africa, were largely absent from the public consultation even though online surveys and round tables were used to incentivize participation beyond the comment letter procedure. The authors highlight the influence of IASB staff in structuring the due process and in selecting responses of insiders over those not considered as 'members of the investor community' (Pelger and Spieß, 2017: 76). Last, but not least, absence of African actors can also be observed in the funding of the IFRS Foundation. As a private foundation, the organization seeks to broaden and stabilize financial contributions from adopting jurisdictions (Camfferman and Zeff, 2015). As shown in Table 6 (in the online Appendix), Africa's contribution has remained below 1 per cent over the period 2007 to 2015, while contributions from Asian Pacific countries have increased from 17 to 23 per cent, the bulk of finance being provided by the European Union and the Big Four Accounting Firms.

Thus, while adoption and adaption of IFRS is spreading, the participation of preparers, users, accountants, regulators and other interested parties from many African countries in IASB standard-setting remains very low or non-existent. In the following subsection we analyze possible reasons for this detachment.

Accounting competence as prerequisite for participation?

One prominent explanation emphasizes the limited accounting competences in African countries and the developing world more generally. As proponents of IFRS as a single

global accounting standard, the World Bank, IMF and IASB have repeatedly commented on deficits of accounting qualifications and infrastructure in Africa, especially the Franco-phone countries. As a consequence of this analysis, World Bank and IMF have been calling for legal reforms and supporting training facilities in African countries (Andrews, 2013). Regional professional associations, such as the Eastern Central and Southern African Federation of Accountants (ECSAFA) and the Association of Accountancy Bodies in West Africa (ABWA) as well as the Pan African Federation of Accountants (PAFA) have been fostering training and teaching activities. More recently, the IASB provides IFRS teaching materials in widely spoken languages and facilitates educational workshops for regulators, stakeholders and trainers in newly adopting jurisdictions to familiarize them with the 'IFRS mindset' (IFRS Foundation, 2015b). Between 2010 and 2016, 16 per cent of the IASB's teaching activities were held there (own analysis based on IFRS Foundation, 2017b).

Others, however, have argued that such reform proposals, including more training on IFRS, do not take sufficient account of local socio-economic and institutional conditions, and are thus unlikely to enhance the effective uptake of IFRS in Africa. Based on an analysis of ROSC reports issued by the World Bank and IMF on African countries since the 1990s, Andrews (2013: 84) argues that these reforms 'overspecify solutions and oversimplify what it takes to adopt and implement them', thereby 'creating new institutions that resemble iceberg tips with no foundation'. Moreover, the author calls for a more flexible and incremental approach that seeks 'solutions to problems that local agents care about' to ensure adopting countries do not lack willingness and regulatory capacity to implement standards effectively (Andrews, 2013: 86).

Others have pointed towards the high material, technical and epistemic hurdles for participation in the governance bodies and due process of the IFRS Foundation. As detailed above, the due process typically starts with the publication of draft documents that require highly specialized accounting knowledge. Preparing comments requires considerable material resources as does travel to participate in governance bodies, standard-setting committees or open meetings. As highlighted by Richardson and Eberlein (2011), none of the IASB bodies provide such assistance for participation in standard-setting by developing-country actors. More fundamentally, epistemic hurdles might lead to the exclusion of actors from countries with different accounting traditions. Studies show that governance bodies, standard-setting committees and IASB staff are rather homogenous in their educational and professional background, many of them having been trained in the UK or US accounting tradition and neo-classical economics, worked for international companies or accounting firms, and/or had a career in national standard-setters (Botzem, 2012; Burlaud and Colasse, 2011; Perry and Nölke, 2005). As a result, the formally open due process might be substantially biased towards contributions that resonate with the organization's episteme. Another hurdle originating from the IFRS Foundation's organizational design is that it does not provide a

direct channel for national governments and standard setters to its decision-making bodies, as might be expected since mandatory adoption of IFRS has increasingly become a political decision.

Both, the 'lack of capacity' and the 'organizational hurdles' approaches point towards important factors that might be responsible for African countries' low participation in the IASB despite increasing formal adoption rates. Neither of these explanations, however, poses the farther-reaching question of whether African countries are motivated to participate in IASB standard-setting in the first place. If we look from the perspective of actors in African countries, this is an important question to ask, precisely because participation in the IASB's standard-setting requires significant investments in building capacities, institutions and skills, which are only worthwhile if they can be expected to yield superior benefits compared to those already in place.

Conceptual mismatch

Another explanation for the low participation of African actors might be that they do not perceive IFRS as appropriate for the financial reporting needs of most companies in their countries. According to its conceptual framework, the objective of IFRS is to provide financial information about the reporting entity to investors, banks and other creditors as the so-called *primary users*, while much less attention is given to other possible groups of users such as employees, suppliers, regulators or tax authorities. However, in the African context, it may be just the latter groups that need less complex financial reporting information since economic realities in developing countries seldom fit the assumptions on which IFRS are based (Hopper et al. 2012).

Most African countries, including South Africa, remain dual economies. On the one side a relatively small modern urban economy comprises large multinational companies in extraction, production and finance, together with large domestic companies controlled by the state or rich families. On the other side, a larger part of the economy consists of small and medium-sized companies, micro businesses and a significant informal sector, situated in rural areas and urban slums. World Bank research estimates that the informal sector, comprising unregistered self-employment and micro-firms, accounts for at least 40 per cent of officially measured GDP in low and lower-middle income countries (Ayyagari et al. 2011: 29). In most firms in such countries, ownership, assets, liabilities, cash flow and financing thus follow a rather different pattern from the assumptions underlying IFRS.

Dispersed ownership and active stock markets on which investors – as the main addressees of IFRS standards – trade assets are the exception rather than the rule in African countries (Nnadi and Soobaroyen, 2015: 229). In 2011, only 12 African countries had active stock exchanges. Among these, South Africa had a dominant position in terms of number of companies listed and stock market capitalization (see online Appendix Table 7). Other African countries, such as Egypt, Morocco, Kenya and Nigeria, have much lower

levels of stock market capitalization, while the remainder have only very few listed companies and low and infrequent trading activities. Thus, stock market investors and listed companies to whom IFRS are primarily addressed form very small constituencies in most African countries, except for South Africa.

Finally, foreign investors in Africa may not be attracted in the same way to IFRS as their counterparts elsewhere. Nnadi and Soobaroyen (2015: 228) found that 'in the case of Africa, foreign investors appear to be concerned with the cost of operating in an IFRS-regulated environment'. Their analysis shows that institutional factors, such as the rule of law, the legal system and a perceived low level of corruption had a significant positive effect on the level of net FDI in African countries, whereas IFRS adoption had a significant negative effect. This suggests that for many African countries there is a trade-off between investments made to improve society-wide institutions and more targeted investments in IFRS.

Pre-existing accounting infrastructures

This trade-off may be even larger if countries have a pre-existing accounting infrastructure that is perceived by the actors involved as serving their needs as a developing country. This argument finds support in research showing that pre-existing accounting systems influence national reactions to IFRS (Elad, 2015; Nobes, 2013).

An interesting case in point is the *Organisation pour l'harmonisation en Afrique du droit des affaires* (OHADA) in West and Central Africa (Colasse, 2009). In 1993, OHADA was founded as a pan-African body aiming to harmonize and modernize business law. Among other things, the OHADA treaty encourages member states to align their accounting principles with its accounting system, which represents a modernized version of the French *Plan Comptable* purposefully adapted to the accounting needs of developing countries. The process of accounting harmonization in francophone West Africa was driven by the West African Accounting Council (CCOA-OHADA) and supported by the French Commission National de Comptable (CNC). The OHADA treaty has been signed by all 14 countries in the West and Central African Franc Zones, plus Guinea and the Democratic Republic of Congo. OHADA accounting standards are decided on a supranational basis and changes have to be approved by OHADA's Council of Ministers (Elad, 2015; Zori 2012: 53).

The OHADA accounting system was designed to meet the needs of a broader audience than just financial investors (Colasse, 2009). It consists of a Uniform Act on Accounting (UAA) and a series of guidance documents (Elad, 2015: 81). Unlike IFRS, it follows a legalistic approach, establishes a strong link between accounting and tax rules, includes a compulsory value-added statement and is oriented towards macroeconomic reporting. It also requires the publication of a social balance sheet that serves stewardship purposes. In this respect, the OHADA UAA addresses critiques of the conceptual mismatch between IFRS and the socio-economic and political realities in African countries. The OHADA UAA

serves the needs of tax authorities, government agencies, macroeconomic planners and statisticians, and other stakeholders in developing countries.

At the same time, the OHADA UAA is a hybrid system because it incorporates some Anglo-American concepts, although these are often based on earlier versions of IFRS standards. However, OHADA accounting standards do not incorporate the concept of fair value, which would be difficult to apply to developing economies without liquid financial markets. The OHADA system is supported by an accounting infrastructure and training that remains strongly influenced by the French curriculum built around the French *Plan comptable* (Colasse, 2009). While there are partial overlaps that could be updated to newer versions of IFRS, the OHADA accounting system as a whole is considered incompatible with IFRS because of its macroeconomic, legal and fiscal orientation.

The case of the OHADA shows how a workable accounting standard for companies in developing countries emerged that addresses the needs of a variety of stakeholder interests that cannot be reduced to those of financial market actors. Another such case is the North African countries (for example Egypt, Algeria, Libya and Tunisia) where Sharia law is relevant for accounting. These countries have all developed their own national Generally Accepted GAAP (Colasse, 1997). These examples suggest that the reluctance of francophone countries to adopt IFRS may not just be a matter of lack of resources, but be rooted in the institutionalization of alternative accounting systems over the last decades which seem to perform basic functions required in a development context. Against this backdrop, it is necessary to reconsider dominant resource and skill-based explanations for the absence of actors from these countries from the IFRS's decision-making bodies and due process. In countries with alternative accounting systems, there are less incentives to participate in governance and feedback processes in a global standard-setting organization, whose conceptual underpinnings do not seem helpful for solving local accounting problems, all the more so when such participation requires costly investments.

IFRS for SMEs: Limited responsiveness to demands for reducing conceptual mismatch

In response to critiques that IFRS did not suit the demands of small and medium-sized enterprises (SMEs) and their stakeholders, the IASB started to develop a simplified version of IFRS for such entities. Faced with pressure from the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), working under the UNCTAD, which in 2001 was considering development of such a simplified standard, the IASB put IFRS for SMEs on its standard-setting agenda in 2003. In 2009, the IASB issued IFRS for SMEs, a 230-page standard accompanied by implementation guidance (Camfferman and Zeff, 2015: 385). Subsequently, IFRS for SMEs have been criticized for their complexity and their limited relevance for domestic private firms without international trade activities.

IFRS for SMEs also pose challenges for countries in which financial regulation and taxation are closely interlinked. Kaya and Koch (2015) found that by 2013, 63 out of 128 countries had adopted IFRS for SMEs on a voluntary basis. Yet, low acceptance within the European Union as well as in Northern Africa and OHADA indicate that problems of mismatch have not been resolved.

Part of the explanation is that the IASB and its secretariat showed only limited responsiveness to alternative approaches during the standard-setting process. The way in which the consultation on IFRS for SMEs unfolded and informed the IASB's decision-making is instructive about its responsiveness to feedback more generally. As Ram and Newberry (2013: 13) highlight, the IASB 'framed the problem and decided upon its own position' before the discussion paper and exposure draft were published for consultation. When confronted with criticism and suggestions for changes that were not in line with its conceptual framework, the IASB only reluctantly responded, mostly when it experienced additional pressures through lobbying from European and international organizations (Ram, 2012).

The standard-setting process leading to IFRS for SMEs can also be considered as a critical case to test the IASB's declared aim to use the due process 'to gain a better understanding of different accounting alternatives and the potential effect of the proposal on affected parties' (IFRS Foundation, 2016: 4). Given the existence of alternative accounting systems in developing countries that were developed with a focus on SMEs, such as the OHADA UAA or the GAAP in Northern African countries, but also the accounting principles for SMEs in European countries, it is noteworthy that these were not broadly discussed at any stage of the processes. This is revealed by the IASB's justifications published with the final standard which state that a 'fresh start' was rejected as too costly and time-consuming (IASB, 2009: 33). Although the IASB did change its drafts in response to comments, these changes either responded to pressures from the EU and other powerful actors that arose outside the comment letter process or involved only minor issues (Ram and Newberry, 2013).

Conclusion

In this article, we have reviewed the recursive procedures of international accounting standard-setting by the IASB with regard to the participation of actors from developing countries, and particularly from the African continent. The IASB provides an interesting case to examine how a private and expertise-based governance scheme has sought over time to bolster its legitimacy by coopting powerful actors onto its governance bodies and formalizing procedures for constituency consultation on its standard-setting. The IASB also provides a good test case for a governance scheme that is in transition from setting private standards to be followed by firms to publicly recognized standards made mandatory by an increasing number of states around the world. It is in this context that we examine the recursive design, the usage of feedback channels and the organization's responsiveness.

The results show that the IASB has a sophisticated formal framework in place, providing opportunities for consultation and feedback through comment letters. However, representation in decision-making bodies and participation in feedback remains highly skewed towards developed countries with African countries conspicuously underrepresented or missing. We argue that the underrepresentation of actors from African countries, apart from South Africa, is not only a result of a lack of accounting capacity and infrastructure which could be remedied by existing training programs and institutional capacity building. Our analysis suggests that conceptual mismatch between the underlying assumptions of global standards and the socio-economic, cultural and political realities in developing countries explains a considerable part of the underrepresentation of actors from African countries in the IASB's governance bodies and recursive procedures. The results also indicate a lack of responsiveness on the side of the standard-setter to feedback coming from actors and countries where accounting has distinctive conceptual underpinnings from those of the IFRS Foundation. This mismatch is not confined to IFRS, but also extends to IFRS for SMEs.

Broader lessons to be drawn from this case are that transnational governance schemes coming from the Global North should be aware of the need to review and reflect upon their underlying substantive assumptions in the course of their diffusion to developing countries. This requires the standard-setter to actively solicit input from developing country stakeholders and constituents beyond the investor community. Approaches based on mutual recognition and equivalence assessment, practiced in other fields of global standard-setting, may be a way forward to bridge the existing mismatch between the assumptions of IFRS and realities in developing countries.

Conceptual mismatch, if not taken seriously, is likely to place global standard-setters in a double bind. On the one hand, it might create a lack of motivation for participation by actors coming from conceptually distant contexts, which undermines input and procedural legitimacy. On the other hand, it is likely to generate considerable implementation problems that will undermine the standard-setter's capacity to provide comparable solutions on a global scale, and thereby foster doubts about the effectiveness of its standards. Taking conceptual mismatch seriously might help to find a better balance between the demands of input and output legitimacy.

Note

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Supporting Information

Additional Supporting Information may be found online in the supporting information tab for this article:

Table S1. IFRS Adoption in Africa 2014

Table S2. Total membership of all IFRS Foundation bodies, 2001-2014

Table S3. Data on IFRS Adoption 2014. Link to excel file.

Table S4. Comment Letters on IFRS 9 by Region (Country)

Table S5. Comment Letters on the IFRS Foundation Conceptual Framework by Region (Country)

Table S6. Financial Contributions to the IASB by World Region (Country) 2007-2015

Table S7. Stock Exchanges and Market Capitalization in Africa 2015

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