

Article

# Accounting Policies, Institutional Factors and Firm Performance: Qualitative Insights in a Developing Country

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**Abstract:** This study aims to uncover the determinants for the formulation of accounting practices and their impact on firm performance in Pakistan through the lens of institutional theory. Based on a pragmatic approach, this study has collected data from 455 participants and 21 semi-structured interviews have been conducted. Firstly, it is noted that accounting practices can be traced back to the Mughal regime, and subsequently underwent a major development in the British colonial system. Secondly, our results indicate that institutional factors, namely, accounting regulatory framework, political factors, economic factors, cultural factors, and country-specific factors have also played a major role in the development of accounting practices after the creation of Pakistan as a separate state. Finally, this study suggests that the development of accounting practices have a novel contribution towards the performance of firms. This research thus provides a pathway for policymakers in this county to closing the gaps between accounting practices and the policies of the International Accounting Standard Board (IASB). Furthermore, firms can enhance their performance by implementing international accounting standards. This paper helps Pakistan's regulatory institutions such as the SECP (Securities and Exchange Commission of Pakistan) and SBP (State Bank of Pakistan) in the process of developing new policies. Such decisions are related, but not limited to: attracting foreign investments, economic expansion, and international trade. Furthermore, it provides a pathway for firms to improve their performance. Ultimately, this research fills the gap as concerns international accounting standards by assessing, both empirically and theoretically, the role of various determinants for the formulation of accounting practices and their impact on the performance of firms.

**Keywords:** accounting practices; institutional factors; companies financial performance; developing country; Pakistan

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## 1. Introduction

According to international accounting research (IAR), each country has its country-specific institutional frameworks that distinguish the country's accounting practices from those of others (Cooke and Wallace 1990; Jizi 2017). Institutional factors provide the bases for the formulation of accounting practices (Touron 2005; Tahat et al. 2018). Al-Htaybat (2017) has developed a complete framework for the compliance with accounting regulations, which provides a pathway for the improvement of accounting practices and which has led this study towards organizational performance. The principle of organizational behavior has forced companies to adopt new strategies which are necessary in order to close the performance gap, and also to close the gaps between firms that are trying to cope with such standards. It is hard to convince professionals from various fields simply by

stating that “it has become practice”. Therefore, a need for systematic change that helps accountants to convince and understand each other is necessary (Carmona and Trombetta 2008; Palea 2013; Sandoval-Mora et al. 2019). Hassan and Marston (2019) have argued that the development of accounting practices depends on institutional and legitimate factors in the country. The objectives of this research are two-fold: first, to investigate the role of various critical factors (i.e., political, economic, cultural, country-specific, and accounting regulatory framework) for the formulation of accounting practices and second, to showcase how these factors, by making use of institutional theory, influence the performance of firms in a developing country. In the MSCI index, Pakistan has moved from a frontier economy to an emerging market. Given the changing global environment, this is an important signal, especially for emerging and developing countries in an Asian Context, considering that the economic dynamism of the world economy has gradually shifted from advanced countries to emerging countries in recent years. These nations now account for 80 percent of the world’s population and about 65 percent of global GDP, up from just under half in the previous decade. Although the global recovery has been slow, emerging markets have contributed over 70% of global growth since the crisis (Pakistan and Emerging Markets in the World Economy 2016).

Pakistan, a country with almost 240 million inhabitants, although having accounting practices originating in the Mughal Empire, did not at that time have standardized accounting norms. Haider (2011) has suggested that the Mughal Empire was the origin of accounting and business practices in the subcontinent. Individuals and institutions kept their data in appropriate formats and employed Munshi (accountants) for proper record keeping. Even during those times, training, and education of/for clerical staff (Munshi) and formats for handling accounting data were present, and as such, demanded clerical education, a study which was considered full of wisdom and an intellectual profession. A proper channel was established, and rules were formed to be obeyed throughout the Empire. This has led to a process of tax collection for the financing of war activities and for the development of the state. By that time, strong regulations were made and updated given that the people were well versed regarding the implications of basic accounting formats; leading to the development of a wealthy and strong economy (Bose and Jalal 2017). Even though previous studies suggested that Indian exporters have transferred their accounting system to Italy, there is no proof of statement; thus, the existence of a bilateral system between trading countries has been proposed, similar to the contemporary accounting standards (Haider 2011).

In the past, the sub-continent has experienced three different regimes, namely, the Mughal Dynasty (from 1526 to 1850, and including the Ottoman Empire and Safavid Persia), British Colony (1858 to 1947), and post-Independence regimes (1947). The use of Islamic bookkeeping rules during the Mughal Empire was replaced by a Western methodology under the British colonial system, and eventually adopted IAS (International Accounting Standards) after attaining independence. Over the past few decades, Pakistan has undergone significant economic changes and innovations which have influenced the economy of the country. The reforms include the formation of the capital market, the introduction of a plan to privatize national institutions, the establishment of institutes for professional accountants, and the implementation of IAS/IFRS (International Financial Reporting Standards) in Pakistan, which represents the most important such development. The current research also aims to reflect the evolution of Pakistan’s modern business regulation after independence. These include the 1913, 1959, 1984 Company Act, the 1999 and 2001 Securities Commission, and Exchange Acts and the 2019 Code of Corporate governance. Pakistan is one of the few Southeast Asian countries to have undergone experiments regarding its economic systems and currently, its economy is functioning as a mixed economy and using various tactics to improve the performance it.

Drawing from this, changes to Pakistan’s business perspectives are the vibrant motivations behind our current study, which also aims to investigate and explore the emergence of accounting practices. Pakistan has experienced numerous challenges in the last

few decades, including political instability and dictatorship (military) regimes (1958 to 1968, 1977 to 1988 and 1999 to 2008), which have hindered foreign investment and created many structural problems, including but not limited to the country's transparency system. The adoption of IAS was a step in the development of a system of accounting practices throughout the region of developing countries (Judge et al. 2010). The adoption of accounting practices in the region is partly attributable to pressure from internal and external factors in the country, leading researchers to investigate the evolution of accounting practices in Pakistan (Assenso-Okoko et al. 2011; Koning et al. 2017).

In the same manner, the diversification of risks, by investing onto the capital markets of other countries, has become increasingly common for international investors and creditors. Pakistan provides foreign investors with a promising investment opportunity. Pakistan's stock market was named as the highest performing Asian market in 2020 (Pakistan Stock Exchange Named Best Performing in Asia 2020) and Bloomberg studies show that Pakistan ranked third concerning the performance in the world stock market index in 2016 ranking (Klibi and Slama 2017). To make rational decisions, however, lenders, investors, observers, and shareholders must address the difficulties of recognizing and evaluating their country's reporting system. Before this study, there was limited empirical and theoretical evidence in the context of developing countries such as Pakistan (Tahat et al. 2018; Dulige et al. 2019). Ashraf and Ghani (2005) have focused on tracing the emergence of accounting practices in Pakistan by using common law theory and have suggested that the dynamics of Pakistan supports the institutional theory. Keeping this in mind, the current study provides a two-fold contribution to existing literature. First, it investigates the impact of different factors such as economic, political, culture, regulatory frameworks, and country-specific work to establish the accounting practices which in turn influence the organization's performance. Second, the study conducts semi-structured interviews in order to get an enriched understanding regarding how these factors work, so as to establish the accounting practices. Hence, this study uses institutional theory to empirically and theoretically explore the emergence of accounting practices in the context of Pakistan.

## 2. Theoretical Lenses and Hypotheses Development

### 2.1. Institutional Theory

This study uses institutional theory lenses to comprehend the formulation of accounting practices in Pakistan. The existing literature has indicated that institutional frameworks helps perceive effects on both worldwide and organizational structures. It takes into account the schemes, structure, norms, and other similar factors to judge the social behavior, which in turn leads to the study of creation, adoption, rise, and fall of the elements that establish authoritative guidelines over time (Bitektine et al. 2018). The word "institution" has been conceptualized as representing a system of social beliefs that lead to socially organized practices in any society. Such practices consist of education, rules, regulations, politics, and religion (Scott 2005). This theory has been categorized at three levels, namely, societal (global institutions), governance structure, and organizations (Judge et al. 2010). Accounting is often seen to be a product of its environment, so the legal framework, phase of economic growth, type of economy, accountancy education, and culture can all affect a country's accounting practices. According to Powell and DiMaggio (1991), institutional theory consists of three types of isomorphism which are coercive, normative, and mimetic. These types ideally work at the same time, and they depend on one another. They can only be separated if studied on theoretical bases (Mizruchi and Fein 1999).

Coercive isomorphism refers to an unbalanced approach from the outside of an organization to follow rules or laws implemented within the same organization. The change is imposed by government institutions, stakeholders, certification bodies, political power groups, or international bodies implementing rules throughout the world. This change can be implemented for the collation of bodies such as accounting standards that should

be followed by organizations all over the world so that it can be easy for shareholders to decrypt the information; what is more, it can also destroy barriers for investors of the world. Now, this example (of “coercive isomorphism”) shows that coercive isomorphism can be for the betterment of organizations irrespective of the way they are implemented. These ways can be formal or informal (Dillard et al. 2004). Through structural theory, high financial dependence on the global financial system raises the vulnerability of countries to outside coercive pressures, contributing to foreign action.

Mimetic isomorphisms indicate innovative change when it occurs and has a deep impact on the social culture/organizational culture. That innovation turns into the formulation of a new phase with high uncertainty between the valid dimension of change and poor performance of innovation (Tingling and Parent 2002). This change is intentional and related to one substance duplicating the acts of another. Mimetic isomorphisms also incorporates benchmarking, by recognizing the best practices and driving players in the field. Mimetic isomorphism occurs when the procedures spurred by these weights become organized so that replicating can take place again and again due to its institutional acknowledgment instead of an aggressive need (Hoffman 2001).

Normative isomorphisms start developing once the firm has reached a certain level of maturity. At this stage changes implemented in the coercive isomorphisms become the part of organization culture and start phasing into standards by the process of communication between peers. Further training develops professionalization of a gathering of members through certain prepared systems, exchange affiliations, and other association systems. (Martínez-Ferrero and García-Sánchez 2017).

This study examines the determinants of the accounting system that can be established based on the accounting framework, the links with the international accounting bodies, and how IFRS and the national accounting standards of the country are applied. The common point of 21st-century accounting is the harmonization of accounting practices, but many factors distinguish certain accounting factors from one country to another. The adoption of International Financial Reporting Standards promotes multinational companies and investors from foreign countries for investment (Siriopoulos et al. 2021). A national accounting framework for each country helps them learn the most important accounting rules, prepare annual financial statements in accordance with the law, and apply international accounting standards in all states of the country. Grenier et al. (2014) put more emphasis on the factors in explaining the need for the country’s national accounting system. There are many other key factors, including taxes, inflation, financial markets, and changes in accounting. Ax and Greve (2017) have also added cultural differences to this list, as some countries adhere to the code of conduct, while others require compliance.

## 2.2. Role of Accounting Regulatory Framework

Murwaningsari (2019) proposed that financial reporting performance depends on the integrity, adequacy, and efficiency of accounting professionals. The power and autonomy of the accounting profession is a measure of successful compliance of accounting standards (Sellami and Gafsi 2019). The enhanced position of regulators, we conclude, has the most pronounced influence on the accounting practices of Pakistan, without any significant opportunities for the main components of the financial process, including corporate entities and auditors. From their work in four Eastern Asian countries, (Jenkins and Velury 2008) conclude that nations that try to improve the quality of financial reporting should try to change incentives for auditors and managers. Experience in Pakistan shows that the sole way to change these incentives is to strengthen the role of regulatory authorities in the absence of any recognized needs of owner-managers of listed companies to pursue equity capital. For the country’s accounting profession, small audit costs have always been a concern. The condition has worsened. In 2001, the ICAP (Institute of Chartered Accountant of Pakistan) had to issue a circular description of the minimum charges for auditors.

Furthermore, improving the education quality of the professional bodies responsible for the training of accountants also has significant importance (Apostolou et al. 2018). In Pakistan we have a lack of quality and advanced curricula for accounting and auditing. Moreover, the curricula are poorly developed and many students avoid the field of commerce due to these issues. Furthermore, professional bodies still follow the old syllabus and teaching techniques, compared to world top developed countries. The ICAP and IC-MAP need to follow the training guidelines for their members according to international standards. Regarding this situation, accounting background, history, and training sessions based on developed countries such as the UK and USA can be followed as guidelines.

Another indicator of the country's lack of knowledge of the accounting profession was the omission of the auditor's report on the annual financial reports. Not until 1984 did Pakistani auditors make use of the term "true and correct" for their clean financial statements to express their opinions. The term "true and fair" was introduced in the 1956 Indian Corporation Act, which included a framework for auditors' judgement. The term probably emerged from the Companies Act of 1913, since the auditors generally assumed at this point that the financial statements were accurate ("true and right"). This term was then changed across global accounting classes from "true and correct" to "true and fair". It seems that the newly built accounting profession (which has become the UK in wrap), has not been sufficiently developed (in specific ways) to recognize the local users' unique accounting requirements of data and establish locally based accounting standards. In Pakistan, it was only in 1984 that the business regulation mandated auditor to make the change to "true and fair".

The standard isomorphism is largely drawn from the occupations. In this respect, organizational tension needs to normalize social practice (such as accounting) between different institutions operating in the same sector. This can be experienced through technical and educational programs mandated by the law of university teaching and professional organizations. For example, professional training programs, which will eventually produce qualified members, influence the learning of potential members. As it is noted that few of the developing countries have a significant role in the accounting regulatory framework in the development of accounting practices in their countries. Besides this, the Pakistani accounting practice developments have taken on several initiatives to promote better accounting practices and the Pakistani public accounting bodies (including ICAP) have legally endorsed the implementation by government organizations of the IAS/IFRS. As regulatory framework plays a vital role in the development of accounting practices, we propose the following hypothesis:

**Hypothesis 1 (H1).** *The regulatory framework for accounting practices has a significant role in the development of accounting practices in Pakistan.*

### 2.3. Political Factors

Siddiqui (2019) has argued that a political system is an external stakeholder for a business industry having a great impact on the legislature and specific effect on accounting practices development. From this point of view, it should be kept in mind that Pakistan has had a violent political history, and that from independence to the 1971 separation of East and West Pakistan and the creation of a new country, there has been little political stability. From the start, the problem of the formulation of the constitution was commended by the Military Government. From the creation of Pakistan up until now, political stability has not been achieved, and this has adversely affected the economy of the country, businesses as well as industry.

During the 1970s, the government took steps to foster industrialization for the manufacturing of the products which were until then imported. During this time, the textile industry was established, with important government support in the form of tax credits to local manufacturers on machinery and other equipment used in production (Rajput and

Marwat 2019). Foreign investment and loans peaked in the last 15 years; this particular time in the history of this country was known as a decade of development. A tremendous increase in production was noticed in that era and that has impacted the increase in the number of companies. However, previous studies have highlighted an unfavorable side to this development, namely, a negative influence on the natural environment.

The contracts of the Asian Development Bank push the economists to follow the rules and regulations advised by the Asian Development Bank which includes the formation of the Pakistan Stock Exchange Commission (SECP) in the country in 1999 under the laws of security and exchange act passed by the national assembly in 1997 (Ahmad et al. 2018). The main aim of SECP was to monitor the capital and corporate markets of the country and the role of the key player involved in these markets. In the Act, the following duties of SECP were nominated:

- To regulate business in the stock exchange market and other securities markets in the country.
- To supervise the clearing houses in the country and depositories.
- To register the new brokers in the stock exchange and their sub-brokers.
- To monitor the funds in the market and schemes related to them.
- To monitor and prevent any fraudulent activity in the stock exchange. (“The Companies Act 2017”).

Before the formation of Securities and Exchange Commission Pakistan, the Core Law Authority was working to regulate and implement the core laws in the country relating to business activities. The main problem in the old system was its affiliation with the finance ministry that caused a lack of flexibility to formulate a regulatory framework for the rapid business growth within the country (Salman and Siddiqui 2013). Due to the typical bureaucratic system present in CLA (Corporate Law Authority), transparency, authenticity, and disclosure were difficult to pursue which was the main hurdle in the up-right of the financial sector in the country.

Drawing from the above, it can be concluded that:

**Hypothesis 2 (H2).** *The political factors significantly contribute to the development of accounting practices in Pakistan.*

#### 2.4. Influence of Culture

Previous studies suggest that the development and improvements of the accounting system are key factors in society (Haniffa and Cooke 2002). They contend that only when improvements are made to the underlying legal regulations and/or, and more critically, stronger enforcement of the rules by active monitoring by regulatory authorities of corporations were accomplished, did the major changes to the financial reporting process of corporations in Pakistan happen. Culture appears trivial even if it has a role to play throughout the process of change. Our observation is more in line with the finding by (Jaggi et al. 2016) that cultural values do not predict the level of disclosure once the legal origin is taken into consideration. However, it was assumed that a country’s colonial history is a crucial explicative factor that needs to be specifically included in any template evaluating culture-financial reporting systems partnership. One of the main institutional factors is culture and hence the case is represented as:

**Hypothesis 3(H3).** *The cultural factors influence significantly in the development of accounting practices in Pakistan.*

#### 2.5. Economic Factors

Naser et al. (2002) have argued that a country’s accounting practices can be affected by the stage of economic development, type of economy, and economic growth pattern. Koo (2016) suggests that the stage of development influences a country’s type of business

transactions and defines which transactions are more widespread in the nature of the economy. This can relate the evolution of Pakistan's accounting practices on similar conceptual lines to three periods of economic development: private sector driven economic development, nationalization, and de-regulation/privatization. Interestingly, no changes have been noticed in the financial reporting obligations of the company in the 1960s (which is well known as the decade of developments in Pakistan). The Company Act, 1913, has been fairly primitive throughout this period, although there has been a tripling in the last decade of the number of companies incorporated (i.e., from 3500 to 9500, as mentioned earlier). It was not until 1972 that the promulgation of the 1971 Securities and Exchange Authority Rules established a significant increase in disclosures by incorporated companies. The new rules on disclosure of transactions between associated companies certainly appear to be in response to the earlier identified risk of such perceived practice.

Pakistan Stock Exchange listing rules introduced a clause (under the new guidelines) specifying that if a company fails to pay dividends for five consecutive years, its shares will be listed in black and suspended from trading. This amendment was in reaction to the growing concern by minority shareholders from the 1960s that the management of highly profitable family businesses refused to pay long-term dividends. For the next two decades, the minority shareholders have noticed little improvements, if any. Finally, a change was made to the Income Tax Ordinance 1978 passed in 1979 through the 1997 fiscal budget, whereby if a company's retained earnings surpass more than 50% of the paid-up income, the surplus balance will be considered to be the company's earnings for the fiscal year and will be taxed accordingly.

**Hypothesis 4 (H4).** *The economic factors significantly influence the development of accounting practices in Pakistan.*

#### 2.6. Country-Specific Factors and Government Influence

Pakistan is a hierarchical society with Islamic ideals that has encouraged privacy, choosing to be closely socially connected (Kamla and Alsoufi 2015). The tribal roots of Pakistan were found to be an inclination towards secrecy (Enemark 2011), particularly in relation to disclosure requirements. For the first quarter of the 20th century, on the other hand, Pakistan was a British Colony until the middle of 1947 (Zaid 2004). Therefore, Pakistan and the United Kingdom have strong business and economic relations, and one can find extensive literature on this topic. Interest have been discussed in respect of many aspects in Islam and are not allowed as they are not best to fit accountability standards according to Islamic studies (Mohammed Sarea and Hanefah 2013). Most Islamic institutions in the world even do not follow international accounting standards as they follow the standards of Islamic organizations present for special standards according to Islamic laws. Lewis (2001), however, argues that Islamic and international accounting standards are almost of the same nature and have little conflicts in the implementation and measurements of financial positions.

Even so, according to Al-Akra et al. (2009), religion is a cultural input and has a great influence on the economy and traditions of the country. Research of Tahat et al. (2018) shows that cultural impact on accounting standards depends on social and political factors of the individual and other factors are ignored by the individuals while making decisions. Hamid et al. (1993) in particular proposed that accounting and business impact cannot be measured in the sense of religious perspective as it is a social variable and is irrelevant in this aspect. The religious role can be seen in Islamic banking which is well established worldwide as one of the aspects of regional involvement in the business and where there is the involvement of business, automatically accounting standards are to be followed. As Islam is the well-known Pakistani faith and religion, it has no major impact on business. Due to the solid economic ties that have been developed between Pakistan and

some Western countries since 1921, accounting practices in Pakistan have been heavily based on Western accounting practices (for example, China and the UK). However, the Pakistani legal law governing accounting activity does not follow or conform to the Islamic principles and laws of accounting procedure.

**Hypothesis 5 (H5).** *The country-specific factors positively influence the development of accounting practices in Pakistan.*

### 2.7. Accounting Practices and Firms Performance

This study explains the fact that firm performance is used to identify the success of the company's strategic plan, which leads to build a competitive advantage. While corporate training is considered to be one of the main drivers of competitive advantage in business planning, it is believed to be the only competitive advantage that can be realized if you know it more easily than your competitors. There is no difference in the assertion that the level of learning of individuals and organizations, particularly in information-intensive industries, could be the only lasting competitive advantage. The implementation of IAS standards allows companies to learn and improve firm performance because, in theory, the relationship between organizational learning and business performance is built into the definitions of organizational learning. According to the performance gap theory, precision can be introduced into the following accounting practices to reduce the gap between what an organization does and what it can achieve in terms of institutional factors. Additionally, the principle of organizational behavior forced companies to adopt new strategies to close a performance gap, while it would increase the efficiency of the business, accounting practices becoming dangerous and costly (Akhtar et al. 2020).

This has been defined in the literature in many ways and there are many methods for the measuring thereof that are also present in the literature. While Hartnell et al. (2011) discussed firm performance as dimensions of customer learning and financial growth perspective, Dyer and Reeves (1995) defines it as an improvement in financial performance, capital markets result. The most common thing observed from these studies is the method of observing performance that can be either a financial perspective or a non-financial perspective.

In recent years, several performance dimensions have been identified by the researchers while many theories directly emphasize the contribution towards the overall organizational performance. In this study, we have emphasized the theory goal setting in an organization, the Harvard policy-making model, and synoptic planning theory. The Harvard policy-making model describes that organization success can be obtained by the best fit of the environment of the organization. These environmental fits can be achieved through the SWOT analysis and by following the standards for best results in the organization's development. Therefore, the Harvard policy model can be used to determine the institutional factors specifically related to the development of accounting practices with the main focus to check the organization's performance.

Furthermore, financial performance is the resultant of outcomes from the human resource management, policies of and for strategic planning of the organizations, and capital employed techniques. Only in the case of a simple business model where the main work is lending and borrowing of money, financial performance is always a deep and critical way to be measured in complex businesses. Anwar and Hasnu (2016) showed in their study that firm performance can be measured through four major values. These four values are rational excellence, leadership in product, customer satisfaction, and overall excellence of the business processes. The potential reason to measure one of the main values is business processes improvement through the implementation of accounting standards.

**Hypothesis 6 (H6).** *The development of accounting practices significantly contributes to firm performance.*



### 3. Research Methodology

#### 3.1. Instrumentation

In order to find out the determinates for the formulation of accounting practices in Pakistan by using the institutional theory and their impact on the firm performance, a questionnaire based on a five-point Likert scale was adapted from the previous studies, mainly from the study conducted by (Tahat et al. 2018) in Jordan. A pilot study was conducted by the researchers to test the internal reliability of the instrument. The questionnaire was then adapted by the slight changes suggested by respondents. This study was mainly concentrated on the companies working in the manufacturing sector of Pakistan, specifically those companies listed on Pakistan stock exchange, for the collection of data. Due to limited resources and time constraints, only a few sectors are the focus of our attention, which mainly includes pharmaceuticals, foods, constructions, and textiles. The respondents for this study were the CFOs and professional accountants from the selected companies. Before involving the participants in the study, the purpose of the research was explained. A total of 500 questionnaires were floated among the participants and 470 questionnaires were received. After deleting outliers, 455 questionnaires were used for our analysis.

#### 3.2. Interview Survey

This study aims to obtain the perception of interviewees regarding the following: how did accounting practices emerge in Pakistan, what is their development route, and how is their organizational performance? What role did institutions play in the implementation of such practices? For this section of research, 21 semi-structured interviews were performed over six months. Interviews were held with accounting policymakers, academics, practitioners, and members of professional bodies. As the national language is Urdu, the interview book was translated into Urdu, and an option was given to the respondents to choose the language for answering the interview questions. However, most of the interviewees preferred the Urdu language. A booklet of questions with the letter of introduction sent before the interview and all interviews were recorded. This study has used semi-structured interviews that allows for question flexibility and helps to achieve standardized responses. The deductive approach theory is used because the generated theory does not suit this explorative study. The first part consists of an analysis of the questionnaire and in the second part an analysis of thematic interviews is carried out.

### 4. Findings of the Study Based on Survey

#### 4.1. Demographics

Table 1 shows that 324 participants were male and 131 respondents are female. From the total 455 participants, 44.18 percent fall in the age bracket of less than 25 years, 38.24 percent fall between 25–40 years, 14.51 percent of participants fall within the age bracket of 40–55 years while only 3.08 percent were above the age of 55 years. Similarly, most of the participants were professional degree holders or master's degree holders having almost 63 percent of the overall sample. A total of 113 participants have had a work experience of less than one year, 152 participants between the 1 to 10 years of experience, while 136 research participants have had a work experience of 10 to 20 years and only 54 participants have had more than 20 years of work experience. However, most of the selected participants were working in top positions.

**Table 1.** Descriptive Analysis of the demographics of the respondents.

<b>Demographics</b>	<b>N</b>	<b>Percentage</b>	<b>Total Percentage</b>
<b>Gender</b>	<b>455</b>		<b>100%</b>
Female	131	28.79%	
Male	324	71.21%	
<b>Age</b>	<b>455</b>		<b>100%</b>
Less than 25 years	201	44.18%	
25–39 years	174	38.24%	
40–55 years	66	14.50%	
Greater than 55 years	14	3.08%	
<b>Qualification</b>	<b>455</b>		<b>100%</b>
Professional Degree	145	31.87%	
M.Phil./PHD	49	10.77%	
Masters	145	31.87%	
Bachelors	116	25.49%	
<b>Work Experience</b>	<b>455</b>		<b>100%</b>
Less than 1 year	113	24.84%	
1 to 10 years	152	33.41%	
11 to 20 years	136	29.89%	
More than 25 years	54	11.86%	
<b>Job Posing</b>	<b>455</b>		<b>100%</b>
Top Management	285	62.64%	
Middle Management	170	37.36%	

#### 4.2. Descriptive and Correlations Analysis

The researchers have used the correlation analysis to examine the linear relationship between the variables (Table 2). The main purpose of correlation analysis is to find out the strength of the relationship between the variables; however, cause and effect relationships can be found/determined through the regression analysis (Cohen et al. 2014). The positive or negative sign in the results shows the direction of variables in the relationship between the variables. Absolute values of correlation coefficient that is denoted by ( $r$ ) show the strength of the relationship between variables that may fall between  $-1$  to  $+1$ . The value  $-1$  or the value near to  $-1$  shows the negative correlation between the variables of the study while  $+1$  or the value near the  $+1$  shows a relatively positive correlation among the variable, whereas the value of the  $r = 0$  means there is no relationship present among the variables. This study applied the correlation coefficient analysis because it is best fits for the interval scale data while the Spearman correlation analysis is used for ordinal scale data analysis (Zou et al. 2003). The correlation results of the current study show a significant positive relationship among all the variables of the study with no value less than 0.60.

**Table 2.** Descriptive and Pearson Correlations Analysis.

Variables	Mean	Std. Deviation	Skewness	Kurtosis	AF	PF	CF	EF	CSF	IF	PI	OP
AF	4.033	0.645	-2.156	4.671	1							
PF	3.937	0.659	-1.885	4.277	0.671 **	1						
CF	3.823	0.658	-1.928	4.134	0.671 **	0.698 **	1					
EF	3.781	0.625	-1.802	3.704	0.650 **	0.652 **	0.677 **	1				
CSF	3.696	0.600	-1.725	3.805	0.646 **	0.663 **	0.668 **	0.731 **	1			
IF	3.894	0.672	-2.291	5.629	0.644 **	0.653 **	0.664 **	0.709 **	0.665 **	1		
PI	3.649	0.607	-1.741	3.762	0.619 **	0.635 **	0.648 **	0.684 **	0.705 **	0.671 **	1	
OP	3.931	0.632	-2.534	6.748	0.710 **	0.700 **	0.709 **	0.739 **	0.716 **	0.754 **	0.745 **	1

\*\* correlation is sufficient at the 0.01 level (2-tailed).

**4.3. Kaiser Meyer Olkin (KMO) and Bartlett’s Test**

For the factor analysis, we first need to examine the suitability of the sample which can be measured through the Kaiser Meyer Olkin (KMO) test. The range values of the KMO test are from 0–1. The nearest values to 0 indicate larger dispersion among the patterns of correlations, which in turns means that it is inappropriate to apply factor analysis while the value of KMO test near 1 indicates a lesser dispersion among the correlation values. This means that the values are compact; therefore, a factor analysis test can be applied in this scenario. Hoque and Awang (2016) has suggested that the value of 0.5 is poor for the application of factor analysis, all the values of KMO test above 0.6 are acceptable up until 1. The value of 0.6 to 0.7 is mediocre while the value between 0.7 and 0.8 is good; values between 0.8 and 0.9 are great and values above 0.9 are best (Hutcheson and Sofroniou 1999).

The values presented in Table 3 show the results of KMO and Bartlett’s test of sphericity which shows that all values of the KMO test of each construct are parsimoniously above the minimum threshold of 0.60. The value of the KMO test are presented in Table 3. As stated above, only variables with a good or better KMO test value (0.7 or above) can be examined by factor analysis.

**Table 3.** KMO and Bartlett’s Test.

Constructs	No. of Items	KMO Measure of Sample Adequacy	Bartlett’s Test of Sphericity Chi-square	Bartlett’s Test of Sphericity Significance
Accounting regulatory framework factors	6	0.863	863.017	0.000
Political Factors	4	0.727	336.896	0.000
Cultural factors	5	0.734	456.495	0.000
Economic factors	7	0.836	685.041	0.000
Country-specific factors	6	0.806	452.534	0.000
Role of Institutional Factors	5	0.821	571.959	0.000
Problems in Implementing IAS/IFRS	7	0.835	541.59	0.000
Organization Performance	5	0.836	630.44	0.000

**4.4. Validity and Reliability Analysis**

In this study, the researcher has selected the principal component analysis (PCA) to examine the validity of the construct (both convergent and discriminant validity) by using the varimax-rotation method with Kaiser Normalization. The results of the principal component analysis of all the selected models are explained in Table 4. Eigenvalues, cumulative percentages, and percentage of variance explained of all the measurement constructs are explained. It is revealed in the aforementioned table that all the variables have eigenvalues greater than 2 and one principal component is selected for every construct. Accounting regulatory framework factors have 54.19% cumulated variance explained with

eigenvalue of 3.251, Political factors have 53.53% cumulated variance with eigenvalue of 2.141, Cultural factors have 47.618% cumulated variance with eigenvalue of 2.381, Economic factors have 43.398% cumulated variance with eigenvalue of 3.038, Country-specific factors have 42.763% cumulated variance with eigenvalue of 2.566, Role of Institutional Factors have 53.662% cumulated variance with eigenvalue of 2.683, Problems in Implementing IAS/IFRS have 40.032% cumulated variance with eigenvalue of 2.802 while Organization Performance has 55.612% cumulated variance with eigenvalue of 2.781.

According to Tavakol and Dennick (2011), the reliability can also be checked by examining the values of Cronbach alpha and these values must be greater or equal to 0.70. Table 4 below represents the reliability analysis. The table shows that all values of Cronbach alpha are above 0.70, which means that an internal consistency between items is present. For example, Accounting regulatory framework (0.829), Political-institutional Factors (0.715), Cultural Factors (0.712), Economic Factors (0.781), Country-specific factors (0.730), Institutional factors (0.796), Problem in implementation (0.759) and organization performance (0.796) Cronbach Alpha values. The higher the value, the stronger internal consistency will be present in items.

**Table 4.** Results of EFA and Cronbach’s Alpha.

Constructs	Items	Factor Loadings	Eigen Values	Cronbach’s Alpha
Accounting regulatory framework factors	6	0.863	3.251	0.829
Political Factors	4	0.727	2.141	0.715
Cultural factors	5	0.734	2.381	0.712
Economic factors	7	0.836	3.038	0.781
Country-specific factors	6	0.806	2.566	0.732
Role of Institutional Factors	5	0.821	2.683	0.796
Problems in Implementing IAS/IFRS	7	0.835	2.802	0.759
Organization Performance	5	0.836	2.781	0.796

4.5. Model Fitness Test

Table 5 shows the analysis run to check the fitness of the model. The results show that all the values of the results are within the limits prescribed by previous studies and hence the model is the best fit for examining the impact of accounting practices on organizational performance.

**Table 5.** CFA results of model fitness for determinants accounting practices and organizational performance.

Fit Indices	Scores	Standardized Cut-Off Value
Absolute fit measures		
$\chi^2/df$	2.161	$\leq 2a; \leq 5b$
GFI	0.888	$\geq 0.90a; \geq 0.80$
RMSEA	0.045	$< 0.08a; < 0.1$
Incremental fit measures		
NFI	0.929	$\geq 0.90a$
AGFI	0.869	$\geq 0.90a; \geq 0.80b$
CFI	0.923	CFI values close to 1 indicate a very good fit.
Parsimonious fit measures		
PCFI	0.839	The higher, the better
PNFI	0.775	The higher, the better

Note: Acceptability Criterion: “a” acceptable; “b” marginal.

4.6. Multi Regression Analysis

Table 6 shows the results of a performed multi regression analysis. Multi regression analysis was performed to analyze the impact of accounting practices on performance of firms. Value of  $\beta = 0.834$  having  $p < 0.01$  gives evidence that improved accounting practices in the firms also increase the firm performance.

**Table 6.** Regression Analysis Results.

Variables	Coefficients	Standard Error	T-Stat	p-Value
(Constant)	0.218	0.118	1.847	0.065
Accounting Regulatory Framework Factors	0.208	0.039	5.314	0.000
Political Factors	0.151	0.040	3.798	0.000
Cultural Factors	0.158	0.040	3.909	0.000
Economic Factors	0.263	0.043	6.113	0.000
Country Specific Factors	0.184	0.045	4.114	0.000
Value R	.833 <sup>a</sup>			
R-squared	0.695			
Adjusted R-squared	0.691			
Standard Error	0.351			

4.7. Institutional Factors

Table 7 of the study summarizes the role played by the institutions in the development of accounting practices within the country. The most influential role is played by the securities and exchange commission of the country with the highest mean value in the data being 4.055. The second most influential role is performed by the Pakistan stock exchange commission. These institutions have made rules to make a systematic and fair environment for the investors since their formation to develop a modern and efficient corporate sector and a capital market based on sound authority principles, in order to encourage investment and foster economic growth and prosperity in Pakistan.

**Table 7.** Institutional Factors.

Factors	Rank	Mean	Std. Deviation	Skewness	Kurtosis
Securities and Exchange Commission of Pakistan	1	4.05	0.910	-1.113	1.230
Ministry of Commerce	4	3.85	0.928	-1.133	1.338
Pakistan Stock Exchange	2	4.04	0.927	-1.199	1.449
State Bank of Pakistan	5	3.61	0.995	-0.618	-0.044
ICAP, Pakistan	3	3.92	0.849	-1.324	2.696

4.8. Analysis of Problems

The results summarized in Table 8 show the ranking of the problem in the development of accounting practices within Pakistan. It is noted from the results that a lack of research in the field of accounting is the most dominant factor, having a mean value of 3.897. Meanwhile, the second problem was ranked with 3.876, which refers to managers in organizations that are not interested in the implementation of accounting practices according to international standards.

**Table 8.** Rank wise Indication.

Factors	Rank	Mean	Std. Deviation	Skewness	Kurtosis
Lack of qualified accountants	4	3.70	0.929	-0.619	0.323
Lack of interest by managers	2	3.87	0.877	-1.017	1.234
Culture of secrecy	6	3.47	0.995	-0.485	-0.239
Lack of research	1	3.89	0.895	-0.920	0.940
Family-based private sector	5	3.53	1.015	-0.500	-0.482
Public sector dominance	3	3.76	0.961	-0.703	0.014
High cost of implementing IAS/IFRS	7	3.31	1.036	-0.331	-0.686

4.9. One-Way ANOVA Analysis

A one-way ANOVA test was performed to analyze the impact of demographics on the responses given by the respondents. Results in Table 9 show that in group A, cultural factors are significantly influenced by the respondent’s education. In group B, the effect of the respondent’s experience is observed, and an insignificant impact was observed as the value of p is also not significant. In the same time, in group value of p is less than 5 percent and job position have a significant impact on the responses of respondents.

**Table 9.** One Way ANOVA Test.

Factors	Mean Square	F-Value	p-Value
<b>Group A: Responses of Respondents according to Education</b>			
Accounting Regulatory Framework Factors	88.897	6.270	0.000
Political Institutional Factors	69.897	2.072	0.103
Cultural Factors	196.353	3.664	0.012
Economic Factors	45.876	1.902	0.128
Country Specific Factors	32.212	0.059	0.981
<b>Group B: Responses of Respondents according to Experience</b>			
Accounting Regulatory Framework Factors	82.656	0.032	0.992
Political Institutional Factors	65.442	0.763	0.515
Cultural Factors	192.235	0.588	0.623
Economic Factors	42.877	1.108	.346
Country Specific Factors	29.821	1.684	0.170
<b>Group C: Responses of Respondents according to Job Position</b>			
Accounting Regulatory Framework Factors	90.222	7.277	0.007
Political Institutional Factors	72.198	2.000	0.158
Cultural Factors	202.982	3.556	0.060
Economic Factors	50.807	0.848	0.358
Country Specific Factors	36.982	1.504	0.221

4.10. Summary of Hypotheses Results

A summary of the hypotheses is presented in Table 10 below.

**Table 10.** Summary of Hypotheses Results.

Hypotheses	Results
H1: The regulatory framework for accounting practices have significant role in the development of accounting practices in Pakistan.	Supported
H2: The political factors influence significantly in the development of accounting practices in Pakistan.	Supported
H3: The economic factors influence significantly in the development of accounting practices in Pakistan.	Supported
H4: The cultural factors influence significantly in the development of accounting practices in Pakistan.	Supported
H5: The country-specific factors influence positively in the development of accounting practices in Pakistan.	Supported
H6: The development of accounting practices has positive impact on the organizational performance.	Supported

## 5. Discussion of Study Based on Interviews Survey

### 5.1. Influence of Accounting Regulatory Framework in Development of Accounting Practices

This part of the interviews examines the impact of the accounting framework on the development of accounting practices in Pakistan, based on respondents' opinions.

The majority of respondents (12 out of 21) said that the development of Pakistan's accounting practices took place in three phases: the British era and its colonial impact, post-independence practices, and the adoption of IAS standards. For example, the R1 respondent number three (Professor of Accounting) explained that:

“Originally, Pakistan's accounting practices were applied during the Mughal era and practices continued until the time of the British colonial system, in which British states and other Western states reported practices began following the creation of some foreign companies in the subcontinent. After independence in 1947, a certain change was observed in the development of accounting practices in Pakistan and their implication when the government started to establish the Institute of Chartered Accountants of Pakistan, and similarly the introduction of amendments in the commercial laws of the country.”

However, 13 respondents pointed out that in Pakistan, the introduction of commercial laws and the amendments in the laws have played a significant role in the development of accounting practices. However, the power of enforcement has always a problem in Pakistan. Rules are needed to develop business practices. The accounting rules in Pakistan are well established, structured, and enforceable. For example, corporate laws, securities taxes, and governance have been introduced so as to cover a variety of accounting standards and sanctions for breaches.

### 5.2. Role of Political Factors in Development of Accounting Practices

In this section, political and institutional factors are examined based on interviews conducted by the researchers. Particularly, the respondent's opinion on the political and institutional influence on the development of accounting practices is discussed. Most participants suggested that the development of accounting practices by local or foreign authorities had national and international influences, the latter having a greater impact. We also note that this pressure has contributed to the adoption of IAS/IFRS. For example, respondent No. 5 (senior auditor) argued that:

“Political influences always play an important role. Pakistan has natural resources and as a result, a large foreign body tries to resist external pressures that are working in Pakistan, especially those that are working for growth and assistance in this perspective, while others that support the economy at the macro

level are IMF and World Bank. The government also has intervened in many cases by introducing certain rules that paved the way for the implementation of international standards. However, they don't have much success in history."

### 5.3. Role of Culture Factors in Development of Accounting Practices

This section examines whether Pakistani culture has contributed significantly to the development of accounting standards. The vast number of respondents stated that culture plays an important role in influencing businesses and accounting practices in general. Some respondents said that Pakistan is open-minded and willing to change. Respondent No. 4 (Chartered Accountant) explained that:

"The concept of culture is very important in the business practices of all communities. I am very confident that the cultures of people in Pakistan, as an Asian and Islamic community, have a greater influence on accounting practices in the country as an eye of beliefs and habits. In Pakistan, specially trained people are aware of the importance of accounting practices. Therefore, they accept changes to improve the circumstances and evolution of accounting according to IAS/IFRS, rather than Islamic precedents. While many of them could not even understand the need for accounting practices because of the tax avalanche and lower literacy rates."

Some respondents, 15 out of 21, emphasize that education also plays a significant role in the development of accounting practices in Pakistan and most of them were professors and accountants who graduated from overseas universities and are now working in Pakistan.

### 5.4. Role of Economic Factors in Development of Accounting Practices

This section of research explores whether Pakistan's economic development has an impact on accounting practices. Most respondents (13) indicated that Pakistan's economic ambition has caused many changes in accounting and reporting practices. According to Respondent No. 9 (Executive Manager Production):

"Major trade organizations, including the World Trade Organization and the supporting organization like IMF and World Bank, need Pakistan to consider open market trade that will help in improving accounting standards IAS/IFRS. These conditions are the main requirements of these organizations for the approval of funds that lead to an increase in exports."

### 5.5. Role of Country-Specific Factors in the Development of Accounting Practices

This section discusses the interviewee's view on the country-specific factors in the development of accounting practices. The majority of respondents providing Islamic banking services or affiliated with Islamic banks are more interested in leasing and interest rates standards. Respondent No. 4 a policymaker argued that:

"IAS/IFRS dealing with interest and leasing should be changed according to Islamic teachings, but unfortunately, they remain unchanged and have no influence of religion on the adoption of IAS/IFRS."

This statement of the respondent shows his incomprehension or maybe partial comprehension.

Fourteen respondents argued that Pakistan had no real impact on accounting practices because of country-specific factors. However, they explained that such practices could have marginal effects, such as the recommendations of accountants and multinationals.



### 5.6. Role of Institutions in Adopting IAS/IFRS

In this section, the role of the institutions in the development of accounting practices is discussed. This study examines that in general, respondents indicated that the Government of Pakistan manages the adoption of IAS / IFRS standards by its various departments. Some respondents (4 out of 21) found that this process involved professional organizations and institutions. The respondent (CFO) explained, for example:

“Several public and private organizations, including the Ministry of Industry and Commerce (minutes), the Securities Acts, the Pakistani Securities Commission, and the Pakistan State Bank played an important role. IFRS, a public regulator, which has received government funding. Otherwise, this objective could not be achieved because there is no specific regulatory body for professional associations.”

More than nine respondents indicated that the recommendations of ICAP and ICMAP have drawn the public’s attention to the adoption and application of these principles to promote the accounting profession. For example, respondent number 11 (cost and management accountant) explained:

“ICMAP has played an important role in training students who have played an important role in implementing IAS/IFRS in the industry. Develop a strategy, develop planning, and implement growth strategies. They have the strong business knowledge and entrepreneurial skills. In terms of leadership, accountants are a management team that create a sustainable model and guarantees the long-term sustainability of businesses.”

Accountants are responsible for corporate leadership roles and the effective management of their organizations based on their experience in the areas of management, business, finance, accounting, business relations, law, GIS, and others related areas This demonstrates the broad understanding of the auditor who has been involved in the implementation of IAS/IFRS standards in the industry in general.

### 5.7. Barriers in Implementation of Accounting Practices

This section explains the main obstacles that prevent compliance with IAS/IFRS standards. Several respondents identified many IAS/IFRS compliance challenges, including secrecy, lack of research, and ownership of family businesses in the private sector. Respondent No. 3 (Associate Professor of Accounting) stated for example: “Lack of focus on accounting education and training of accountants is the key problem in the implementation of accounting practices in Pakistan. Economic and financial issues of organizations and government is a barrier in the implementation of standards.”

Another respondent, Interviewee 20 (an investor) argued that: “The business community in Pakistan does not recognize the long-term effects of disclosing complete financial information. Therefore, it may not be necessary to consult a published brochure on this topic.”

### 5.8. Development of Accounting Practices and Organizational Performance

In this section, interviewees were asked questions related to the development of accounting practices and firm performance. The basic intent of the researchers was to find the impact of the development of accounting standards on firm performance, especially the financial performance. It was found by the analysis of interviews that a significant positive impact is present between these two variables. Respondent No. 7 (CFO) stated for example: “As far as my job duties and the things I have noticed, if an accountant will follow the accounting standard, then obviously, it will have a better reporting system in the organization, and user-friendly figures are also present, and they are easily understandable. So, the more the people can easily interpret the accounting terms and their meaning it improves our company financial performance.”

## 6. Conclusions and Implications

This study clearly shows that institutional factors have played a significant role in the development of accounting practices in Pakistan. Individually, each factor has a significant impact on the development of accounting practices. Institutional factors further lead to the improvement of organizational financial performance. This can be a major contribution to the specialty because this impact has not been previously studied. Organizational financial performance can also be one of the factors that can convince organizations to follow international accounting standards for better results. It has been concluded that in order to get access to investment funds for the development of the economy by international agencies, such as the World Bank and IMF, a significant impact on the adoption of accounting practices in the country is played precisely by such agencies, which is to a certain extent a use of coercive powers by such agencies. This finding also reflects the role of IMF and the World Bank in the development of accounting practices earlier in Jordan and UAE in the study of Irvine, 2015. Furthermore, the choice to develop and adopt IAS/IFRS accounts was due to pressures related to the need to attract multinational firms to the capital markets, to attract foreign direct investment, and to bring domestic, private foreign partners.

This research provides a pathway to policymakers in the country, academics, people, or users of accounting practices and practitioners due to its valuable implications and lessons. This study is a useful tool for SECP to improve its policies regarding the implementation of IFRS and the regulation of companies law in Pakistan. For instance, problems highlighted in the development of accounting practices in Pakistan due to cultural issues can be overcome by the decision-makers of the country through the development of regulations in that area. Besides this, ICAP and HEC (Higher Education Commission) can collaborate through accounting practitioners and university academics to improve the accounting curriculum. This will lead to the closing of the gap between accounting practices and the policies of IASB. Furthermore, these practices in the industry can also enhance the financial performance of organizations. This also indirectly motivates organizations to improve accounting standards to improve their profits and financial performance. Through this, one of the main objectives of the study will also be fulfilled.

Although the study is conducted in Pakistan, the results are expected to be similar for the developing countries and more specifically in Sub-Continental countries which are facing similar phases in the development of accounting practices and adoption of international accounting standards and their impact on organizational performance. The outcomes of this study can help governments of other countries to make better decisions in their economic and regulatory development policies. This way, they will be better informed, which can help them to follow and enhance the financial reporting of their business entities. What is more, the results of the research can be used by IASB in their endeavor for the awareness of the impact of accounting practices on organizational financial performance, in order to facilitate the organization in the adoption of accounting practices in different countries with different institutional backgrounds.

The empirical findings of Ahmed et al. (2021) show that forces such as globalization and international pressure have also affected the development of accounting practices, which has ultimately led to the adoption of accounting practices. Further research can be conducted on the examination of the interaction between Pakistani Institutions and global influences and their impact on accounting practices in Pakistan. Current research is conducted by using data from Pakistan; therefore, cross-country research in a developing country is needed in order to compare the results of factors affecting the development of accounting practices. Additionally, in this research, institutional theory is used as a lens to study the factors in the development of accounting practices; thus, future researchers can use other theoretical frameworks, e.g., legitimacy theory to obtain deeper insights into the factors that are playing part in development of accounting practices. Finally, this research has used a smaller interviewer size, which limits the generalization of the results

and, therefore, future researchers can use a larger number of interviewees in order to obtain a deeper insight and understanding of these factors.

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