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Determinants of international financial reporting standards adoption at commercial banks: Evidence from an emerging country

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ABSTRACT

This research investigates the transition of Vietnamese commercial banks towards mandatory adoption of IFRS by 2025 emphasizing the shift from voluntary to compulsory adoption towards adopting International Financial Reporting Standards (IFRS). The empirical research utilized a comprehensive methodological framework, including probit regression models and six years of secondary data from 27 banks (2017-2022). The study identifies significant influences of profitability, leverage and enterprise size on IFRS adoption. However, the involvement of foreign ownership did not demonstrate statistically significant effects. These findings highlight the importance of IFRS adoption in enhancing transparency aligning with global standards and informing decision-making for investors. The analysis shows that company size (lnSIZE) and government policy (PO) significantly influence IFRS compliance, emphasizing the importance of resources and regulatory support. Other factors, including profitability, leverage, capital adequacy, and foreign ownership are not statistically significant suggesting organizational capacity and governance are key drivers of IFRS adoption.

Contribution/Originality: The literature reveals a significant gap in research on factors influencing IFRS adoption, especially in developing countries like Vietnam where challenges such as limited resources and regulatory constraints exist. This study contributes by exploring these factors, offering valuable insights into IFRS adoption in Vietnam and its implications for developing economies.

1. INTRODUCTION

The harmonization of financial reporting standards emerges as a crucial endeavour, especially for the banking sector in dynamic economies such as Vietnam in the rapidly evolving global financial landscape. As the forces of global financial integration intensify and financial markets become more intricately interconnected, the imperative to harmonize financial reporting practices takes centre stage. IFRS (International Financial Reporting Standards) is considered the "key" to international integration, and the adoption of IFRS is not merely a global trend but also a pivotal step for businesses, especially banks in Vietnam (Giner & Pardo, 2006). This represents a new direction aimed at enhancing the transparency of financial information and ensuring consistency between reported figures and their recognition (Haller & Valentin, 2019).

Banks primarily deal with money which is their main product. Consequently, the implementation of IFRS stands as a regulatory obligation, a strategic mandate and a move towards embracing and internalizing international best practices. This study explores the determinants influencing the readiness of commercial banks in Vietnam to adopt IFRS, aiming to shed light on the importance of factors affecting this transition process.

While the adoption of IFRS is widely regarded as a global trend, its implementation in emerging economies like Vietnam presents unique challenges. The shift towards IFRS requires not only significant financial resources but also a strategic allocation of these resources, balancing between compliance and operational efficiency. Moreover, the impact of IFRS adoption on the financial performance and risk management of banks remains an area of contention. An analysis by Anh (2002) indicates that the application of IFRS leads to increased credit risk provisions, heightened resilience, reduced information asymmetry and improved financial health for banks, ultimately fostering investor confidence and contributing to a robust financial system. This gap in the literature underscores the necessity for a comprehensive investigation into the determinants affecting IFRS adoption by commercial banks in Vietnam to inform policy, regulatory frameworks, and strategic decision-making (Anh, 2002).

We examine two specific questions in this work. Firstly, what factors influence the ability of Vietnamese commercial banks to adopt IFRS? Secondly, what are the solutions for Vietnamese commercial banks and the government?

Commercial banks are urged to expedite the adoption of IFRS before entering the mandatory phase as stipulated by the Ministry of Finance's decision (Minister of Finance, 2020). This provides banks with adequate time to learn and prepare meticulously to overcome the limitations and challenges posed by IFRS implementation. This research provides valuable insights for policymakers, regulatory bodies, and bank management, facilitating informed decision-making and strategic planning by identifying the determinants affecting this process. Additionally, the study contributes to the academic literature on financial reporting standards in emerging economies, offering a comprehensive analysis specific to the context of Vietnam's commercial banks. Moreover, the findings of this study are poised to play a pivotal role in shaping the future of financial reporting practices in the Vietnamese banking sector as the financial landscape continues to evolve. Ultimately, this research aims to support the successful transition to IFRS in Vietnam, enhancing the transparency, comparability, and quality of financial reporting in the banking sector.

The rest of paper proceeds as follows: Section 2 provides a literature review. Section 3 describes how to develop hypotheses. Section 4 describes the model, data, and empirical results and discussion. Section 5 concludes the paper.

2. LITERATURE REVIEW

In recent years, research on the application of international financial reporting standards IFRS has attracted the attention of many domestic and foreign researchers in the necessity of IFRS application.

Research on the adoption of IFRS (International Financial Reporting Standards) in Vietnam has focused mainly on small and medium-sized enterprises (SMEs) and publicly listed businesses. Various studies have examined the factors influencing IFRS adoption across different sectors and organizational types. For example, a study by Nguyen, Le, Dao, and Pham (2020) analyzed data from 254 Vietnamese businesses using Cronbach's alpha, EFA, and logistic regression analysis. The study identified seven factors influencing the readiness of businesses to adopt IFRS. Among these, leverage (LEV), Profitability (PRO), and Enterprise size (SIZ) were found to have a significant impact while foreign investment (INV), foreign loans (LOA), foreign participation in leadership (LEA), and audit quality (AUD) had no effect on the level of readiness to apply IFRS.

Similarly, La Soa (2023) studied the internal factors affecting the readiness to adopt financial reporting standards in small and medium-sized enterprises. The research identified seven influencing factors highlighting that the level of accounting expertise, awareness of IFRS benefits, and Chief Executive Officer (CEO) characteristics positively influenced IFRS adoption. On the other hand, awareness of disadvantages and perception of challenges had a negative impact on adoption readiness.

Meanwhile, a study by Hoang and Nguyen (2022) focused on the impact of IFRS compliance on the risks of Vietnamese commercial banks. This research showed that IFRS implementation increased credit risk provisions, thereby enhancing the resilience of banks, though it also found that earnings management behaviour decreased post-adoption. The study noted a strong relationship between pre-tax profits and credit risk provisions suggesting that bank managers might adjust profits using credit risk data highlighting the complexity of IFRS adoption in the banking sector.

These studies provide useful insights into the factors influencing IFRS adoption in various sectors. A significant gap in the literature remains. There is a lack of research specifically focusing on the adoption of IFRS by commercial banks in emerging economies like Vietnam. Unlike typical businesses, commercial banks engage in currency and banking services which present unique challenges for applying IFRS. Commercial banks are largely overlooked in the existing body of research, particularly regarding their readiness and the specific challenges they face in transitioning to these international standards despite the growing importance of IFRS adoption. In this context, it is crucial to address this gap by investigating the determinants affecting IFRS adoption in Vietnamese commercial banks such as the unique characteristics of the banking sector, regulatory challenges, and the impact on risk management and financial reporting practices. Banks may need various strategies for implementing IFRS than other sectors due to their specialized operations and dependence on financial instruments.

The existing body of research indicates that the adoption of IFRS is supported by global financial institutions such as the World Bank and the International Monetary Fund (Nguyen, Nguyen, & Van Nguyen, 2023) and the Vietnamese government has taken active steps to support this transition. The Minister of Finance (2020) outlines a three-stage roadmap for IFRS implementation that includes a preparation phase (2020-2021), a voluntary phase (2022-2025), and a mandatory phase (post-2025) for certain business groups. However, the unique context of commercial banks has not been adequately explored especially in the early stages of IFRS adoption.

Thus, the gap in the literature lies in the lack of research on the adoption of IFRS within Vietnamese commercial banks and further investigation is needed to understand the specific factors that influence their readiness, the regulatory implications and the strategic steps needed for successful implementation.

During the voluntary application period (2022-2025), analysis of financial reports from the official websites of 27 Vietnamese commercial banks reveals that 12 out of 27 banks have implemented International Financial Reporting Standards (IFRS) while the remaining 15 banks have not yet adopted them. Thereby, it can be seen that banks are gradually being quite proactive in building internal capacity or cooperating with professional consultants to carry out assessments and analysis of the current status and build a roadmap for application. Most banks that have applied for IFRS comply with the standards and publish them in their financial reports. The voluntary process will end within the next year and requires commercial banks to urgently learn and apply IFRS.

Table 1 presents the total of 27 commercial banks we researched in the Vietnamese market; 12 banks we mentioned above have successfully applied IFRS in 5 years from 2017-2022. Commercial banks in Vietnam apply International Financial Reporting Standards (IFRS) to enhance the transparency and reliability of financial reporting, thereby creating confidence for investors and partners. Applying IFRS helps banks compare financial statements with other financial institutions globally, improving international competitiveness. Furthermore, many international investors and partners require banks to comply with IFRS to ensure consistency and reliability of financial information which is especially important for banks planning to mobilize capital or cooperate with foreign financial institutions. Applying IFRS also makes it easier for banks to consolidate financial statements for subsidiaries or branches in many countries, creating a unified reporting system globally. In addition, IFRS compliance helps banks meet the trend of integration into the global economy, enhancing reputation and brand in the international market.

Table 1. Implement IFRS application.

Name of commercial banks	Condition	Name of commercial banks	Condition
National citizen commercial joint stock bank	Not yet applied.	Joint stock commercial bank for foreign trade of Vietnam	Applying
Vietnam - Asia commercial joint stock bank	Not yet applied.	Joint stock commercial bank for investment and development of Vietnam	Applying
Vietnam Thuong Tin commercial joint stock bank	Not yet applied.	Vietnam joint stock commercial bank for industry and trade	Applying
Ho Chi Minh city development joint stock commercial bank	Not yet applied.	Viet capital bank	Applying
Orient commercial joint stock bank	Not yet applied.	Vietnam technological and commercial joint stock bank	Applying
Saigon Hanoi commercial joint stock bank	Not yet applied.	Tien Phong commercial joint stock bank	Applying
Military commercial joint stock bank	Not yet applied.	Nam A commercial joint stock bank	Applying
Saigon bank for industry and trade	Not yet applied.	Vietnam international commercial joint stock bank	Applying
Bac a commercial joint stock bank	Not yet applied.	Saigon Thuong Tin commercial joint stock bank	Applying
Southeast Asia commercial joint stock bank	Not yet applied.	Vietnam prosperity joint stock commercial bank	Applying
Prosperity and growth commercial joint stock bank	Not yet applied.	Lien Viet post joint stock commercial bank	Applying
Vietnam commercial joint stock export import bank	Not yet applied.	Vietnam maritime commercial joint stock bank	Applying
Asia commercial joint stock bank	Not yet applied.		
An Binh commercial joint stock bank	Not yet applied.		
Kien long commercial joint stock bank	Not yet applied.		
Percentage (%)	55.56%	Percentage (%)	44.44%

In the current voluntary period, the proportion of banks that have not yet converted to IFRS is still quite large, accounting for 15 banks. Firstly, the delay in converting to IFRS can be attributed to significant cost and resource challenges. Implementing IFRS requires a large investment in information technology systems, staff training and management process improvements which can financially burden small or under-resourced banks. IFRS has many complex regulations, requiring an extensive understanding of finance and accounting, so banks must have highly qualified staff knowledgeable about IFRS. In addition, the roadmap for applying IFRS in Vietnam may vary depending on the regulations of the State Securities Commission and the State Bank of Vietnam, so some banks need to be added to the list of mandatory IFRS applications. In addition, banks are familiar with using Vietnamese Accounting Standards (VAS) and have a financial reporting system. According to VAS, converting to IFRS requires a major change in accounting and management which may cause initial inconvenience and risk.

3. THEORETICAL BACKGROUND OF THE RESEARCH

3.1. Agency Theory

The agency theory, pioneered by Ref, centers on the dynamic between proprietors and representatives (Jensen & Meckling, 1976). According to this concept, the information asymmetry between managers and shareholders might incline representatives to prioritize their interests when overseeing the company. Consequently, conflicts of interest could emerge due to the segregation of ownership and management rights leading to self-serving behavior among agents (Bell & Carcello, 2000). The adoption of IFRS serves to reinforce the principal's confidence, aiding in overcoming challenges in verifying information and addressing conflicts of interest. Once IFRS is implemented, financial data will be widely circulated, ensuring integrity, comprehension, and openness, thereby assisting proprietors in diminishing agency expenses (Leftwich, 1980). This theory sheds light on how leverage impacts the acceptance of IFRS in commercial banks. Shareholders' pursuit of excessive dividends can affect the guarantee of equity to creditors. Implementing IFRS can bolster creditors' trust, potentially increasing external funding notably for banks. Furthermore, agency theory also explains the participation of foreigners in leadership owned by foreign investors. When business leadership or shareholders belong to foreign entities, there is an observed improvement in transparency. Consequently, it becomes essential to implement financial reporting standards like IFRS known for their high level of accuracy and precision.

3.2. Accounting Positive Theory

Positive accounting theory states that employing statistical and econometric techniques to analyze research assumptions in accounting as well as applying accounting to business activities and explaining the reasons behind the information presented in financial statements and accounting phenomena are responsible for accounting phenomena. As a result, this theory has been extensively used in research on the choice of accounting policies, identifying variables, trends and their effects on the adoption of IFRS. It contends that for a business to use IFRS or accounting standards, it must base its decision-making about accounting policies on the principle of convergence. It also acknowledges that accounting primarily depends on this theory to explain business practices and management behavior. Since IFRS is used to measure, record and provide accounting information on financial statements, its application is based on the theory of analytic accounting. The intensity of challenges to accounting standards and the application of additional disclosure and measurement practices have not been well explained by studies that employ evidence-based positive evaluation accounting theory (Nguyen et al., 2023).

3.3. Corporate Governance Theory

Charreaux (1997) describes corporate governance (CG) as the combination of organizational power mechanisms and their impact on management decisions (controlling behavior and minimizing volatility in corporate financial reports). CG is increasingly becoming a significant concern in business management facing a complex environment (Shobha, Puttaramanaik, & Asha, 2015). Additionally, corporate governance theory proposes effective management of companies by applying contracts, organizational structures, and regulations. The domain of corporate governance is often confined to enhancing financial performance exemplified by how owners encourage managers to amplify investment efficiency (Mathiesen, 2002).

IFRS has improved the quality of disclosed information by enhancing transparency. Economic and financial information is conveyed through the fair value concept. Moreover, the IASB (International Accounting Standards Board) has limited choices in accounting, giving precedence to a singular method for group recognition and mandating the disclosure of information that was previously only accessible to executive directors in the interest of transparency. Financial information under IFRS enriches reports by imposing specific requirements for detailed data and pertinent information. For instance, IFRS 8 (replacing International Accounting Standards 14) mandates companies to reveal sensitive information regarding profits from specific activities (products or geographical areas). IFRS 7 also imposes stipulations for information on business risks (credit risk, liquidity risk, and market risk), risk management strategies, and investment approaches. This information proves advantageous for investors, creating a conducive environment for evaluating enterprise risk management and the level of risk investors must contend with (Nguyen et al., 2020). IFRS 10 (replacing IAS 27) introduces innovations in determining control rights to identify entities within the purview of consolidated financial reporting (Tyrrall, Woodward, & Rakhimbekova, 2007).

In a nutshell, the theory of corporate governance explains the impact of factors related to IFRS, including enterprise scale, the involvement of foreign ownership, etc. aiming to assist business managers in improving the quality of financial reporting and minimizing asymmetric information.

3.4. Research Hypothesis

The model below is proposed with independent variables including profit, leverage, enterprise size, foreign ownership participation, capital adequacy ratio and policy of government while the dependent variable is the variable application of IFRS by commercial banks based on previous research models.

The relationship between IFRS adoption and profitability has been explored in empirical studies yielding mixed results. Dumontier and Raffournier's (1998) investigation of 28 Swiss accounting standard-following companies and 51 IFRS-adopting entities revealed no notable relationship between IFRS adoption and business outcomes. In contrast, Carmona and Trombetta (2008) and Ha and Kang (2019) concluded that companies with higher profitability are more inclined to adopt IFRS emphasizing the reliability of profit results. Marta, Rodrigues, and Craig (2008) similarly found that companies demonstrating high profitability tend to choose IFRS. The use of return on equity as an independent variable in these studies aligns with the approach taken by Stainbank (2014). Other study on 44 Portuguese-listed companies adopting IFRS revealed a positive impact of net profit and equity on accounting policies supporting the notion that profitability significantly influences companies' decisions regarding IFRS adoption. The collective findings from these studies contribute to the understanding that profitability is a significant factor influencing the likelihood of enterprises particularly high-profitability ones. Figure 1 illustrates the proposed research model with the following hypotheses:

H_1: Profitability has a positive influence on the readiness to apply IFRS of Vietnamese commercial banks.

Meek, Roberts, and Gray (1995) stated that as financial leverage increases, companies tend to disclose more information voluntarily. Enterprises seeking debt aim to lower borrowing costs by providing more useful information to creditors. Matonti and Luliano's (2012) study on Italian private firms found that higher leverage increases the likelihood of early probability of IAS/IFRS adoption increases with company size. Large companies rely more on external capital and find ways to differentiate in the market by providing financing reporting quality. Marta et al. (2008) using a sample of 56 companies listed on the Portuguese stock exchange show that smaller companies are less likely to quit national accounting standards. On the contrary, large companies apply higher-quality accounting policies even before officially applying for IFRS.

H_2: Leverage has a positive effect on the readiness to apply IFRS of Vietnamese commercial banks.

The size of a company plays an important role in developing and implementing strategy. Two groups can be distinguished which are as follows: small businesses and big companies. The classification of these companies depends on several criteria such as the total number of employees, annual revenue, total assets, etc. Additionally, Affes and Callimaci (2007) and Ha and Kang (2019) show the early probability of IAS/IFRS adoption increases with company size. Large companies rely more on external capital and find ways to differentiate in the market by providing financing reporting quality.

H_3: Enterprise size has a positive influence on the readiness to apply IFRS of Vietnamese commercial banks.

The involvement of foreign managers in domestic firms is considered a good way to enhance industry profitability (Ball, Li, & Shivakumar, 2015). The finance and banking sector now allows many foreign banks to join domestic banks and send representatives to partner bank headquarters. This cooperation not only increases foreign investment but also encourages knowledge transfer (Le, 2019). Banks with foreign ownership may prioritize adapting their financial reporting practices to international markets. Adopting IFRS can enhance banks' credibility and transparency, make them more attractive to international investors and facilitate access to global capital markets. Foreign ownership may have established networks and professional relationships with international regulatory agencies and standard-setting organizations. This could facilitate smoother communication and cooperation between banks and global financial institutions potentially influencing the decision to adopt IFRS. Finally, foreign ownership's experience in managing organizational change and implementing international standards can be very important. Their expertise can help address the challenges associated with transitioning to IFRS ensuring a more efficient and effective adoption process.

H_4: The participation of foreign ownership has a positive influence on the readiness to apply IFRS of Vietnamese commercial banks.

The capital adequacy ratio of a commercial bank is the amount of capital that a commercial bank needs to hold to face potential losses was first mentioned by the Bank for International Settlements (BIS) at the Basel I treaty. Since then, BIS has established a basis to calculate the minimum capital adequacy level (minimum capital adequacy ratio) that commercial banks need to be maintained and included in the Basel Accord in future versions. Currently, according to Basel II standards commonly applied by banking systems worldwide, CAR is 8%. In Vietnam, according to Circular 36 in 2014 by State Bank, this rate is set at 9%. By the end of 2016, State Bank issued Circular No. 41 reducing the minimum rate to 8% as prescribed by Basel II, the circular stipulates that the application deadline is January 1, 2020.

The adoption of IFRS 9 in banks in India has resulted in better CAR structure, improved bank soundness and regulatory compliance as well as being able to reflect the fair value of the impairment of the bank's assets. CAR is closely linked to the bank's ability to handle risks. The adoption of IFRS may affect the way banks identify, measure and disclose information that leads to risk. Changes in accounting standards can affect the risk exposure to valued assets and affect the calculated CAR. Banks can be sure that the adoption of IFRS does not affect their CAR mentalization. The adoption of IFRS could affect the dispute landscape in the banking industry. Banks with higher CAR ratios may have a competitive advantage because they are considered more financially stable and better able to absorb errors. Conversely, banks with weaker CAR may be underweight in the market, potentially affecting their ability to attract deposits, secure capital or expand their business (Norbaya, Mansor, & Okazaki, 2016).

From the above arguments, the authors propose hypothesis 5 as follows:

H_5: Capital adequacy ratio has a positive influence on the decision to apply IFRS of Vietnamese commercial banks.

According to Clause 1, Article 2 of Decree 34 in 2016 by goverment, the policy is the state's orientation and solution to solve practical problems to achieve certain goals. Policy impact is the analysis and prediction of the impact of the policy being developed on different target groups to choose the optimal solution to implement the policy

On March 16, 2020, the Ministry of Finance issued Decision No. 345 by the Minstry of Finance approving the project to apply financial reporting standards in Vietnam. According to the project to apply financial reporting standards in Vietnam (VFRS) recently approved by the Ministry of Finance, the implementation of international financial reporting standards (IFRS) in Vietnam will be carried out according to three stages. The general goal of the project is to improve the legal framework on finance and accounting. Creating effective and efficient management tools for management and operations at enterprises as well as the management and supervision of state authorities in the new period contributes to the successful implementation of goals. The adoption of IFRS aligns with the country's economic and social development goals. It plays a crucial role in enhancing the transparency and efficiency of financial information, strengthening corporate accountability, and safeguarding the business environment. Additionally, it helps protect the legitimate interests of investors and fosters Vietnam's economic integration with the region and the global economy. Therefore the decision of the Ministry of Finance, the implementation of IFRS in banks is inevitable and will likely have an impact on the implementation preparation process of banks before the mandatory application period. From the above arguments, the authors propose hypothesis six as follows:

H_6: Policy of government has a positive influence on the decision to apply IFRS of Vietnamese commercial banks.

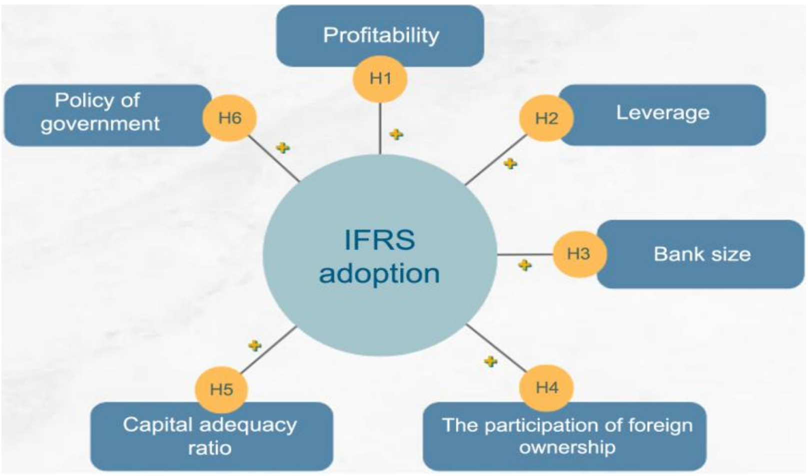

Figure 1. Proposed research model.

Source: Production research model.

4. METHOD

4.1. Sample

This study encompasses information on banks in the Vietnam commercial bank utilizing secondary data. The data were collected over six years from 2018 to 2023. During this timeframe, the total number of banks studied annually was 28 resulting in 168 samples officially utilized in the research paper. All the data used are considered secondary because they were obtained from accounting records in financial statements, annual reports of companies and online newspapers such as CafeF and Vietstock. These data include metrics such as profitability, leverage, the size of the enterprise and the involvement of foreign ownership.

4.2. Measurement Variable

This research model is researched based on the factors that affect the dependencies on Vietnam Commercial Bank's dependent includes nine variables including one dependent variable, IFRS, and six impact variables: Return on Assets (ROA), Return on Equity (ROE), the size of the enterprise (SIZE), the participation of foreign ownership (FO), Capital Adequacy Ratio (CAR), Government Policy (PO), Big4, and Leverage (LEV).

First, Return on Assets (ROA) is calculated as net profit after tax divided by total assets. Second, with the Return on Equity (ROE) variable, we calculate it by net profit after tax divided by total owners' equity. Third, with the Enterprise size variable (SIZE) calculated by the total assets of the business in 1 year, we used the logarithm of total assets to give value close to the other variables. Fourth, variable financial leverage (LEV) is calculated as total liabilities divided by owners' equity. The financial leverage ratio reflects the ability to use debt to increase profits. With the last variables which are the participation of foreign ownership (FO) and Big4, i.e. the 4 biggest banks in

Vietnam, dummy variables will be used: foreign ownership (FO) (1 if present, 0 otherwise) and Big4 status (1 if the bank is one of the four largest in Vietnam and 0 otherwise).

4.3. Data Analysis Method

$$PROBIT\ [IFRS] = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 FO_{it} + \beta_4 LnSIZE_{it} + \beta_5 LnLEV_{it} + \beta_6 CAR_{it} + \beta_7 PO_{it} + \beta_8 BIG4_{it} + +\varepsilon_t$$

In there

β_0: Block factor.

β_1, β_2: Factors.

ε: Model error.

i: Enterprise i.

5. RESEARCH FINDINGS

5.1. Descriptive Statistics

Table 2. Results of descriptive statistics.

Variables	N	Mean	Std.dev	Minimum	Maximum
IFRS	182	0.197	0.399	0	1
ROE	182	0.010	0.079	-0.001	0.347
ROA	182	0.105	0.007	-0.006	0.031
CAR	182	0.116	0.024	0.083	0.221
SIZE	182	32.959	1.116	30.645	35.372
LEV	182	10.475	5.761	0.000	24.619
FO	182	0.110	0.110	0	0.3
PO	182	0.565	0.497	0	1
BIG4	182	0.796	0.403	0	1

Table 2 presents a comprehensive overview of the financial and operational characteristics of Vietnamese commercial banks in relation to IFRS adoption and other key performance metrics. The mean IFRS adoption rate is 0.1666 with a standard deviation of 0.3738 indicating a significant variation in the level of IFRS integration across banks. The adoption rate ranges from 0 (no adoption) to 1 (full adoption), reflecting diverse approaches to IFRS implementation. Operational efficiencies across the banks also show considerable variation. The mean return on assets (ROA) is 0.0107 with a range spanning from nearly 0 to 0.1112 signalling differing levels of asset utilization efficiency. The capital adequacy ratio (CAR) shows a mean of 0.116 and a standard deviation of 0.024 with values ranging between 0.083 and 0.221, underscoring the variations in financial resilience and capital buffer strategies among banks. Enterprise size (SIZE) measured as the log of total assets, averages 32.959 with a standard deviation of 1.116. The range of SIZE values from 30.645 to 35.572 indicates a broad spectrum of bank sizes, encompassing smaller regional banks and large-scale institutions. The leverage ratio (LEV) reveals significant heterogeneity with a mean of 10.475 and a standard deviation of 5.761. LEV ranges from 0 to 24.619 emphasizing diverse approaches to capital structure and debt utilization. The proportion of foreign ownership (FO) has a mean of 0.110 and a standard deviation of 0.110, varying between 0 and 0.3, reflecting differing levels of international investor participation. Government Policy (PO) displays a mean of 0.565 with a standard deviation of 0.497, spanning from 0 to 1 highlighting the variation in public equity involvement across the sample. Finally, the BIG4 variable representing membership in the top four largest banks has a mean of 0.796 and a standard deviation of 0.403 signifying that approximately 79.6% of the banks in the sample belong to the Big4 group. These banks, characterized by larger resource bases and more robust operational structures are better positioned to adopt international financial reporting standards (IFRS), thereby enhancing transparency and global alignment.

5.2. Correlation Test

Table 3 presents the Stata17 software to assess pairwise correlations and examine the relationships between the variables in the model. Nine variables were selected for the analysis with one being the dependent variable and the remaining eight serving as independent variables. The data analysis tool was used to perform pairwise correlations and run a self-correlation test. This approach helps determine whether there is a significant association between the variables. High correlations between variables can lead to inefficient estimates as the standard errors of the coefficients would no longer be the smallest. In the pairwise correlations model, the correlation coefficients fall within the range of -1 to 1, indicating the strength and direction of the relationships. The correlation analysis indicates that there is generally a low relationship between most of the variables in the model including institutional ROA, ROE, SIZE, LEV, CAR, FO (foreign ownership), and PO (Government Policy). These correlations are all below 80% suggesting that multicollinearity is not a significant concern.

The model can be considered statistically significant as the variables do not exhibit problematic levels of self-correlation. Based on the results, the research concludes that the model is economically significant and free from self-correlation issues making it a reliable basis for further analysis.

Table 3. Correlation matrix between variables in the model.

Variables	ROE	ROA	CAR	SIZE	LEV	PO	FO	BIG4	IFRS
ROE	1.000								
ROA	0.620 0.000	1.000							
CAR	-0.140 0.071	0.184 0.017	1.000						
SIZE	0.424 0.000	0.475 0.000	-0.301 0.000	1.000					
LEV	0.269 0.000	-0.345 0.000	-0.417 0.000	0.016 0.828	1.000				
FO	0.357 0.000	0.526 0.000	0.118 0.129	0.396 0.000	-0.205 0.005	1.00			
PO	-0.030 0.000	0.526 0.000	0.118 0.129	0.396 0.000	-0.304 0.000	0.033 0.655	1.000		
BIG4	0.420 0.000	0.457 0.000	-0.134 0.085	0.544 0.000	-0.031 0.674	0.384 0.000	-0.001 0.982	1.000	
IFRS	0.201 0.006	0.338 0.000	-0.073 0.346	0.470 0.000	-0.147 0.046	0.197 0.007	0.295 0.000	0.250 0.000	1.000

Table 4. Probit regression model results.

IFRS	Coefficient	Std. err.	z	P>|z|	Hypothesis
ROE	0.027	2.759	0.01	0.992	Rejected
ROA	36.524	30.542	1.20	0.186	Rejected
CAR	-9.844	10.249	-0.96	0.337	Rejected
lnSIZE	21.156	5.592	3.78	0.000***	Accepted
LnLEV	-0.068	0.097	-0.71	0.479	Rejected
FO	-0.161	1.413	-0.11	0.909	Rejected
PO	0.730	0.332	2.20	0.028***	Accepted
BIG4	0	(Omitted)			Rejected
_cons	-74.783	19.901	-3.76	0.000	
Number of obs. = 136					
LR chi2(7) = 40.81					
Prob > chi2 = 0.000					
Pseudo R2 = 0.279					
Log-likelihood = -52.596					

Note: (***) significant at the 1% level.

5.3. Multivariate Linear Regression Model

Looking at Table 4, the coefficient values in the probit model analysis indicate the relationships between each independent variable and the dependent variable highlighting both positive and negative influences. Specifically, ROA, the natural logarithm of SIZE (lnSIZE), and the natural logarithm of Leverage (lnLEV) exhibit positive coefficients suggesting they positively impact IFRS adoption. In contrast, foreign ownership (FO) and ROE are associated with negative coefficients implying they negatively affect IFRS adoption.

6. RESULTS AND DISCUSSIONS

In this study, the probit model is used to examine the impact of independent variables on a dependent variable according to International Financial Reporting Standards (IFRS). The results show that only two variables, lnSIZE and PO are statistically significant. The analysis reveals that company size (lnSIZE) and government policy (PO) are the only variables with statistically significant effects on IFRS compliance. The estimated coefficient for lnSIZE is 21.1564 with a standard error of 5.5926, a z-value of 3.78, and a p-value of 0.000 indicating significance at the 1% level. This suggests that larger companies are more likely to comply with IFRS due to their greater resources, robust organizational structures, and stronger stakeholder pressure. Larger firms typically possess well-established internal financial systems, experienced audit teams and the ability to hire external consultants which facilitate adherence to complex standards like IFRS. Similarly, government policy (PO) shows a positive and statistically significant relationship with IFRS compliance. The estimated coefficient for PO is 0.7509 with a standard error of 0.3522, a z-value of 2.20 and a p-value of 0.028 indicating significance at the 5% level. This highlights the crucial role of government interventions, such as regulatory frameworks and incentives in promoting IFRS adoption. However, the effectiveness of these policies may depend on the strength and consistency of their enforcement across different regions. In contrast, other variables in the model including ROA, ROE, leverage (lnLEV), CAR, and foreign ownership (FO) do not exhibit statistically significant relationships with IFRS compliance. The estimated coefficient for ROA is 56.5246 with a standard error of 50.3426, a z-value of 1.20, and a p-value of 0.186 suggesting that ROA does not significantly impact IFRS compliance. Similarly, ROE, with a coefficient of 0.0277, a standard error of 2.7535, a z-value of 0.01, and a p-value of 0.992 also lacks statistical significance. Although both ROA and ROE are key profitability measures, their variability appears insufficient to drive IFRS adoption in this context.

The leverage ratio (lnLEV) has an estimated coefficient of -0.0687, a standard error of 0.0970, a z-value of -0.71, and a p-value of 0.479 indicating no significant relationship.. This indicates that while financial leverage is an important financial management metric, it does not have a direct impact on IFRS compliance within the scope of the study. Similarly, the capital adequacy ratio (CAR) shows no significant impact with an estimated coefficient of -9.8449, a standard error of 10.2499, a z-value of -0.96, and a p-value of 0.337. Although CAR reflects financial stability, it does not appear to play a direct role in determining IFRS compliance.

Foreign ownership (FO) also fails to demonstrate statistical significance with an estimated coefficient of -0.1616, a standard error of 1.4159, a z-value of -0.11, and a p-value of 0.909. This study finds no strong evidence to support its influence on IFRS compliance while foreign ownership is often associated with improved governance and international standard adherence.

7. CONCLUSION

The findings underscore the importance of company size and government policy as critical drivers of IFRS compliance emphasizing the need for resources, governance, and regulatory support. Other financial and ownership characteristics such as profitability, leverage, capital adequacy, and foreign ownership appear less influential suggesting that internal organizational capacity and external regulatory environments play more pivotal roles in IFRS adoption.First, the study introduces several new variables, including capital adequacy ratio (CAR) and profitability. These variables were chosen based on individual and group perspectives but the relationship between these variables and IFRS compliance has not been extensively explored in the existing literature. Therefore, future research could benefit from a more thorough theoretical exploration of these variables to better understand their impact on IFRS adoption. Second, the scope of the study is limited to Vietnamese commercial banks which restrict the generalizability of the findings. The sample size is relatively small and this may affect the statistical power of the results. Moreover, focusing on a single country means that the study does not account for variations in IFRS adoption practices across different countries, regulatory environments or banking systems.

Given the limitations identified, there are several potential avenues for future research to build upon and improve upon the current study. First, future research should aim to strengthen the theoretical framework regarding the relationship between new variables such as CAR, PO and IFRS compliance. A deeper understanding of the causal mechanisms between these variables will provide more insight into how IFRS adoption influences credit risk management and financial transparency. Researchers could either explore existing financial theories or develop new models to better explain these relationships in the context of IFRS compliance. Second, expanding the scope of the study is crucial for increasing the generalizability of the findings. Future research could broaden the sample to include commercial banks from different countries particularly across the Asia-Pacific region or even globally. Comparing IFRS compliance in different regions would help highlight how various regulatory frameworks, governance structures, and market conditions impact IFRS adoption. This would lead to a more comprehensive understanding of the global drivers of IFRS compliance and offer insights into regional variations. Additionally, future studies could incorporate more variables that may influence IFRS compliance such as the role of external auditors, regulatory changes or market conditions. These factors could provide a more nuanced understanding of how external pressures and institutional factors shape IFRS compliance and offer policy recommendations for financial institutions.

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