

**BENEFIT AND CHALLENGE ADOPTION OF IFRS FOR  
SMALL AND MEDIUM BUSINESS (IN CASE OF ADISS  
ABEBA)**



**WOLKITE UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING**

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This is to certify that a thesis on the topic entitled “**benefit and challenge adoption of IFRS for small and medium business (in case of Adiss Ababa)**” submitted Partial Fulfillment of the Requirements for the BA Degree in Accounting and Finance; the undergraduate program has been carried out by LIDIA BEHARU, under my supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis.

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We, the undersigned, members of the Board of Examiners of the final open defense by LIDIA BEHARU have read and his thesis entitled “**Benefit and challenge adoption of IFRS for small and medium business (in case of adiss Ababa)**” and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the BA degree in Accounting and Finance.

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Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to the department of Accounting and Finance.

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## **Acronyms and abbreviations**

**ACCA** Association of Chartered Certified Accountants

**CSA** Central Statistical Agency of Ethiopia

**DOI** Diffusion of Innovation Theory

**EFAAB** Ethiopian Financial Reporting and Auditing Board

**IASB** International Accounting Standards Board

**IFRS** International Financial Reporting Standards

**RBV** Resource-Based View

**SMEs** Small and Medium-sized Enterprises

**UNDP** United Nations Development Program

## ***Abstract***

*This study examines the benefits and challenges of adopting International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) in Addis Ababa, Ethiopia, using a mixed-methods approach combining surveys and semi-structured interviews with key stakeholders. Focusing on SMEs in manufacturing, services, and trade sectors, the research aimed to assess current financial reporting practices, to evaluate awareness and readiness for IFRS for SMEs, to identify implementation barriers and benefits, and to propose actionable recommendations. Findings revealed that 64.3% of SMEs lacked awareness of IFRS for SMEs, while 75.7% cited high implementation costs and 58.3% reported being unprepared to address financial constraints. Despite recognizing benefits like improved transparency (73.9% agreement) and access to finance (61.7%), SMEs face systemic challenges rooted in resource gaps, skills shortages, and weak regulatory support. The study concludes that successful adoption requires phased strategies, including subsidized training, tax incentives, simplified local-language guidelines, and stronger institutional collaboration. Recommendations emphasize capacity-building programs, regulatory mandates, and public-private partnerships to align Ethiopian SMEs with global financial reporting standards.*

**Keywords:** *IFRS for SMEs, Ethiopia, financial reporting, SMEs, capacity-building, regulatory compliance.*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The adoption of International Financial Reporting Standards (IFRS) has been a global trend, particularly driven by the need for greater transparency, comparability, and integration of financial information in an increasingly interconnected world economy. IFRS has been widely adopted by public companies, with over 140 countries either requiring or permitting the use of IFRS as the financial reporting framework (IFRS Foundation, 2022). However, the application of the full IFRS framework has often been considered challenging and resource-intensive for small and medium-sized enterprises (SMEs), which make up the majority of businesses globally (OECD, 2017).

In response to the unique needs of SMEs, the International Accounting Standards Board (IASB) developed the IFRS for SMEs, a simplified and more accessible set of accounting standards (IASB, 2009). The IFRS for SMEs standard has been designed to provide SMEs with a reliable and cost-effective financial reporting framework, promoting better access to capital, improved management decision-making, and increased credibility with stakeholders (Pacter, 2020). As of 2022, over 80 countries have either adopted or permitted the use of IFRS for SMEs (IFRS Foundation, 2022), highlighting the global recognition of its potential benefits for smaller enterprises.

In the African context, the adoption of IFRS for SMEs has been gaining traction, although the pace of implementation varies across the continent. Several African countries, such as South Africa, Nigeria, and Kenya, have already mandated or encouraged the use of IFRS for SMEs, recognizing its potential to support the growth and development of the SME sector (IFRS Foundation, 2022). These efforts are driven by the understanding that improving financial reporting practices can enhance access to finance, facilitate cross-border trade, and promote the integration of African SMEs into regional and global value chains (Abor & Quartey, 2010).

However, the adoption of IFRS for SMEs in Africa is not without its challenges. Many African countries face constraints related to limited financial literacy, inadequate regulatory frameworks, and a shortage of qualified accounting professionals (Amidu et al., 2016). Overcoming these barriers requires a concerted effort by policymakers, regulators, and professional bodies to provide the necessary support and capacity-building initiatives for SMEs and the accounting community (ACCA, 2016). The successful implementation of IFRS for SMEs in Africa has the potential to enhance the competitiveness and resilience of the continent's SME sector, contributing to broader economic development and integration.

In Ethiopia, the adoption of IFRS has been a gradual process, with the country taking steps to align its financial reporting standards with international best practices. The Ethiopian Financial Reporting and Auditing Board (EFAAB) has been responsible for the adoption and implementation of IFRS in the country, focusing primarily on listed companies and large enterprises (EFAAB, 2020). However, the application of IFRS for SMEs in Ethiopia has been limited, despite the significant role that SMEs play in the country's economy.

The Ethiopian government has recognized the importance of supporting the growth and development of the SME sector, which accounts for over 95% of businesses and employs a significant portion of the workforce (CSA, 2020). The implementation of IFRS for SMEs in Ethiopia could contribute to the broader efforts to strengthen the SME sector, improve access to finance, and facilitate the integration of Ethiopian businesses into regional and global markets. Nonetheless, the adoption of IFRS for SMEs in Ethiopia faces challenges related to limited awareness, a shortage of qualified accounting professionals, and the need for comprehensive regulatory and institutional support (Teklemichael et al., 2021). Addressing these challenges and providing a conducive environment for the adoption of IFRS for SMEs in Ethiopia can have far-reaching implications for the country's economic development and the competitiveness of its SME sector.

## **1.2 Statement of the Problem**

Previous research on the adoption of IFRS for SMEs has highlighted the potential benefits and challenges of implementation. Pacter (2020) conducted a comprehensive study on the IFRS for SMEs standard, exploring its conceptual framework and the key measurement principles. The study found that the IFRS for SMEs standard provided a reliable and cost-effective financial reporting framework for smaller enterprises, which could facilitate their

access to capital, improve management decision-making, and enhance their credibility with stakeholders. However, the study also acknowledged the need for further research to understand the contextual factors that can influence the successful adoption of IFRS for SMEs, particularly in developing economies.

In the African context, Amidu et al. (2016) investigated the perceived impact of cloud computing technology on accounting professionals and the finance function in Ghana. The study found that the adoption of cloud-based accounting solutions, which are often aligned with IFRS for SMEs, could enhance the efficiency and effectiveness of financial reporting practices among SMEs. However, the study also highlighted the challenges related to limited digital literacy, inadequate infrastructure, and the need for targeted support and capacity-building initiatives. The study emphasized the importance of addressing these contextual barriers to facilitate the broader adoption of IFRS for SMEs in Africa.

Within the Ethiopian context, Teklemichael et al. (2021) examined the challenges and prospects of IFRS adoption in the country. The study found that while the adoption of IFRS has been progressing in Ethiopia, particularly among large enterprises, the implementation of IFRS for SMEs has been limited. The researchers identified several barriers, including a shortage of qualified accounting professionals, limited awareness among SME owners, and the need for comprehensive regulatory and institutional support. The study highlighted the importance of addressing these challenges to promote the adoption of IFRS for SMEs and support the growth and development of the Ethiopian SME sector.

While these studies provide valuable insights into the adoption of IFRS for SMEs from global, African, and Ethiopian perspectives, there remains a gap in understanding the specific opportunities and challenges faced by SMEs in Addis Ababa, Ethiopia, in adopting this financial reporting framework. The existing literature has not adequately explored the perceptions, readiness, and unique contextual factors that can influence the implementation of IFRS for SMEs within the Addis Ababa business environment. This study aims to fill this gap by conducting a comprehensive investigation into the adoption of IFRS for SMEs among SMEs in Addis Ababa, Ethiopia, and providing practical recommendations to facilitate the successful implementation of this financial reporting standard.

### **1.3 Research Questions**

1. What are the financial reporting practices of SMEs in Addis Ababa?
2. What do Addis Ababa's SMEs know and think about IFRS for SMEs?
3. What are the benefits and challenges of implementing IFRS for SMEs in Addis Ababa?
4. What recommendations can help Addis Ababa adopt IFRS for SMEs?

### **1.4 Research Objectives**

#### **1.4.1 General Objective**

The general objective of the study was to examine the adoption of IFRS for SMEs in Addis Ababa.

#### **1.4.2 Specific Objectives**

1. To assess the financial reporting practices of SMEs in Addis Ababa.
2. To evaluate the awareness and readiness of Addis Ababa's SMEs for IFRS for SMEs.
3. To identify the benefits and barriers of implementing IFRS for SMEs in Addis Ababa.
4. To develop recommendations to guide the adoption of IFRS for SMEs in Addis Ababa.

### **1.5 Significance of the Study**

The successful adoption of IFRS for SMEs in Addis Ababa can have important implications for the city's business community and the broader Ethiopian economy. Firstly, it can stimulate the growth and competitiveness of SMEs in Addis Ababa. Improved financial reporting practices and enhanced access to capital can enable these enterprises to expand their operations and become more integrated into regional and global value chains.

Additionally, the adoption of IFRS for SMEs in Addis Ababa can attract greater domestic and foreign investment to the city's SME sector. The increased transparency and credibility of financial information can make these enterprises more attractive to potential investors, both locally and internationally.

## **1.6 Scope of the Study**

This study focused on the adoption of IFRS for SMEs within the context of Addis Ababa, the capital city of Ethiopia. The research targeted SMEs operating in various sectors, including manufacturing, services, and trade, located within the administrative boundaries of Addis Ababa.

The study examined the financial reporting practices, awareness, perceptions, and readiness of SMEs in Addis Ababa regarding the adoption of IFRS for SMEs. It also identified the potential benefits and barriers to the successful implementation of this financial reporting framework in the city. The research did not cover the adoption of the full IFRS framework or the implementation of IFRS for SMEs in other parts of Ethiopia.

## **1.7 Organization of the Study**

This study is organized into five chapters. Chapter 1 provides an introduction to the research, including the background, rationale, research objectives, and the significance of the study. Chapter 2 presents a review of the relevant literature on the adoption of IFRS for SMEs, both globally and within the context of Africa and Ethiopia. Chapter 3 outlines the research methodology used to collect and analyze the data. Chapter 4 discusses the findings from the data analysis, and Chapter 5 concludes the study by offering recommendations for the successful implementation of IFRS for SMEs in Addis Ababa, Ethiopia.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITURATURE**

#### **2.1 Introduction**

This chapter provides a comprehensive review of the existing literature on the adoption of International Financial Reporting Standards (IFRS) for Small and Medium-sized Enterprises (SMEs) in developing countries, with a particular focus on the Ethiopian context. The chapter is divided into four main sections: theoretical review, empirical review, research gap, and conceptual framework.

The theoretical review section explores the underlying theories and frameworks that have been used to understand the factors influencing the adoption of IFRS for SMEs. This includes the institutional theory, the resource-based view, and the diffusion of innovation theory, among others. The empirical review section examines the existing empirical evidence on the challenges, benefits, and implementation strategies for IFRS for SMEs in both developed and developing countries. The research gap section identifies the areas that have not been adequately addressed in the existing literature, providing the justification for the current study. Finally, the conceptual framework section presents a model that depicts the key variables and their relationships within the context of IFRS for SME adoption in Addis Ababa, Ethiopia.

#### **2.2 Theoretical Review**

##### **2.2.1 Institutional Theory**

Institutional theory has been widely used in the accounting literature to understand the adoption of new accounting standards, such as IFRS for SMEs. The theory posits that organizations are influenced by the institutional environment in which they operate, and they tend to adopt practices and structures that are perceived as legitimate and appropriate within that environment (DiMaggio & Powell, 1983). In the context of IFRS for SMEs, institutional factors, such as regulatory pressures, professional norms, and cultural traditions, can shape the attitudes and behaviors of SMEs towards the adoption of this financial reporting framework.

Several studies have examined the role of institutional factors in the adoption of IFRS for SMEs. For instance, a study by Albu et al. (2013) in Romania found that coercive pressures from the government and normative pressures from the accounting profession were key

drivers of IFRS for SMEs adoption. Similarly, a study by Aifuwa and Embele (2019) in Nigeria revealed that institutional factors, such as regulatory requirements and isomorphic pressures, significantly influenced the adoption of IFRS for SMEs among SMEs.

The institutional theory also suggests that organizations may adopt new practices not only due to external pressures but also to gain legitimacy and improve their status within the organizational field (DiMaggio & Powell, 1983). In the context of IFRS for SMEs, SMEs may adopt the standard to signal their professionalism, enhance their reputation, and improve their access to financial resources and markets.

However, the institutional theory has been criticized for its tendency to overlook the role of individual agency and the possibility of institutional change. SMEs may not always passively conform to institutional pressures, but may actively interpret and respond to them based on their own strategic considerations and resource constraints (Oliver, 1991). This highlights the need to consider the interplay between institutional factors and other theoretical perspectives, such as the resource-based view and the diffusion of innovation theory, to gain a more comprehensive understanding of IFRS for SMEs adoption.

Furthermore, the institutional environment in developing countries, such as Ethiopia, may be characterized by weaker regulatory frameworks, less developed professional associations, and more informal cultural norms, which can introduce additional complexities in the adoption of IFRS for SMEs. Understanding the nuances of the institutional context is crucial for developing appropriate strategies and policies to promote the adoption of IFRS for SMEs in these settings.

### **2.2.2 Resource-based View**

The resource-based view (RBV) is another theoretical lens that has been applied to understand the adoption of IFRS for SMEs. The RBV suggests that organizations can achieve a competitive advantage by leveraging their unique and valuable resources, such as financial, human, and technological resources (Barney, 1991). In the context of IFRS for SMEs, the availability and deployment of these resources can determine the ability of SMEs to successfully adopt and implement the new financial reporting framework.

Several studies have explored the role of resources in the adoption of IFRS for SMEs. For instance, a study by Agyei-Mensah (2017) in Ghana found that the availability of financial resources, skilled accounting personnel, and technological infrastructure were key determinants of IFRS for SMEs adoption among SMEs. Similarly, a study by Işık and

Akçakanat (2020) in Turkey revealed that the lack of financial and human resources was a significant barrier to the adoption of IFRS for SMEs by SMEs.

The RBV suggests that SMEs with greater access to financial resources, such as adequate capital and liquidity, may be better equipped to invest in the necessary infrastructure, training, and implementation of IFRS for SMEs. Additionally, the availability of skilled accounting and finance personnel within SMEs can facilitate the understanding and application of the new reporting framework, as well as the internal integration and use of the financial information generated.

Furthermore, the RBV highlights the importance of technological resources, such as accounting software and information systems, in the successful adoption and implementation of IFRS for SMEs. SMEs with more advanced technological capabilities may be better positioned to handle the increased reporting requirements and data management associated with the new standard.

However, the RBV has been criticized for its static and deterministic approach, which may not fully capture the dynamic and contextual nature of resource deployment and competitive advantage (Priem & Butler, 2001). SMEs may also face constraints in acquiring and utilizing certain resources, particularly in developing country contexts, which can limit their ability to adopt IFRS for SMEs effectively.

To address these limitations, researchers have proposed the integration of the RBV with other theoretical perspectives, such as the dynamic capabilities approach, which emphasizes the importance of organizational processes and routines in adapting to changing environments (Teece et al., 1997). This integrated approach can provide a more nuanced understanding of how SMEs can leverage their resources and capabilities to overcome the challenges and effectively adopt IFRS for SMEs.

### **2.2.3 Diffusion of Innovation Theory**

The diffusion of innovation theory (DOI) provides another theoretical foundation for understanding the adoption of IFRS for SMEs. The theory posits that the adoption of an innovation, such as a new technology or a new accounting standard, is influenced by the perceived characteristics of the innovation, the communication channels, the social system, and the time frame (Rogers, 2003). In the context of IFRS for SMEs, the perceived characteristics of the standard, the availability of information and support, the industry norms, and the time frame for implementation can all play a role in the adoption decision.

Several studies have utilized the DOI theory to examine the adoption of IFRS for SMEs. For instance, a study by Alali and Cao (2010) in the United Arab Emirates found that the perceived complexity, relative advantage, and compatibility of IFRS for SMEs were significant predictors of its adoption among SMEs. Similarly, a study by Ismail and Kassim (2019) in Malaysia revealed that the availability of information, the support from professional bodies, and the perceived benefits of IFRS for SMEs were key factors influencing its adoption.

The DOI theory suggests that the perceived characteristics of IFRS for SMEs, such as its complexity, relative advantage over existing practices, and compatibility with the organizational and industry norms, can shape the attitudes and behaviors of SMEs towards adoption. SMEs that perceive the standard as less complex, more beneficial, and more aligned with their existing practices may be more likely to adopt it.

Furthermore, the theory emphasizes the role of communication channels and social networks in the diffusion of innovations. The availability of information about IFRS for SMEs, as well as the support and guidance from professional bodies, regulators, and industry peers, can facilitate the dissemination of knowledge and the adoption of the new reporting framework among SMEs.

The DOI theory also acknowledges the importance of the broader social system and the time frame for the adoption process. SMEs may be influenced by the industry norms and expectations, as well as the overall pace and trajectory of IFRS for SMEs adoption in the country or region. The timing of the introduction and implementation of the standard can also play a crucial role in determining the rate and extent of adoption.

However, the DOI theory has been criticized for its overly simplistic and linear view of the innovation diffusion process, which may not fully capture the complex and dynamic interactions between the various factors influencing adoption (Greenhalgh et al., 2004). The theory also tends to focus on the individual-level decision-making process, while overlooking the broader organizational and institutional contexts that can shape the adoption of innovations.

To address these limitations, researchers have proposed the integration of the DOI theory with other theoretical perspectives, such as the institutional theory and the resource-based view, to develop a more comprehensive understanding of the adoption of IFRS for SMEs (e.g., Albu et al., 2013; Işık & Akçakanat, 2020). This integrated approach can help to

capture the multilevel and interdependent nature of the factors influencing the adoption of IFRS for SMEs in developing country contexts.

## **2.3 Empirical Review**

### **2.3.1 Challenges to the Adoption of IFRS for SMEs**

The existing literature has identified several challenges that SMEs face in the adoption of IFRS for SMEs. One of the most commonly cited challenges is the lack of financial and human resources. SMEs, particularly in developing countries, often lack the financial resources to invest in the necessary infrastructure, training, and implementation of the new reporting framework (Işık & Akçakanat, 2020; Agyei-Mensah, 2017). Additionally, the lack of skilled accounting and finance personnel within SMEs can hinder the successful adoption and implementation of IFRS for SMEs (Aifuwa & Embele, 2019; Albu et al., 2013).

Another key challenge is the complexity and technical nature of IFRS for SMEs. The standard is perceived as being too complex and burdensome for SMEs, which often have limited accounting and financial reporting expertise (Işık & Akçakanat, 2020; Alali & Cao, 2010). SMEs may also face difficulties in understanding the conceptual framework and the specific recognition, measurement, and disclosure requirements of the standard.

The lack of awareness and understanding of IFRS for SMEs among SME owners and managers is another significant challenge. Many SMEs are not aware of the existence of the IFRS for SMEs standard or its potential benefits, which can hinder their willingness to adopt it (Ismail & Kassim, 2019; Aifuwa & Embele, 2019). This challenge is particularly prevalent in developing countries, where the dissemination of information and the provision of training and support services for SMEs may be limited.

Another challenge that has been identified in the literature is the resistance to change and the reluctance of SMEs to adopt new accounting practices. SME owners and managers may be comfortable with their existing financial reporting methods and may perceive the adoption of IFRS for SMEs as a disruptive and unnecessary change (Işık & Akçakanat, 2020; Agyei-Mensah, 2017). Overcoming this inertia and convincing SMEs of the benefits of IFRS for SMEs can be a significant challenge.

The lack of enforcement and monitoring mechanisms is another barrier to the successful adoption of IFRS for SMEs. In many developing countries, the regulatory and enforcement

framework for financial reporting may be weak, allowing SMEs to continue using their existing reporting practices without consequences (Aifuwa & Embele, 2019; Albu et al., 2013). Strengthening the regulatory environment and the enforcement of IFRS for SMEs adoption can be crucial for its widespread acceptance.

Finally, the cultural and linguistic differences can also pose challenges for the adoption of IFRS for SMEs, particularly in developing countries with diverse cultural and linguistic backgrounds. The translation and adaptation of the standard to local contexts, as well as the alignment with existing cultural norms and practices, can be a significant undertaking (Işık & Akçakanat, 2020; Alali & Cao, 2010).

### **2.3.2 Benefits of Adopting IFRS for SMEs**

Despite the challenges, the existing literature has also highlighted several potential benefits of adopting IFRS for SMEs. One of the primary benefits is the enhanced comparability and transparency of financial information, which can improve access to external financing and facilitate cross-border transactions (Agyei-Mensah, 2017; Alali & Cao, 2010). The adoption of IFRS for SMEs can also lead to improved internal decision-making, better risk management, and increased credibility with stakeholders (Işık & Akçakanat, 2020; Albu et al., 2013).

The adoption of IFRS for SMEs can also contribute to the development of the accounting profession and the overall financial reporting infrastructure in a country. By aligning local accounting practices with international standards, IFRS for SMEs can help to improve the quality and reliability of financial information, which can have broader economic and social implications (Aifuwa & Embele, 2019; Ismail & Kassim, 2019). This can lead to increased investor confidence, better access to capital markets, and enhanced integration with the global economy.

Furthermore, the adoption of IFRS for SMEs can enhance the competitive position of SMEs in both domestic and international markets. By providing more transparent and reliable financial information, SMEs can improve their creditworthiness, attract foreign investors, and participate in cross-border business opportunities (Agyei-Mensah, 2017; Alali & Cao, 2010). This can be particularly beneficial for SMEs in developing countries, which may face significant barriers to accessing global markets and resources.

The adoption of IFRS for SMEs can also contribute to the professionalization and capacity-building of the accounting and finance personnel within SMEs. The implementation of the

new reporting framework can require the development of specialized skills and knowledge, which can lead to improved financial management practices and better decision-making within the organization (Işık & Akçakanat, 2020; Albu et al., 2013).

In addition, the adoption of IFRS for SMEs can improve the overall financial reporting ecosystem in a country. By promoting the adoption of international accounting standards, the government and regulatory bodies can strengthen the financial reporting infrastructure, enhance the credibility of financial information, and contribute to the development of the capital markets (Aifuwa & Embele, 2019; Ismail & Kassim, 2019). This can have far-reaching economic and social benefits, beyond the direct impact on SMEs.

However, it is important to note that the realization of these benefits is contingent on the successful adoption and implementation of IFRS for SMEs. The challenges and barriers identified in the previous section can hinder the effective deployment of the new reporting framework, limiting the potential benefits for SMEs and the broader economic and social environment.

### **2.3.3 Implementation Strategies for IFRS for SMEs**

The existing literature has also explored various strategies for the successful implementation of IFRS for SMEs. One key strategy is the provision of targeted training and capacity-building programs for SMEs, which can help to address the lack of accounting and financial reporting expertise (Agyei-Mensah, 2017; Albu et al., 2013). These programs can cover the conceptual framework of IFRS for SMEs, the specific recognition and measurement requirements, as well as the practical application of the standard in the SME context.

Additionally, the development of simplified guidance and educational materials, as well as the availability of professional support and advisory services, can facilitate the adoption of IFRS for SMEs (Ismail & Kassim, 2019; Alali & Cao, 2010). These resources can be tailored to the specific needs and characteristics of SMEs, providing them with the necessary information and support to navigate the complexities of the new reporting framework.

Another important strategy is the role of regulatory and professional bodies in promoting the adoption of IFRS for SMEs. Governments and accounting organizations can provide financial incentives, tax benefits, or regulatory mandates to encourage SMEs to adopt the new reporting framework (Aifuwa & Embele, 2019; Işık & Akçakanat, 2020). They can also collaborate with SME associations and business support organizations to disseminate information and foster a supportive environment for IFRS for SMEs adoption.

Furthermore, the literature emphasizes the importance of phased and gradual implementation approaches, which can help to ease the transition and mitigate the potential disruptions associated with the adoption of IFRS for SMEs (Ismail & Kassim, 2019; Albu et al., 2013). This may involve the introduction of the standard in a step-by-step manner, starting with larger and more sophisticated SMEs, and gradually expanding the coverage to smaller and less developed enterprises.

The literature also highlights the need for a comprehensive monitoring and evaluation framework to assess the progress and identify areas for improvement in the implementation of IFRS for SMEs (Aifuwa & Embele, 2019; Agyei-Mensah, 2017). This can involve the collection of data on the adoption rates, the challenges faced by SMEs, and the effectiveness of the implementation strategies. The findings can then be used to refine the policies, programs, and support mechanisms to enhance the successful adoption of IFRS for SMEs.

Additionally, the integration of IFRS for SMEs into the broader financial reporting ecosystem, including the alignment with tax and regulatory requirements, can be a crucial strategy for its successful implementation (Işık & Akçakanat, 2020; Alali & Cao, 2010). This can help to minimize the administrative burden and ensure the seamless integration of the new reporting framework into the existing business practices of SMEs.

Finally, the literature emphasizes the importance of fostering a supportive and collaborative environment for the adoption of IFRS for SMEs.

## **2.4 Research Gap**

The existing literature on the adoption of IFRS for SMEs in developing countries, including Ethiopia, has primarily focused on the identification of challenges and barriers to adoption. While these studies have provided valuable insights, there is a need for more comprehensive research that explores the multifaceted factors influencing the adoption of IFRS for SMEs, including the potential benefits, enablers, and implementation strategies.

Furthermore, the majority of the existing studies have been conducted in other developing countries, such as Ghana, Nigeria, Turkey, and Malaysia, with limited research focused on the Ethiopian context. Given the unique economic, regulatory, and cultural characteristics of Ethiopia, there is a need to investigate the specific factors that may shape the adoption of IFRS for SMEs in the country.

This study aims to address these research gaps by conducting a comprehensive investigation of the potential adoption of IFRS for SMEs in Addis Ababa, Ethiopia. The study will explore the current financial reporting practices of SMEs, their awareness and readiness for IFRS for SMEs, as well as the key factors, both challenges and enablers, that may influence the successful implementation of the standard. The findings of this study will contribute to the existing body of knowledge and provide valuable insights for policymakers, regulators, and SME stakeholders in Ethiopia and other developing countries.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the research methodology employed in this study to investigate the potential adoption of IFRS for SMEs in Addis Ababa, Ethiopia. The chapter provides a detailed description of the research design, approach, population, data collection methods, sampling techniques, and data analysis procedures used to achieve the study's objectives.

#### **3.2 Description of the Study Area**

The study was conducted in Addis Ababa, the capital city of Ethiopia. Addis Ababa is the economic and administrative center of the country and is home to a large number of SMEs operating across various sectors, including manufacturing, services, and trade. As the primary engine of economic growth and development in Ethiopia, Addis Ababa was selected as the focal point of this research on the potential adoption of IFRS for SMEs.

#### **3.3 Research Design**

The study utilized a descriptive research design, which involved collecting and analyzing both quantitative and qualitative data to describe the current state of financial reporting practices, awareness, and readiness of SMEs in Addis Ababa regarding the adoption of IFRS for SMEs. This design allowed the researcher to gain a comprehensive understanding of the research problem and develop appropriate recommendations for the successful implementation of IFRS for SMEs in the city.

#### **3.4 Research Approach**

The research followed a mixed-methods approach, combining both quantitative and qualitative data collection and analysis techniques. This approach enabled the researcher to gain a more holistic and nuanced understanding of the research problem by triangulating the findings from multiple sources of data.

### **3.5 Population of the Study**

The population for this study consisted of over 15,681 SMEs operating in Addis Ababa, Ethiopia. These enterprises were drawn from various economic sectors and represented the target group for the potential adoption of IFRS for SMEs in the city.

### **3.6 Methods of Data Collection**

Data was collected through a combination of survey questionnaires and semi-structured interviews to ensure a well-rounded understanding of the research problem from both quantitative and qualitative perspectives.

#### **3.6.1 Survey/Questionnaire**

A structured questionnaire was developed and distributed to a sample of SMEs in Addis Ababa to gather quantitative data on their financial reporting practices, awareness, and readiness for IFRS for SMEs. The questionnaire covered a range of topics, including the current financial reporting methods used by SMEs, their level of knowledge about IFRS for SMEs, and their perceived barriers and enablers to the adoption of this financial reporting framework.

#### **3.6.2 Interviews**

In-depth, semi-structured interviews were conducted with key stakeholders, including SME owners, policymakers, and financial experts, to obtain qualitative insights on the potential benefits, challenges, and implementation strategies for IFRS for SMEs in Addis Ababa. The interviews allowed the researcher to delve deeper into the research problem and capture the perspectives of various actors involved in the SME ecosystem.

### **3.7 Sources of Data**

Both primary and secondary data sources were utilized in this study to ensure a comprehensive understanding of the research problem.

#### **3.7.1 Primary Sources of Data**

Primary data was collected through the survey questionnaires and interviews conducted with SME owners, policymakers, and financial experts in Addis Ababa.

### 3.7.2 Secondary Sources of Data

Secondary data was gathered from literature, reports, and other relevant documents related to IFRS for SMEs and the SME sector in Addis Ababa and Ethiopia. This included academic journals, industry publications, government reports, and other credible sources of information.

## 3.8 Sampling Techniques and Sample Size

### 3.8.1 Sample Size

The sample size was calculated using the Cochran formula:

$$n = (Z^2 * p * (1-p)) / e^2$$

Where:

n = the sample size

Z = the z-value for the desired confidence level (1.96 for 95% confidence)

p = the estimated proportion of the population (0.5 for maximum variability)

e = the desired margin of error (0.09)

Plugging in the values:

$$n = (1.96^2 * 0.5 * (1-0.5)) / 0.09^2$$

$$n = 118$$

Therefore, the minimum sample size required for this study is 118 SMEs.

### 3.8.1 Sampling Technique

A stratified sampling technique was used to select the sample of SMEs, with proportional representation from each sector (manufacturing, services, and trade) to ensure the sample was representative of the overall population. The distribution of the 118 questionnaires across the different sectors is shown in the table below:

#### 3.1 sample size distribution

Sector	Percentage	Number of Questionnaires
Manufacturing	40%	47
Services	35%	41

<b>Trade</b>	25%	30
<b>Total</b>	100%	118

### **3.9 Method of Data Analysis**

The data collected through the survey and interviews was analyzed using descriptive statistics, such as tables and frequency percentages, without the use of any specialized software. This approach allowed the researcher to present the findings in a clear and concise manner.

### **3.10 Ethical Considerations**

Throughout the study, the researcher adhered to the relevant ethical guidelines and ensured the confidentiality and anonymity of the participants. All necessary permissions and approvals were obtained prior to data collection, and the participants were informed about the purpose of the study and their rights as research subjects.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS:

#### 4.1 Introduction

This chapter presents the findings from the survey questionnaire distributed to a sample of Small and Medium-sized Enterprises (SMEs) in Addis Ababa, Ethiopia. The data collected through the survey provides insights into the current financial reporting practices, awareness, and readiness of SMEs regarding the adoption of International Financial Reporting Standards (IFRS) for SMEs. The chapter also discusses the key factors and implementation strategies that can facilitate the successful adoption of IFRS for SMEs among SMEs in Addis Ababa.

A total of 118 questionnaires were distributed to the sample of SMEs in Addis Ababa, as determined by the sampling strategy outlined in Chapter 3. Out of the 118 questionnaires, 115 were collected, representing a response rate of 97.5%. The high response rate can be attributed to the effective communication and follow-up procedures employed by the researcher during the data collection process.

#### 4.2 Demographic Characteristics of the Respondents

The survey questionnaire collected information on the demographic characteristics of the respondent SMEs, including the sector of the business, legal structure, number of employees, years in operation, and the position of the respondent within the business. This data provides a better understanding of the profile of the SMEs in the sample and helps to contextualize the findings related to the adoption of IFRS for SMEs.

##### 4.2.1 Sector of the Business

Table 4.1 presents the distribution of respondents across the three main sectors of the economy - manufacturing, services, and trade. The majority of the respondents (41.7%) were from the manufacturing sector, followed by the services sector (35.7%) and the trade sector (22.6%).

*table 4. 1Sector of the Business*

<i>Sector</i>	<i>Frequency</i>	<i>Percentage</i>
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<i>Manufacturing</i>	48	41.7%
<i>Services</i>	41	35.7%
<i>Trade</i>	26	22.6%
<i>Total</i>	115	100%

*Source own survey, 2025*

#### **4.2.2 Legal Structure of the Business**

Table 4.2 shows the legal structure of the respondent businesses. The majority of the businesses (47.8%) were sole proprietorships, followed by limited liability companies (32.2%) and partnerships (20.0%).

*table 4. 2Legal Structure of the Business*

<b><i>Legal Structure</i></b>	<b><i>Frequency</i></b>	<b><i>Percentage</i></b>
<i>Sole Proprietorship</i>	55	47.8%
<i>Partnership</i>	23	20.0%
<i>Limited Liability Company</i>	37	32.2%
<i>Total</i>	115	100%

*Source own survey, 2025*

#### **4.2.3 Number of Employees**

Table 4.3 presents the distribution of respondents based on the number of employees in their businesses. The majority of the SMEs (46.1%) had between 11 and 50 employees, followed by businesses with 10 or fewer employees (34.8%) and those with 51 to 100 employees (19.1%).

*table 4. 3Number of Employees*

<b><i>Number of Employees</i></b>	<b><i>Frequency</i></b>	<b><i>Percentage</i></b>
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<i>1-9</i>	40	34.8%
<i>10-49</i>	53	46.1%
<i>50-99</i>	22	19.1%
<i>100-249</i>	0	0.0%
<i>Total</i>	115	100%

*Source own survey, 2025*

#### **4.2.4 Years in Operation**

Table 4.4 shows the years of operation for the respondent businesses. The majority of the SMEs (46.1%) had been in operation for 5 to 10 years, followed by businesses with 11 to 15 years of operation (27.8%) and those with less than 5 years of operation (16.5%).

*table 4. 4: Years in Operation*

*Years in Operation    Frequency    Percentage*

<i>Less than 5 years</i>	19	16.5%
<i>5-10 years</i>	53	46.1%
<i>11-15 years</i>	32	27.8%
<i>More than 15 years</i>	11	9.6%
<i>Total</i>	115	100%

*Source own survey, 2025*

#### **4.2.5 Position within the Business**

Table 4.5 presents the position of the respondents within their respective businesses. The majority of the respondents were owners (43.5%), followed by managers (32.2%) and accountants (24.3%).

table 4. 5Position within the Business

<i>Position</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Owner</i>	50	43.5%
<i>Manager</i>	37	32.2%
<i>Accountant</i>	28	24.3%
<i>Total</i>	115	100%

Source own survey, 2025

The demographic characteristics of the respondent SMEs provide valuable insights into the profile of the businesses in the sample. The predominance of manufacturing and service sector enterprises, as well as the prevalence of sole proprietorships and smaller businesses, reflect the typical SME landscape in Addis Ababa. This information helps to contextualize the findings related to the current financial reporting practices, awareness, and readiness for IFRS for SMEs adoption among the respondents.

### 4.3 Current Financial Reporting Practices

To assess the current financial reporting practices of SMEs in Addis Ababa, the survey questionnaire included several questions related to the type of financial reporting system used, the frequency of financial statement preparation, the specific financial statements prepared, the personnel responsible for preparing the statements, the usefulness of the current financial statements, and the main challenges faced in preparing the statements.

table 4. 6Current Financial Reporting Practices

	<i>Variable</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Type of Financial Reporting System</i>	Cash-based accounting	57	49.6%
	Accrual-based accounting	56	48.7%
	Other	2	1.7%
<i>Frequency of Financial Statement</i>	Monthly	25	21.7%
	Quarterly	22	19.1%
	Annually	61	53.0%
	Other	7	6.1%

<i>Preparation</i>			
<i>Financial</i>	Balance Sheet	104	90.4%
<i>Statements</i>	Income Statement	101	87.8%
<i>Prepared</i>	Cash Flow Statement	43	37.4%
	Other	10	8.7%
<i>Personnel</i>	Owner	50	43.5%
<i>Responsible for</i>	In-house accountant	47	40.9%
<i>Preparing</i>	External accountant	18	15.7%
<i>Financial</i>	Other	0	0.0%
<i>Statements</i>			

*Source own survey, 2025*

The findings reveal that the respondent SMEs are almost evenly split between using cash-based accounting (49.6%) and accrual-based accounting (48.7%) for their financial reporting. This suggests that a significant proportion of SMEs in Addis Ababa still rely on the more traditional cash-based system, which may not provide a comprehensive picture of the financial performance and position of the business.

In terms of the frequency of financial statement preparation, the majority of the respondents (53.0%) prepare their financial statements on an annual basis, while a smaller proportion do so on a monthly (21.7%) or quarterly (19.1%) basis. This infrequent preparation of financial statements may limit the usefulness of the information for decision-making and monitoring purposes.

The most commonly prepared financial statements are the Balance Sheet (90.4%) and the Income Statement (87.8%), while the Cash Flow Statement is prepared by only 37.4% of the respondents. This indicates that SMEs in Addis Ababa may not fully recognize the importance of the Cash Flow Statement in understanding the liquidity and cash management of the business.

Regarding the personnel responsible for preparing the financial statements, the findings show that the responsibility is shared between the business owners (43.5%) and in-house accountants (40.9%), with a smaller proportion (15.7%) relying on external accountants. This suggests that many SMEs in Addis Ababa may lack the necessary accounting expertise within the business to produce high-quality financial reports.

When asked about the usefulness of the current financial statements for business decisions, 45.2% of the respondents found them to be "very useful" or "somewhat useful," while 54.8% considered them to be "not very useful" or "not useful at all." This indicates that a significant proportion of SMEs in Addis Ababa are not satisfied with the quality and relevance of their current financial reporting, which may limit their ability to make informed decisions.

The main challenges faced by SMEs in preparing financial statements include a lack of accounting expertise (41.7%), insufficient financial resources (32.2%), and the complexity of reporting requirements (26.1%). These findings suggest that SMEs in Addis Ababa may require additional support and resources to enhance their financial reporting capabilities and address the challenges they face.

Overall, the findings on the current financial reporting practices of SMEs in Addis Ababa highlight the need for improvements in the quality, frequency, and usefulness of financial information to support the decision-making and growth of these enterprises. The adoption of IFRS for SMEs could potentially address some of these challenges and enhance the financial reporting capabilities of SMEs in the city.

*When asked to describe their current financial reporting practices, the respondents shared the following insights:*

*"Our SME uses a hybrid system—part cash-based and part accrual accounting. We prepare financial statements quarterly, but the cash flow statement is often neglected due to time constraints. The biggest challenge is reconciling informal transactions, which makes accurate reporting difficult."(IDI, 001)*

The accountant's response highlights a common issue among SMEs in Addis Ababa: the inconsistency in financial reporting frameworks. The reliance on a hybrid system reflects resource limitations and a lack of standardized processes, as noted in the study's findings. Neglecting the cash flow statement aligns with the survey results, where only 37.4% of SMEs prepared this critical document. This underscores the need for capacity-building to improve financial literacy and systematize reporting practices.

*"We use cash-based accounting because it's simpler. Financial statements are prepared annually for tax purposes, but they aren't detailed. Honestly, I don't see the value in monthly reports—they take time, and I'd rather focus on operations."(IDI,002)*

The owner's perspective mirrors the survey data, where 49.6% of SMEs use cash-based systems and 53% prepare statements annually. His dismissive attitude toward frequent reporting reflects a broader trend where SMEs prioritize operational efficiency over compliance or strategic financial management. This aligns with the Resource-Based View (RBV) theory, which emphasizes resource constraints as a barrier to adopting complex frameworks like IFRS for SMEs.

#### 4.4 Awareness and Readiness for IFRS for SMEs

The second objective of the study was to assess the awareness and readiness of SMEs in Addis Ababa for the adoption of IFRS for SMEs. The survey questionnaire included several questions to gauge the respondents' knowledge of IFRS for SMEs, their perceptions of the potential benefits and challenges, and their level of preparedness to adopt the standard.

table 4. Awareness and readiness of the respondent SMEs for IFRS for SMEs.

	<i>Variable</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Awareness of IFRS for SMEs</i>	Yes	41	35.7%
	No	74	64.3%
<i>Understanding of IFRS for SMEs</i>	Very good	9	7.8%
	Good	16	13.9%
	Fair	20	17.4%
	Poor	22	19.1%
	No understanding	48	41.7%
<i>Perceived Benefits of IFRS for SMEs</i>	Very beneficial	29	25.2%
	Somewhat beneficial	59	51.3%
	Not beneficial	10	8.7%
	Unsure	17	14.8%
<i>Perceived Challenges of IFRS for SMEs</i>	Complexity of the standard	49	42.6%
	Lack of financial resources	44	38.3%
	Lack of accounting expertise	37	32.2%
	Lack of regulatory support	34	29.6%
	Other	5	4.3%
<i>Readiness to Adopt IFRS for SMEs</i>	Fully prepared	12	10.4%
	Somewhat prepared	31	27.0%
	Not prepared	59	51.3%
	Unsure	13	11.3%

Source own survey, 2025

The findings reveal that a significant proportion of the respondents (64.3%) are not aware of the existence of IFRS for SMEs, indicating a lack of awareness and knowledge about this financial reporting framework among SMEs in Addis Ababa. Only 35.7% of the respondents

were aware of IFRS for SMEs, and even among those, a majority (41.7%) had no understanding of the standard, while 17.4% and 19.1% had a "fair" and "poor" understanding, respectively.

When asked about the perceived benefits of adopting IFRS for SMEs, 25.2% of the respondents believed it would be "very beneficial," and 51.3% thought it would be "somewhat beneficial." This suggests that a majority of the SMEs recognize the potential advantages of adopting IFRS for SMEs, such as improved financial reporting quality, enhanced access to financing, and better decision-making.

Regarding the perceived challenges of adopting IFRS for SMEs, the respondents identified the complexity of the standard (42.6%), lack of financial resources (38.3%), lack of accounting expertise (32.2%), and lack of regulatory support (29.6%) as the main barriers. These findings indicate that SMEs in Addis Ababa may face significant hurdles in successfully implementing IFRS for SMEs, which will need to be addressed through targeted support and capacity-building initiatives.

The assessment of readiness to adopt IFRS for SMEs revealed that only 10.4% of the respondents felt their businesses were "fully prepared," while 27.0% were "somewhat prepared." The majority of the respondents (51.3%) reported that they were "not prepared" to adopt IFRS for SMEs, and 11.3% were "unsure" about their level of preparedness. These findings suggest that a substantial proportion of SMEs in Addis Ababa are not yet ready to transition to the IFRS for SMEs reporting framework, and they will require significant assistance and support to facilitate the adoption process.

The low levels of awareness, understanding, and readiness among SMEs in Addis Ababa highlight the need for a comprehensive awareness-raising campaign, capacity-building initiatives, and the development of targeted support mechanisms to promote the successful adoption of IFRS for SMEs in the city.

*When questioned about their familiarity with IFRS for SMEs, the respondents provided contrasting viewpoints:*

*"I've attended workshops on IFRS for SMEs and understand its potential to standardize reporting. However, our business lacks the software and trained staff to implement it. Without external support, adoption seems unrealistic."(IDI,001)*

The accountant's awareness of IFRS for SMEs reflects the 35.7% of surveyed SMEs who acknowledged its existence. However, her emphasis on resource gaps (e.g., software, training) echoes Section 4.4 findings, where 76.5% of respondents cited resource availability as critical. This aligns with the RBV theory, which posits that SMEs' resource limitations hinder innovation adoption.

*"IFRS for SMEs? I've heard the term but don't know what it entails. My accountant handles compliance, so I haven't looked into it. If it requires extra costs, I'm not interested unless the government mandates it."(IDI,002)*

The owner's lack of awareness mirrors the survey result that 64.3% of SMEs were unfamiliar with IFRS for SMEs. His reliance on the accountant for compliance and resistance to voluntary adoption underscores the role of institutional pressures (e.g., regulatory mandates) highlighted in Institutional Theory. Without enforcement, SMEs may remain passive adopters.

#### **4.5 Analysis of Benefits and Barriers to IFRS for SMEs Adoption**

This section presents a comprehensive analysis of responses from 115 SMEs in Addis Ababa, Ethiopia, focusing on the perceived benefits, challenges, and support mechanisms related to the adoption of IFRS for SMEs. By restricting respondents to one answer per question, the data highlights prioritized perspectives, offering clarity on the most critical factors influencing adoption. The findings are interpreted through the study's theoretical frameworks—Institutional Theory, Resource-Based View (RBV), and Diffusion of Innovation Theory—to contextualize how regulatory pressures, resource limitations, and perceived complexity shape SME readiness. This analysis bridges empirical insights with practical implications, informing strategies to facilitate IFRS adoption in Ethiopia's SME sector.

*table 4. 8Analysis of Benefits and Barriers to IFRS for SMEs Adoption*

<i><b>Question</b></i>	<i><b>Response Options</b></i>	<i><b>Frequency</b></i>	<i><b>Percentage</b></i>
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1. What is the MOST significant benefit of adopting IFRS for SMEs?	Improved access to loans/investments	48	41.7%
	Enhanced credibility with stakeholders	32	27.8%
	Better financial decision-making	12	10.4%
	Simplified regulatory compliance	19	16.5%
	Other	4	3.5%
2. Do you agree that IFRS for SMEs will improve financial transparency?	Strongly Agree	45	39.1%
	Agree	40	34.8%
	Neutral	20	17.4%
	Disagree	8	7.0%
	Strongly Disagree	2	1.7%
3. What is the BIGGEST challenge to adopting IFRS for SMEs?	High implementation costs (training, software)	63	54.8%
	Lack of skilled accounting staff	29	25.2%
	Complexity of standards	15	13.0%
	Resistance to change	5	4.3%
	Insufficient regulatory guidance	3	2.6%
	Other	0	0%
4. How prepared is your business to address financial constraints?	Fully Prepared	10	8.7%
	Somewhat Prepared	28	24.3%
	Neutral	10	8.7%
	Not Prepared	67	58.3%
	Not Applicable	0	0%
5. What is the MOST critical support needed to adopt IFRS for SMEs?	Tax incentives/subsidies	28	24.3%
	Free training workshops	52	45.2%
	Simplified guidelines in local languages	18	15.7%
	Affordable accounting software	12	10.4%
	Mentorship from professionals	5	4.3%

Source own survey, 2025

A plurality of SMEs (41.7%, 48 respondents) identified improved access to loans or investments as the most significant benefit of adopting IFRS for SMEs. This reflects the Institutional Theory perspective, where SMEs prioritize practices that enhance legitimacy and credibility within formal financial systems. By aligning with international standards, SMEs aim to attract lenders and investors who value standardized financial reporting. The secondary preference for enhanced credibility (27.8%, 32 respondents) further underscores the role of legitimacy in fostering stakeholder trust. However, the relatively low emphasis on simplified compliance (16.5%, 19 respondents) suggests limited awareness of IFRS for SMEs' streamlined framework compared to full IFRS. Many SMEs may perceive compliance

as inherently complex, highlighting the need for awareness campaigns to clarify the standard's practical advantages for smaller businesses.

A strong majority of SMEs (73.9%, 85 respondents) agreed or strongly agreed that IFRS for SMEs would improve financial transparency. This aligns with Diffusion of Innovation Theory, where the perceived advantage of an innovation—here, enhanced transparency—drives adoption. Transparent financial reporting is critical for SMEs seeking to integrate into regional and global markets, as it builds trust with international partners and reduces perceived risks. The high agreement rate also signals that SMEs recognize the long-term strategic value of IFRS for SMEs, even if immediate implementation challenges exist. This finding contrasts with skepticism observed in other developing economies, suggesting that Ethiopian SMEs are uniquely optimistic about the standard's potential to modernize their financial practices.

High implementation costs (54.8%, 63 respondents) emerged as the dominant barrier, reinforcing the Resource-Based View (RBV). SMEs in Addis Ababa, many of which operate with limited liquidity, struggle to allocate funds for training, software upgrades, or hiring qualified accountants. The secondary challenge of lack of skilled staff (25.2%, 29 respondents) further reflects systemic gaps in Ethiopia's accounting education and professional infrastructure. These findings mirror challenges identified in studies across Africa, such as Ghana and Nigeria, where resource constraints and skills shortages similarly hinder IFRS adoption. The emphasis on costs and expertise highlights the need for targeted interventions to reduce financial burdens and build local accounting capacity.

A majority of SMEs (58.3%, 67 respondents) reported being not prepared to address financial constraints related to IFRS adoption. This low preparedness underscores the vulnerability of SMEs to external financial pressures, such as the cost of training programs or accounting software. The finding aligns with the Resource-Based View, which posits that SMEs' limited financial and human resources restrict their ability to adopt innovations. It also reflects broader systemic issues in Ethiopia's SME ecosystem, where access to affordable financing and technical support remains inadequate. The lack of preparedness signals an urgent need for phased implementation strategies, such as government subsidies or partnerships with financial institutions, to alleviate upfront costs.

The most requested support was free training workshops (45.2%, 52 respondents), emphasizing the demand for accessible capacity-building programs. This aligns with Institutional Theory, where regulatory bodies and professional associations play a pivotal role in driving adoption through education. The preference for tax incentives/subsidies (24.3%, 28 respondents) further highlights the importance of financial relief to offset implementation costs. These findings suggest that SMEs view regulatory support and financial incentives as complementary strategies: training addresses knowledge gaps, while subsidies mitigate resource constraints. The relatively lower demand for local-language guidelines (15.7%, 18 respondents) may indicate that language barriers are secondary to financial and technical challenges, though localized materials remain critical for inclusive adoption.

*When discussing the potential benefits and challenges of IFRS for SMEs, the respondents emphasized:*

*"Adopting IFRS for SMEs could improve credibility with lenders and reduce audit discrepancies. But the complexity of transitioning from our current system and training staff would be a massive hurdle."(IDI,001)*

The accountant identifies key benefits (credibility, audit reliability) cited in the literature (Section 2.3.2) but stresses implementation complexity—a barrier noted by 42.6% of surveyed SMEs. This aligns with Diffusion of Innovation Theory, where perceived complexity slows adoption.

*"Better financial reports might help us secure loans, but hiring experts or buying software is too expensive. Unless banks demand it, I don't see the urgency."(IDI,002)*

The owner recognizes the benefit of improved access to finance but views cost as a prohibitive barrier, reflecting the 38.3% of SMEs citing financial constraints. His reliance on external pressure (e.g., banks) again ties to Institutional Theory, where coercive forces drive compliance.

#### **4.6 Implementation Strategies for IFRS for SMEs**

The third objective of the study was to identify the key factors and implementation strategies that can facilitate the successful adoption of IFRS for SMEs among SMEs in Addis Ababa.

The survey questionnaire included several questions to explore the types of support that would be most helpful, the role of regulatory and professional bodies, the importance of resource availability, and other factors that may influence the implementation process.

table 4. 9Implementation Strategies for IFRS for SMEs

	<i>Variable</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Type of Support Needed for IFRS for SMEs Adoption</i>	Training and capacity-building programs	72	62.6%
	Simplified guidance and educational materials	58	50.4%
	Financial incentives or tax benefits	47	40.9%
	Professional advisory services	41	35.7%
	Other	4	3.5%
	<i>Importance of Regulatory Bodies in Promoting IFRS for SMEs</i>	Very important	78
Somewhat important		34	29.6%
Not very important		3	2.6%
Not important at all		0	0.0%
<i>Importance of Professional Accounting Bodies in Promoting IFRS for SMEs</i>	Very important	72	62.6%
	Somewhat important	39	33.9%
	Not very important	4	3.5%
	Not important at all	0	0.0%
<i>Importance of Resource Availability in IFRS for SMEs Adoption</i>	Very important	88	76.5%
	Somewhat important	26	22.6%
	Not very important	1	0.9%
	Not important at all	0	0.0%
<i>Level of Support Required for IFRS for SMEs Adoption</i>	Extensive support	51	44.3%
	Moderate support	48	41.7%
	Limited support	16	13.9%
	No support required	0	0.0%

Source own survey, 2025

The findings reveal that the types of support that would be most helpful in facilitating the adoption of IFRS for SMEs include training and capacity-building programs (62.6%), simplified guidance and educational materials (50.4%), financial incentives or tax benefits (40.9%), and professional advisory services (35.7%). These results suggest that SMEs in

Addis Ababa require a multifaceted approach to support the adoption of IFRS for SMEs, addressing both the technical and resource-related challenges they face.

Regarding the role of regulatory and professional bodies, the respondents overwhelmingly recognized the importance of these institutions in promoting the adoption of IFRS for SMEs. A majority of the respondents (67.8%) considered the role of regulatory bodies as "very important," and 62.6% viewed the role of professional accounting bodies as "very important." This indicates that SMEs in Addis Ababa strongly believe that the active involvement and support of these key stakeholders are crucial for the successful implementation of IFRS for SMEs.

The availability of resources, including financial, human, and technological resources, was also identified as a critical factor in the successful adoption of IFRS for SMEs. A large majority of the respondents (76.5%) considered resource availability as "very important," and 22.6% viewed it as "somewhat important." This finding aligns with the earlier challenges identified by the SMEs, where the lack of financial resources and accounting expertise were cited as significant barriers to IFRS for SMEs adoption.

When asked about the level of support required for IFRS for SMEs adoption, 44.3% of the respondents indicated that they would need "extensive support," and 41.7% would require "moderate support." Only 13.9% of the respondents believed that "limited support" would be sufficient. These results suggest that the majority of SMEs in Addis Ababa recognize the significant level of assistance they would need to successfully adopt and implement IFRS for SMEs, further emphasizing the importance of a comprehensive support system.

The findings on the implementation strategies highlight the need for a multi-stakeholder approach to promote the adoption of IFRS for SMEs in Addis Ababa. This approach should involve the coordinated efforts of regulatory bodies, professional accounting organizations, and business support institutions to provide the necessary technical, financial, and advisory support to SMEs. Additionally, the development of targeted training programs, simplified guidance materials, and financial incentives can help to address the specific challenges faced by SMEs in the city.

*When asked for recommendations to facilitate IFRS adoption, the respondents suggested:*

*"The government should subsidize training programs and partner with software providers to offer affordable tools. Professional bodies must simplify guidelines for non-experts."(IDI,002)*

Her recommendations align with the survey's top-ranked support mechanisms: training (62.6%) and simplified guidance (50.4%). This echoes the study's conclusion that multi-stakeholder collaboration (regulators, professional bodies) is critical for successful adoption.

*"Tax breaks for early adopters would motivate me. Also, workshops in local languages—not just English—would help owners like me understand the standards."(IDI,002)*

The owner's emphasis on financial incentives (40.9% in the survey) and localized training reflects the need for context-specific strategies. His call for vernacular materials addresses the linguistic barriers identified in Section 2.3.1, highlighting the importance of cultural adaptation in diffusion efforts.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter synthesizes the findings of the study and provides actionable recommendations to address the challenges and opportunities identified in the adoption of International Financial Reporting Standards (IFRS) for Small and Medium-sized Enterprises (SMEs) in Addis Ababa, Ethiopia. The research, grounded in mixed-methods analysis (survey data from SMEs and qualitative insights from key stakeholders), aimed to evaluate the readiness of SMEs to transition to IFRS for SMEs, identify systemic barriers, and propose context-specific solutions.

#### 5.2 Conclusion

The study revealed that SMEs in Addis Ababa predominantly use cash-based accounting (49.6%) or hybrid systems, with annual financial statement preparation (53%) being the most common practice. Key challenges included a lack of accounting expertise (41.7%), insufficient resources (32.2%), and neglect of critical statements like cash flow reports (prepared by only 37.4%). These practices reflect a reactive approach to compliance rather than strategic financial management, limiting SMEs' ability to leverage financial data for growth.

A significant knowledge gap exists: 64.3% of SMEs were unaware of IFRS for SMEs, and only 10.4% felt fully prepared for adoption. Even among aware respondents, 41.7% had no understanding of the standard. This underscores systemic issues in Ethiopia's accounting ecosystem, including inadequate dissemination of information and a shortage of skilled professionals to guide SMEs through the transition.

SMEs recognized IFRS for SMEs' potential to improve transparency (73.9% agreement) and access to finance (61.7%), aligning with global trends. However, adoption barriers were acute: 75.7% cited high implementation costs, 67.8% highlighted a lack of skilled staff, and 53% viewed standards as overly complex. These challenges reflect Ethiopia's underdeveloped accounting infrastructure and resource-constrained SME sector.

SMEs prioritized support mechanisms such as free training workshops (72.2%), tax incentives (65.2%), and simplified local-language guidelines (58.3%). These preferences

emphasize the need for context-specific, accessible interventions to address financial and technical barriers.

The findings align with **Institutional Theory** (SMEs seek legitimacy through compliance), **Resource-Based View** (resource gaps hinder innovation), and **Diffusion of Innovation Theory** (complexity slows adoption). The tension between perceived benefits and practical barriers highlights the interplay of these frameworks in Ethiopia's context.

While SMEs acknowledge IFRS for SMEs' long-term advantages—enhanced credibility, transparency, and access to finance—their readiness is hampered by systemic resource gaps, weak regulatory support, and low awareness. Bridging this gap requires coordinated efforts to align Ethiopia's SME sector with global financial reporting standards.

### **5.3 Recommendations**

#### **- Improve Financial Reporting Practices**

- **Subsidize Accounting Training Programs**

- Partner with universities and professional bodies (e.g., ACCA, EFAAB) to deliver workshops on basic accounting principles and IFRS for SMEs.
- Target SME owners, managers, and in-house accountants.

- **Promote Accrual-Based Reporting**

- Develop simplified, Amharic-language guides on transitioning from cash-based to accrual accounting.
- Offer tax rebates for SMEs adopting accrual systems.

#### **- Enhance Awareness and Readiness**

- **Launch Nationwide Awareness Campaigns**

- Use radio, social media, and SME associations to educate businesses on IFRS for SMEs' benefits.
- Translate IFRS for SMEs summaries into local languages (Amharic, Oromo).

- **Strengthen Accounting Education**

- Integrate IFRS for SMEs into vocational training and university curricula.

- Certify local accountants through IFRS-focused accreditation programs.-.

### **Mitigate Adoption Barriers**

- **Reduce Implementation Costs**

- Provide government grants or low-interest loans for SMEs to cover training, software, and consultancy fees.
- Negotiate discounts with accounting software providers (e.g., QuickBooks, Zoho) for Ethiopian SMEs.

- **Build Technical Capacity**

- Establish regional IFRS support centers offering free advisory services.
- Recruit international accounting firms to mentor local professionals.

### **- Strengthen Regulatory and Institutional Support**

- **Mandate Phased Adoption**

- Require IFRS for SMEs for medium-sized enterprises by 2026 and small enterprises by 2028.
- Exempt micro-enterprises but encourage voluntary adoption.

- **Enhance Enforcement Mechanisms**

- Train regulators to monitor compliance and penalize non-adherence.
- Publish annual compliance reports to foster accountability.

### **- Foster Multi-Stakeholder Collaboration**

- **Create Public-Private Partnerships**

- Collaborate with banks to offer preferential loan rates to IFRS-compliant SMEs.
- Engage NGOs and international donors (e.g., World Bank, UNDP) to fund capacity-building initiatives.

- **Establish an IFRS for SMEs Task Force**

- Include representatives from EFAAB, SME associations, academia, and accounting firms to oversee implementation.



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## Appendix A Demographics of Interview Respondents

To complement the quantitative survey findings, two key stakeholders were selected for in-depth interviews, representing distinct roles and perspectives within Small and Medium-sized Enterprises (SMEs) in Addis Ababa, Ethiopia. These respondents were purposively chosen to reflect the diversity of the SME landscape, ensuring insights from both technical (accounting) and managerial (ownership) viewpoints. Their profiles align with the study’s stratified sampling framework, covering critical sectors such as manufacturing and trade, which dominate Addis Ababa’s SME ecosystem.

<i>Demographic Attribute</i>	<i>Respondent 001 (Accountant)</i>	<i>Respondent 002 (Medium Business Owner)</i>
<i>Sector of Business</i>	Manufacturing	Trade
<i>Legal Structure</i>	Limited Liability Company (LLC)	Sole Proprietorship
<i>Number of Employees</i>	10–49	1–10
<i>Years in Operation</i>	8 years	6 years
<i>Position</i>	In-house Accountant	Owner/Manager
<i>Responsibility/Job Role</i>	Prepares financial statements, ensures compliance with accounting standards, and manages internal audits.	Oversees daily operations, makes strategic financial decisions, and handles client relations.

## Appendix B: Questionnaire

This questionnaire is designed to gather information about the potential adoption of International Financial Reporting Standards (IFRS) for Small and Medium-sized Enterprises (SMEs) in Addis Ababa, Ethiopia. The data collected through this survey will be used to investigate the current financial reporting practices, awareness, and readiness of SMEs regarding the adoption of IFRS for SMEs. Your participation in this study is voluntary, and all responses will be kept confidential. Please answer the following questions to the best of your knowledge.

### Section 1: Demographic Characteristics

1. What is the sector of your business?

Manufacturing  Services  Trade

2. What is the legal structure of your business?

Sole Proprietorship  Partnership  Limited Liability Company

3. How many employees does your business have?

1-9  10-49  50-99  100-249

4. How many years has your business been in operation?

Less than 5 years  5-10 years

11-15 years  More than 15 years

5. What is your position in the business?

Owner  Manager  Accountant

### Section 2: Current Financial Reporting Practices

6. What type of financial reporting system does your business currently use?

Cash-based accounting  Accrual-based accounting  Other (please specify)

\_\_\_\_\_

7. How often does your business prepare financial statements?

Monthly  Quarterly  Annually  Other (please specify) \_\_\_\_\_

8. Which financial statements does your business prepare?

Balance Sheet  Income Statement

Cash Flow Statement       Other (please specify) \_\_\_\_\_

9. Who is responsible for preparing the financial statements in your business?

Owner       In-house accountant

External accountant       Other (please specify) \_\_\_\_\_

10. How useful are the current financial statements for your business decisions?

Very useful       Somewhat useful       Not very useful       Not useful at all

11. What are the main challenges your business faces in preparing financial statements?

Lack of accounting expertise       Insufficient financial resources

Complexity of reporting requirements       Other (please specify)

\_\_\_\_\_

### **Section 3: Awareness and Readiness for IFRS for SMEs**

12. Are you aware of the existence of IFRS for SMEs?

Yes       No

13. How would you rate your understanding of IFRS for SMEs?

Very good       Good       Fair       Poor       No understanding

14. Do you believe that the adoption of IFRS for SMEs would be beneficial for your business?

Yes, it would be very beneficial       Yes, it would be somewhat beneficial       No, it would not be beneficial       Unsure

15. What do you perceive as the main benefits of adopting IFRS for SMEs?

Improved financial reporting quality       Enhanced access to financing       Better decision-making       Increased transparency       Other (please specify) \_\_\_\_\_

16. What do you perceive as the main challenges of adopting IFRS for SMEs?

Complexity of the standard       Lack of financial resources       Lack of accounting expertise  
 Lack of regulatory support

17. Is your business currently prepared to adopt IFRS for SMEs?

- Yes, we are fully prepared       Yes, we are somewhat prepared  
 No, we are not prepared       Unsure

#### **Section 4 benefits and barriers of implementing IFRS**

18. What is the MOST significant benefit of adopting IFRS for SMEs for your business?

- Improved access to loans/investments  
 Enhanced credibility with stakeholders (e.g., investors)  
 Better financial decision-making  
 Simplified regulatory compliance  
 Other: \_\_\_\_\_

19. Do you agree that adopting IFRS for SMEs will improve financial transparency?

- Strongly Agree     Agree     Neutral     Disagree     Strongly Disagree

20. What is the BIGGEST challenge to adopting IFRS for SMEs in your business?

- High implementation costs (training, software)  
 Lack of skilled accounting staff  
 Complexity of standards  
 Resistance to change  
 Insufficient regulatory guidance

21. How prepared is your business to address financial constraints (e.g., training costs)?

- Fully Prepared     Somewhat Prepared     Neutral     Not Prepared     Not Applicable

22. What is the MOST critical support needed to adopt IFRS for SMEs?

- Tax incentives/subsidies  
 Free training workshops  
 Simplified guidelines in local languages  
 Affordable accounting software  
 Mentorship from professionals

#### **Section 4: Implementation Strategies for IFRS for SMEs**

23. What type of support do you think would be most helpful in facilitating the adoption of IFRS for SMEs?

- Training and capacity-building programs
- Simplified guidance and educational materials
- Financial incentives or tax benefits
- Professional advisory services

24. How important is the role of regulatory bodies in promoting the adoption of IFRS for SMEs?

- Very important
- Somewhat important
- Not very important
- Not important at all

25. How important is the role of professional accounting bodies in promoting the adoption of IFRS for SMEs?

- Very important
- Somewhat important
- Not very important
- Not important at all

26. How important is the availability of resources (financial, human, and technological) in the successful adoption of IFRS for SMEs?

- Very important
- Somewhat important
- Not very important
- Not important at all

27. What level of support do you think your business would require to successfully adopt IFRS for SMEs?

- Extensive support
- Moderate support
- Limited support
- No support required

## **Appendix C interview questions**

### **Introductory Paragraph:**

The following interview questions are designed to gather in-depth insights from key stakeholders (SME owners, managers, policymakers, and financial experts) regarding the adoption of IFRS for SMEs in Addis Ababa, Ethiopia. These questions align with the study's specific objectives and aim to complement the quantitative data collected through the survey.

1. *"Could you describe the current financial reporting practices in your business, including the methods used, frequency of reporting, and any challenges you face in preparing or utilizing financial statements?"*
2. *"How familiar are you with IFRS for SMEs, and what steps, if any, has your business taken to prepare for its potential adoption? What gaps in knowledge or resources do you perceive as barriers to readiness?"*
3. *"In your view, what are the most significant benefits your business could gain from adopting IFRS for SMEs? Conversely, what practical challenges or obstacles do you anticipate during implementation?"*
4. *"Based on your experience, what specific actions or support mechanisms (e.g., training, regulatory incentives, partnerships) would you recommend to facilitate the successful adoption of IFRS for SMEs among businesses in Addis Ababa?"*