Editon Consortium Journal of Business and Management Studies [ISSN: 2664-9470]



Issue no: 01 | **Vol no:** 08 | **November** 2026: 165-177

Evaluating the Barriers to IFRS for SMEs Adoption: A Comparative Analysis of Adopters and Non-Adopters among SMEs in North Rift Region, Kenya

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Article History
Received: **2026.09.06**
Accepted: **2026.10.01**
Published: **2026.11.04**

Cite this article in APA
Misoi, P., Letting, N., & Aunga, D. (2026). Evaluating the barriers to IFRS for SMEs adoption: A comparative analysis of adopters and non-adopters among SMEs in North Rift Region, Kenya. *Editon consortium journal of business and management studies*, *8*(1), 165–177. https://doi.org/10.51317/xfe7xh87

Abstract
This article examines barriers to adopting the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) by comparing adopters and non-adopters among SMEs in Kenya's North Rift region. Despite providing a simplified financial reporting framework, adoption remains uneven, particularly among resource-constrained enterprises. A quantitative survey approach was adopted, with 397 SMEs targeted for participation. Of these, 304 submitted valid responses, yielding a response rate of 76.6 per cent. The final analytical sample comprised 195 adopters (64.1%) and 109 non-adopters (35.9%). Descriptive statistics identified challenges reported by non-adopters, while Mann–Whitney U tests compared the two groups across three constructs: capacity and training, management commitment, and perceived adoption cost. Among the 105 non-adopters who responded to the follow-up question, inadequate IFRS knowledge and skills were the most frequently reported challenge (44.8%), followed by implementation costs (16.2%) and inadequate accounting systems and infrastructure (14.3%). The findings indicated that adopters and non-adopters did not differ significantly in capacity and training ($U = 9{,}673.50$, $p = .191$) or management commitment ($U = 9{,}741.50$, $p = .226$). However, perceived adoption cost significantly differentiated the groups ($U = 7{,}895.00$, $p < .001$), with non-adopters recording a higher mean rank (177.57) than adopters (138.49). The findings suggest that although knowledge and skills constraints are prominent, perceived adoption cost provides the clearest statistical distinction between the groups. The study recommends affordable implementation support, targeted training, and improved accounting infrastructure to facilitate adoption.

Keywords: Adoption barriers, adoption cost, capacity and training, IFRS adoption, IFRS for SMEs.

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INTRODUCTION

Although International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) provides a simplified financial reporting framework, its adoption remains uneven among small and medium-sized enterprises (SMEs). The framework is intended to improve the comparability, transparency and usefulness of financial information; however, some enterprises continue to face financial, technical and organisational constraints that may hinder adoption. A key concern is whether the barriers reported by enterprises that have not adopted IFRS for SMEs differ significantly from the challenges experienced by those that have adopted the framework. Without distinguishing between barriers common to both groups and those associated more closely with adoption status, policy interventions may fail to address the constraints most relevant to adoption. This study therefore examines barriers to IFRS for SMEs adoption by comparing adopters and non-adopters among SMEs in Kenya's North Rift region.

International Financial Reporting Standards (IFRS) constitute an important component of the international financial reporting architecture, promoting consistency, transparency, comparability and decision usefulness in financial reporting. In 2009, the International Accounting Standards Board (IASB) introduced IFRS for SMEs as a simplified reporting framework designed to address the information needs and resource constraints of private entities. Unlike full IFRS, which serves entities participating in public capital markets, IFRS for SMEs reduces reporting complexity while retaining requirements intended to support credible and comparable financial information (IASB, 2015). According to the IASB (2018), useful financial information is characterised by two fundamental qualitative attributes, namely relevance and faithful representation, supported by four enhancing characteristics: comparability, verifiability, timeliness and understandability. These characteristics provide a basis for understanding the intended reporting benefits of IFRS for SMEs.

The adoption of IFRS for SMEs is particularly relevant in Kenya, where SMEs contribute to employment, income generation and economic activity. The Kenya National Bureau of Statistics (2022) identifies micro, small and medium enterprises as an important segment of the national enterprise sector. Nevertheless, resource constraints, limited technical expertise and the costs of maintaining appropriate accounting systems may complicate adoption. Implementation may require investment in staff training, accounting systems, external professional assistance and internal reporting processes. These demands may be particularly challenging for smaller enterprises operating with limited financial and human resources. Consequently, examining adoption barriers is important for understanding the conditions under which SMEs embrace the framework.

For this study, IFRS for SMEs adoption refers to an enterprise's decision to use the applicable reporting framework in preparing its financial statements. Implementation refers to the practical application of the standard in the enterprise's reporting activities. Although related, the concepts are distinct: an enterprise may have adopted the framework but continue to experience difficulties applying its requirements. Similarly, a non-adopting enterprise may report inadequate knowledge or high implementation costs as potential barriers. Adoption barriers therefore refer to financial, technical, human-resource and organisational constraints that may hinder an enterprise's decision to adopt the framework or its ability to apply it effectively. This distinction is important when comparing adopters and non-adopters.

Previous empirical studies have examined whether IFRS adoption improves accounting quality, financial reporting quality, transparency, comparability and earnings management, reporting both positive and mixed outcomes. Mensah (2021) reported improvements in financial reporting quality among listed manufacturing firms in Ghana, while Wahyuni et al. (2020) identified generally positive effects in Indonesian studies. However, evidence from listed companies may not adequately explain adoption challenges among resource-constrained SMEs. Kılıç and Uyar (2017) examined the IFRS for SMEs adoption process in Turkey, while Solanke et al. (2016) investigated adoption and financial reporting quality in North Central Nigeria. Yamani and Almasarwah (2019) identified implementation costs, inadequate technical expertise and weak regulatory enforcement as adoption barriers among Saudi Arabian listed firms. In Kenya, Gichuru (2022) examined IFRS for SMEs adoption and financial reporting quality among SACCOs in Kiambu County. Although these studies provide relevant evidence on adoption processes and reporting outcomes, their geographical and institutional contexts differ from those of SMEs in the North Rift region. Furthermore, the Kenyan evidence cited here does not establish whether capacity and training, management commitment and adoption cost differ

significantly between adopting and non-adopting SMEs. In particular, the focus on SACCOs in Kiambu County leaves the comparative experiences of SMEs in Uasin Gishu, Trans-Nzoia and Elgeyo-Marakwet insufficiently examined. This constitutes a contextual and empirical gap that the present study addresses by comparing the three adoption-related constructs across the two groups.

The study is informed by Political Cost Theory, Positive Accounting Theory and New Institutional Theory. Political Cost Theory highlights the regulatory and visibility consequences associated with accounting choices, while Positive Accounting Theory emphasises the economic incentives and organisational considerations influencing accounting-policy decisions. New Institutional Theory explains how coercive, mimetic and normative pressures encourage organisations to conform to established practices and institutional expectations. Together, these perspectives provide a basis for examining how implementation costs, organisational capabilities and institutional pressures relate to IFRS for SMEs adoption. They also explain why barriers may be experienced across enterprises but differ in their significance according to adoption status.

Accordingly, this paper compares adopters and non-adopters of IFRS for SMEs among SMEs in Kenya's North Rift region. Using questionnaire data from 304 respondents, the study identifies challenges reported by non-adopters and employs descriptive statistics and Mann–Whitney U tests to assess differences between the two groups in capacity and training, management commitment, and adoption cost. The study contributes region-specific comparative evidence by distinguishing commonly reported implementation challenges from barriers that significantly differentiate adopters and non-adopters, thereby informing targeted interventions by regulators, professional accounting bodies, SME owners and training providers.

Objectives and Hypotheses

The paper evaluates the barriers to IFRS for SMEs adoption among SMEs in the North Rift region of Kenya by comparing adopters and non-adopters. Specifically, it seeks to: (i) identify the principal challenges reported by non-adopters; (ii) determine whether capacity and training differ significantly between adopters and non-adopters; (iii) determine whether management commitment differs significantly between the two groups; and (iv) establish whether perceived adoption cost significantly differentiates adopters from non-adopters. Correspondingly, the following null hypotheses were tested:

> H_{01}: There is no statistically significant difference in capacity and training between adopters and non-adopters of IFRS for SMEs among SMEs in North Rift, Kenya.
> H_{02}: There is no statistically significant difference in management commitment between adopters and non-adopters of IFRS for SMEs among SMEs in North Rift, Kenya.
> H_{03}: There is no statistically significant difference in perceived adoption cost between adopters and non-adopters of IFRS for SMEs among SMEs in North Rift, Kenya.

The central contribution advanced here is a more discriminating interpretation of adoption barriers than a simple ranking of reported difficulties allows. A barrier can be common without being a decisive discriminator of adoption: if both adopters and non-adopters experience shortages in IFRS knowledge, the shortage more plausibly reflects a system-wide implementation problem than the principal explanation for whether an organisation crosses the adoption threshold. Conversely, where non-adopters perceive implementation cost as significantly more severe than adopters, cost more plausibly represents a consequential threshold constraint. The paper accordingly distinguishes between widespread implementation challenges and adoption-discriminating barriers.

LITERATURE REVIEW

Theoretical Review

Positive Accounting Theory (PAT) explains and predicts accounting choices based on economic incentives and contractual relationships (Watts & Zimmerman, 1986). Scott (2009) characterises the firm as a nexus of contracts in which accounting information has economic consequences for owners, lenders and managers. Accordingly, adopting IFRS for SMEs represents an economic decision influenced by the expected benefits of improved credibility, financing and monitoring relative to implementation costs.

PAT provides a theoretical explanation for adoption costs as a potential barrier. Unlike large organisations, SMEs operate under resource constraints that may limit their ability to finance training, consultancy, systems restructuring and additional reporting requirements. Consequently, even where management recognises the

benefits of standardised reporting, perceived implementation costs may discourage adoption. The higher mean rank recorded by non-adopters on adoption cost in this study is consistent with this economic-choice perspective, although the cross-sectional design does not establish causality.

New Institutional Theory (NIT) explains organisational conformity through coercive, mimetic and normative pressures (DiMaggio & Powell, 1983). Regulatory requirements, professional bodies, customers, lenders and industry practices can encourage organisations to adopt recognised reporting frameworks to enhance legitimacy. Moll et al. (2006) similarly emphasise the influence of institutional expectations on organisational accounting practices. Applied to IFRS adoption, the theory highlights the importance of professional standards, stakeholder expectations and regulatory environments.

However, institutional pressure does not necessarily translate into organisational compliance. Oliver (1991) argues that organisations may resist, avoid or strategically negotiate institutional demands when the costs of conformity outweigh perceived benefits. This perspective is particularly relevant to SMEs, whose limited technical capacity, training opportunities and financial resources may constrain their response to professional expectations. It also explains why capacity and training challenges may occur among both adopters and non-adopters: adopters may have acquired the initial competencies necessary for implementation but continue experiencing training requirements as standards and reporting demands evolve. Thus, institutional expectations may encourage adoption without eliminating the capacity constraints associated with implementation.

Political Cost Theory posits that organisations consider the consequences of accounting choices for their relationships with governments, regulators and other politically influential stakeholders (Watts & Zimmerman, 1978, 1986). Accounting practices may influence taxation, regulatory scrutiny and compliance obligations. For SMEs, adopting an internationally recognised reporting framework may enhance financial reporting credibility while simultaneously increasing compliance and administrative costs. The theory therefore complements PAT by situating adoption cost within the wider regulatory environment. Where the perceived financial and compliance burdens exceed anticipated benefits, SMEs may postpone adoption. Nevertheless, adoption decisions also reflect management priorities, professional capacity and stakeholder expectations, indicating that cost alone cannot adequately explain adoption behaviour.

Collectively, the three theories provide complementary explanations for the barriers influencing IFRS for SMEs adoption among SMEs. Positive Accounting Theory explains how economic incentives, resource constraints and implementation costs influence organisational accounting choices and decisions to adopt or not adopt the standards. Political Cost Theory extends this explanation by highlighting how regulatory requirements, compliance obligations and the costs associated with financial reporting may influence adoption decisions across enterprises of different sizes. New Institutional Theory provides a broader institutional perspective by explaining how regulatory expectations, professional norms, stakeholder pressures and the pursuit of organisational legitimacy shape the adoption or non-adoption of IFRS for SMEs. Together, these theories offer an integrated framework for understanding the economic, organisational and institutional factors that distinguish adopters from non-adopters. Their combined application provides a theoretical basis for examining the barriers to IFRS for SMEs adoption, comparing the experiences and challenges of adopting and non-adopting SMEs, and understanding how organisational capacity, management commitment, implementation costs and institutional pressures influence adoption decisions among SMEs in North Rift Region, Kenya.

Empirical Literature Review

A substantial body of evidence documents the potential of IFRS adoption to improve financial reporting quality. Previous studies generally associate IFRS adoption with improvements in transparency, comparability, faithful representation and financial reporting reliability. However, financial reporting quality has no universally agreed operational definition and is commonly assessed through attributes including relevance, faithful representation, comparability and timeliness (Herath & Albarqi, 2017). Healy and Palepu (2001) identify reduced information asymmetry as an important rationale for improved corporate disclosure. Consistent with this perspective, Houqe and Monem (2016) associate IFRS adoption and disclosure with improved information environments, while Shin et al. (2018) examine investor perceptions of earnings quality in Korea. Mensah (2021) reports improved reporting quality among listed manufacturing firms in Ghana, and Wahyuni et al. (2020)

identify generally positive associations in Indonesian studies. Although these findings support the potential reporting benefits of IFRS, their different institutional settings, populations and outcome measures limit direct generalisation to Kenyan SMEs. In particular, evidence from listed firms may not adequately capture the resource and implementation constraints characteristic of smaller enterprises.

Agana et al. (2023) provide a broader African perspective by comparing IFRS adoption approaches across six countries using earnings management, value relevance and timely loss recognition as accounting quality indicators. Their finding that direct adopters achieved better accounting quality than firms adapting standards locally demonstrates that adoption approaches may produce different reporting outcomes. Nevertheless, the study primarily addresses the consequences of adoption rather than the organisational conditions influencing adoption decisions. This distinction establishes the need to investigate adoption barriers alongside the potential reporting benefits.

Studies focusing specifically on IFRS for SMEs provide more direct contextual evidence. Kılıç and Uyar (2017), drawing on the perspectives of academics and accountants in Turkey, examine adoption as an organisational and professional process. Solanke et al. (2016) investigate IFRS for SMEs adoption in North Central Nigeria and its implications for financial reporting quality, while Gichuru (2022) examines adoption and reporting quality among SACCOs in Kiambu County, Kenya. Although these studies provide evidence from developing-country settings, their different institutional contexts and organisational populations limit comparability with SMEs generally. Yamani and Almasarwah (2019), examining listed firms in Saudi Arabia, identify implementation costs, inadequate technical expertise and weak regulatory enforcement as factors delaying adoption. While their listed-firm context differs from that of Kenyan SMEs, the identified barriers provide a useful basis for examining capacity and cost constraints. Collectively, the reviewed literature demonstrates the influence of the adoption environment but provides limited comparative insights into the experiences of adopting and non-adopting enterprises.

Capacity and training constitute an important dimension of IFRS for SMEs adoption because implementation requires technical accounting knowledge, professional judgement and the ability to interpret reporting requirements. Existing literature identifies inadequate IFRS expertise, limited training opportunities and standard complexity as recurring implementation challenges. However, the existence of these challenges does not necessarily distinguish adopters from non-adopters. Organisations that have adopted may have addressed initial capacity deficiencies through recruitment, training or external professional support while continuing to experience competency requirements. Consequently, the frequency of reported knowledge deficiencies should be distinguished from their statistical ability to differentiate adoption status. In this study, 44.8 per cent of non-adopters identified inadequate IFRS knowledge and skills as a challenge, although the Mann–Whitney comparison established no statistically significant difference between the groups. This suggests that capacity constraints are relevant but may be shared across adoption categories.

Management commitment represents a separate organisational dimension because senior managers influence strategic priorities, resource allocation and organisational readiness for accounting changes. Although management support may facilitate implementation, commitment alone may not overcome financial and technical constraints. Furthermore, studies examining adoption outcomes do not necessarily establish whether differences in managerial commitment distinguish adopters from non-adopters. Management commitment may also interact with organisational capacity, since managers with adequate resources are better positioned to translate adoption intentions into implementation. The present study addresses this distinction through a direct comparison of the two groups. Its findings indicate no statistically significant difference in management commitment, suggesting that measured commitment, although theoretically relevant, did not independently distinguish adoption status within the sampled SMEs.

Adoption cost constitutes the financial dimension of implementation and includes expenditure on training, professional consultancy, accounting software, systems restructuring, data conversion and additional reporting processes. Unlike capacity deficiencies, which may be addressed through recruitment or professional development, financial constraints may directly restrict an SME's ability to acquire the resources required for implementation. Previous studies, including Yamani and Almasarwah (2019), identify cost as a recurring adoption

challenge, although differences in regulatory and organisational settings limit the transferability of their findings. The present study extends this evidence by comparing perceived adoption costs between adopters and non-adopters rather than merely identifying cost as a general implementation concern. The higher mean rank among non-adopters indicates that cost was more pronounced in this group, providing comparative evidence that financial constraints may distinguish adoption status more clearly than capacity and management commitment.

Knowledge Gap

Previous studies have examined IFRS adoption in relation to accounting quality, financial reporting quality and organisational implementation factors. For instance, Kılıç and Uyar (2017) examined the adoption process in Turkey, Solanke et al. (2016) investigated adoption and financial reporting quality in Nigeria, Yamani and Almasarwah (2019) identified factors resisting IFRS adoption in Saudi Arabia, while Gichuru (2022) examined IFRS for SMEs adoption and financial reporting quality among SACCOs in Kiambu County, Kenya. Although these studies provide useful insights, they differ from the present study in geographical coverage, organisational context and analytical focus. In particular, the literature reviewed provides limited comparative evidence on whether perceived adoption barriers differ significantly between adopters and non-adopters of IFRS for SMEs among SMEs in Kenya's North Rift region.

The present study addresses this geographical and empirical gap by examining 304 SMEs across Uasin Gishu, Trans-Nzoia and Elgeyo-Marakwet counties. It combines descriptive analysis of challenges reported by non-adopters with Mann–Whitney U tests comparing adopters and non-adopters across three constructs: capacity and training, management commitment, and perceived adoption cost. This approach distinguishes frequently reported implementation challenges from factors that statistically differentiate the two groups, providing region-specific evidence to inform policies and interventions aimed at facilitating IFRS for SMEs adoption.

METHODOLOGY

The study adopted a quantitative, cross-sectional comparative design, situated in SMEs across three North Rift counties: Uasin Gishu, Elgeyo-Marakwet and Trans-Nzoia. The North Rift Economic Block has a substantial concentration of SMEs engaged in diverse economic activities, including wholesale and retail trade, agriculture and agribusiness, transport and logistics, hospitality, construction, professional and business services, ICT, and repair and maintenance. The region also has a notable concentration of manufacturing SMEs involved in grain milling, dairy processing, metalwork, textiles, construction materials, beverages, wood and plastics, among other sub-sectors. The unit of analysis was the SME, represented by respondents who included accountants, business owners, managers or chief executive officers, and who provided information on IFRS for SMEs implementation status and perceived adoption-related conditions through structured questionnaires.

Using Yamane's (1967) formula with a 5 per cent margin of error, the study calculated a required sample of 397 SMEs distributed across the three counties. Stratified sampling was employed at the sub-county level to ensure geographical representation of SMEs across the study area. The population was first categorised into geographical strata based on the respective sub-counties, after which the sample was proportionately allocated according to the distribution of SMEs within the strata. This procedure ensured that each sub-county was represented in the overall sample in relation to its share of the target population. The resulting county allocations comprised 176 SMEs from Uasin Gishu, 97 from Elgeyo-Marakwet and 124 from Trans-Nzoia. The required number of SMEs was subsequently selected from the respective sub-county strata to constitute the target sample of 397 enterprises.

The final analytical sample therefore comprised 304 SMEs, each represented by one valid questionnaire. Of these, 195 SMEs (64.1%) reported having adopted IFRS for SMEs, while 109 (35.9%) reported that they had not adopted the framework. The 304 valid responses constituted the final dataset used in the comparative and subsequent statistical analyses.

The study employed a structured questionnaire to collect quantitative data on IFRS for SMEs adoption and the organisational conditions associated with its implementation. The questionnaire was developed in line with the study objectives, research questions and conceptual framework to capture the relevant dimensions of IFRS adoption and implementation barriers. The measurement items were informed by the relevant literature on IFRS adoption, organisational capacity,

management commitment and implementation costs, and adapted to the context of SMEs in the North Rift Region, Kenya. The instrument comprised structured questions and statements designed to obtain information from accountants, business owners and managers familiar with their respective enterprises' financial reporting practices. Three constructs were examined: IFRS adoption capacity and training, management commitment, and adoption cost, each representing organisational perceptions captured through the study instrument on a five-point Likert scale. The dependent grouping variable was binary implementation status: organisations reporting implementation of IFRS for SMEs were coded as adopters, while those reporting non-implementation were coded as non-adopters. In addition, non-adopters were asked to identify implementation challenges from a closed-ended set of alternatives: lack of adequate IFRS knowledge and skills, high cost of implementation, inadequate accounting systems and infrastructure, training difficulty, complexity of IFRS standards, and reporting workload and documentation demands.

Before the main study, the questionnaire underwent pre-testing to determine whether the items were clear, relevant, and easy to understand. Validity was examined through the alignment of the measurement items with the study constructs and objectives, while reliability was assessed using internal consistency measures. These procedures were undertaken to establish the suitability of the instrument for collecting data on IFRS for SMEs adoption and the organisational conditions influencing its implementation.

The questionnaires were distributed to the selected SMEs, with each questionnaire intended for completion by an accountant, business owner or manager familiar with the enterprise's accounting and financial reporting practices. The respondents provided information on their enterprises' IFRS for SMEs adoption status and related organisational conditions. The completed questionnaires were collected and reviewed for completeness and suitability for statistical analysis.

Out of the 397 questionnaires distributed, 309 were returned, representing an initial return rate of 77.8 per cent. However, five questionnaires were excluded because they were incomplete, leaving 304 valid responses for analysis and an effective response rate of approximately 76.6 per cent. Descriptive frequencies and percentages summarised the challenges reported by non-adopters. The Mann-Whitney U test compared the distributions of the three barrier constructs between adopters and non-adopters, a non-parametric procedure appropriate where the measured responses are ordinal or normality cannot be assumed; the analysis reports U, Z and two-tailed significance values, interpreted at the 5 per cent significance level. The magnitude of group separation was additionally approximated using $[r = \frac{|Z|}{\sqrt{N}}]$, where N is the total number of observations used in the comparison; on this basis, the effect sizes are approximately 0.075 for capacity and training, 0.069 for management commitment and 0.214 for adoption cost, reported as supplementary indicators of the magnitude of group separation rather than as independent measures of causal importance. Because the data are cross-sectional and compare perceived barriers between groups, the results are interpreted as evidence of association and group differentiation rather than proof that a particular barrier causes non-adoption.

The study observed ethical principles governing research involving human participants. Ethical clearance was secured from the University of Eastern Africa, Baraton Institutional Ethics Review Committee, while research authorisation was granted by the National Commission for Science, Technology and Innovation (NACOSTI) before the commencement of data collection. Additional research permits were obtained from the relevant county authorities in Uasin Gishu, Elgeyo-Marakwet and Trans-Nzoia. Before administering the questionnaire, respondents were briefed on the study's objectives, the type of information required, and the voluntary nature of their involvement, after which informed consent was obtained. Participants were also assured they could refuse to participate or withdraw at any stage without consequences. Respondents' privacy was protected by minimising the collection of personal identification details and restricting access to completed questionnaires and digitally stored research information. All information gathered was used solely for academic purposes, and the results were reported collectively to prevent the identification of individual participants or participating SMEs. Furthermore, appropriate procedures were implemented for the handling, storage and processing of research information to safeguard participants' privacy and uphold the credibility of the research.

RESULTS AND DISCUSSION

Respondent Profile

Table 1 illustrates how respondents from the sampled SMEs were distributed across different job positions. Accountants formed the largest category (123

respondents, 40.5%), followed by other staff involved in financial record-keeping (63 respondents, 20.7%), assistant managers or supervisors (52 respondents, 17.1%), owners (37 respondents, 12.2%), and managing directors or chief executive officers (29 respondents, 9.5%).

Table 1: Respondents' Position in the Entity (N = 304)

Position	Frequency	Percent	Valid Percent	Cumulative Percent
Managing Director/CEO	29	9.5	9.5	9.5
Assistant Manager/Supervisor	52	17.1	17.1	26.6
Owner	37	12.2	12.2	38.8
Accountant	123	40.5	40.5	79.3
Other Staff	63	20.7	20.7	100.0
Total	304	100.0	100.0	

Source: Field data (2026)

IFRS for SMEs Implementation Status

As shown in Table 2, nearly two-thirds of the sampled organisations reported implementing IFRS for SMEs, while slightly more than one-third indicated non-implementation. The 109 non-adopters constituted a substantial comparison group, providing sufficient variation for examining perceived barriers to adoption and comparing the experiences of adopters and non-adopters.

Table 2: IFRS for SMEs Implementation Status (N = 304)

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Adopters (Yes)	195	64.1	64.1	64.1
Non-Adopters (No)	109	35.9	35.9	100.0
Total	304	100.0	100.0	

Source: Field data (2026)

Challenges Reported by Non-Adopters

Non-adopters were asked, through a closed-ended follow-up item, to characterise the challenges that had constrained implementation in their organisations; 105 of the 109 non-adopters (four did not respond to this item) provided a response. Table 3 presents the distribution.

Table 3: Challenges Reported in Implementing IFRS for SMEs (Non-Adopters Responding, N = 105)

Challenge	No. of Respondents	Percentage
Lack of adequate IFRS knowledge and skills	47	44.8
High cost of implementation	17	16.2
Inadequate accounting systems and infrastructure	15	14.3
Training difficulty	10	9.5
Complexity of IFRS standards	8	7.6
Reporting workload and documentation demands	8	7.6
Total	105	100.0

Source: Field data (2026)

Lack of adequate IFRS knowledge and skills was the most frequently reported challenge, identified by 47 of the 105 responding non-adopters (44.8%). High implementation cost was the second most frequently identified challenge (16.2%), followed by inadequate accounting systems and infrastructure (14.3%), training difficulty (9.5 %), and complexity of the standards and reporting workload and documentation demands in equal measure (7.6% each). Knowledge and skills and training difficulty together account for 54.3 per cent of the non-adopter responses, indicating that human capacity is highly salient in the non-adopter narrative.

Comparative Analysis of Adopters and Non-Adopters

Table 4 reports the Mann-Whitney U comparison of the three barrier constructs between adopters and non-adopters.

Table 4: Mann-Whitney U Comparison of Barrier Constructs by IFRS Implementation Status

Barrier Construct	Adopters n	Adopters Mean Rank	Non-Adopters n	Non-Adopters Mean Rank	U	Z; p-value
Capacity and Training	195	147.61	109	161.25	9,673.50	-1.307; .191
Management Commitment	195	147.96	109	160.63	9,741.50	-1.211; .226
Adoption Cost	195	138.49	109	177.57	7,895.00	-3.736; <.001

Source: Field data (2026). Effect size r = |Z|/√N: 0.075 (capacity and training), 0.069 (management commitment), 0.214 (adoption cost).

Capacity and training produced mean ranks of 147.61 for adopters and 161.25 for non-adopters, but the difference was not statistically significant (U = 9,673.50, Z = -1.307, p = .191). Management commitment similarly did not differ significantly between adopters and non-adopters (U = 9,741.50, Z = -1.211, p = .226). Adoption cost, by contrast, was the only construct that significantly differentiated the two groups: non-adopters recorded a mean rank of 177.57 compared with 138.49 among adopters, a statistically significant difference (U = 7,895.00, Z = -3.736, p < .001) carrying the largest observed effect size (r = 0.214) of the three constructs, though still modest in conventional terms

Summary of Hypothesis Tests

Table 5: Summary of Hypothesis Tests

Code	Null Hypothesis	p-value	Decision
H01	There is no significant difference in capacity and training between adopters and non-adopters	.191	Not rejected
H02	There is no significant difference in management commitment between adopters and non-adopters	.226	Not rejected
H03	There is no significant difference in perceived adoption cost between adopters and non-adopters	<.001	Rejected

Source: Field data (2026)

Discussion

The central finding of this paper is that the most frequently reported challenge is not necessarily the factor that statistically distinguishes adopters from non-adopters. Lack of adequate IFRS knowledge and skills was reported by close to half of non-adopters, making it the most visible challenge in the descriptive data, yet the Mann-Whitney test did not establish a statistically significant difference in the broader capacity and training construct between adopters and non-adopters. This result meaningfully qualifies the descriptive evidence: capacity constraints are not confined to firms that have failed to adopt. Adopters, too, may experience shortages of IFRS expertise, require continuing professional development, and face difficulty translating technical requirements into organisational practice. Adoption therefore does not necessarily signify the absence of capacity problems; adopters may instead have absorbed or managed the capacity problem through staff training, recruitment, use of external accountants, professional advice or organisational learning. Because the present dataset does not directly measure these coping mechanisms, they should be treated as plausible explanations warranting further investigation rather than as established findings.

This pattern corroborates the institutional perspective on normative institutional pressures. Professional knowledge and training can be understood as normative institutional requirements because, as IFRS for SMEs becomes embedded in professional accounting practice, both adopters and non-adopters are exposed to shared expectations concerning competence. This is consistent with Oliver's (1991) observation that institutional pressures diffuse broadly, even where compliance with their full implications remains uneven. Consequently, knowledge deficiencies may be widespread across the SME population, although their implications for adoption status may vary according to organisational resources.

Adoption cost provides the clearest empirical distinction between the two groups. Non-adopters recorded a mean rank of 177.57 compared with 138.49 for adopters, a difference significant at $p < .001$. Notably, only 16.2 per cent of non-adopters selected high implementation cost as their principal reported challenge, meaning that cost is not the most frequently mentioned problem, yet the comparative test indicates it is the barrier with the strongest observed differentiation between groups. This apparent contrast between frequency and statistical discrimination is theoretically meaningful: a challenge can be common but not differentiating where both groups experience it comparably, as capacity and training illustrate, whereas a factor mentioned by a smaller proportion of respondents can nonetheless differ systematically between adopters and non-adopters, as adoption cost illustrates. The results accordingly caution against treating the most frequently reported barrier as automatically the most consequential barrier for the adoption decision itself.

The cost finding accords closely with Positive Accounting Theory, since adoption entails genuine economic consequences and SMEs must allocate scarce resources among competing priorities, training, consultancy, software, system changes and process redesign. Where these costs exceed the perceived benefits or available resources, adoption may be deferred; the evidence does not establish that cost causes non-adoption, but it does substantiate that perceived adoption cost is distributed differently across the two groups in this sample. This corroborates Yamani and Almasarwah (2019), who similarly identified cost among the resistive factors delaying IFRS adoption among Saudi Arabian listed firms, and extends this discussion to the SME context in Kenya, where resource constraints and competing operational priorities may shape decisions concerning IFRS for SMEs adoption.

Management commitment did not significantly distinguish adopters from non-adopters (p = .226), a result that should not be read as evidence that management is unimportant, since senior management ordinarily controls resource allocation and can shape organisational priorities. The absence of a statistically significant group difference instead suggests that willingness and ability are distinct: managers may recognise the importance of IFRS for SMEs but remain unable to commit the resources implementation requires, an interpretation consistent with, though not directly tested by, the significant cost result. Future research could examine whether management commitment becomes consequential once organisations possess adequate financial and technical resources.

These findings complement rather than contradict prior IFRS adoption research. Where Mensah (2021) and Wahyuni et al. (2020) examine the consequences of adoption once a firm has crossed the adoption threshold, the present paper interrogates an earlier stage of the process: what may prevent an organisation from crossing that threshold at all. This distinction matters because the benefits documented in post-adoption studies are conditional on implementation; if a significant share of SMEs cannot absorb implementation costs, policy interventions focused solely on demonstrating the benefits of IFRS may prove insufficient, and increasing awareness of IFRS may have limited effect where the principal differentiating constraint is resource availability rather than conviction. The study also extends research on IFRS for SMEs in developing economies: Kılıç and Uyar (2017) and Solanke et al. (2016) illustrate the importance of institutional and organisational context in understanding IFRS for SMEs adoption, and Gichuru (2022) provides Kenyan evidence on adoption and financial reporting quality; the present findings build on this stream by demonstrating empirically that perceived implementation cost is more strongly differentiated across adopter status than the measured capacity and training or management-commitment constructs.

Viewed through Political Cost Theory, adoption involves more than technical compliance: firms weigh the external consequences and costs associated with accounting choices, and implementation expenditures and compliance requirements can influence the willingness or ability of smaller firms to adopt, a proposition compatible with the significant cost difference identified here, although the analysis does not directly measure political visibility or regulatory costs. Taken together, the three theoretical perspectives suggest that adoption is neither purely a technical accounting decision nor purely a financial one, but an organisational response to economic incentives, resource constraints and institutional pressures, within which cost emerges as the clearest observed discriminator among the three constructs examined.

CONCLUSION AND RECOMMENDATIONS

Conclusion: This paper examined the barriers to IFRS for SMEs adoption by comparing adopters and non-adopters among SMEs in Kenya's North Rift region. The analysis demonstrates why the distinction between a frequently reported challenge and a statistically differentiating barrier matters: of the 105 non-adopters who responded to the follow-up item, 44.8 per cent identified lack of adequate IFRS knowledge and skills as a challenge, and a further 9.5 per cent reported training difficulty, together accounting for 54.3 per cent of responses and confirming that human capability is a major practical concern.

The comparative analysis nevertheless yields a more nuanced conclusion. Capacity and training did not significantly differ between adopters and non-adopters (p = .191), nor did management commitment (p = .226); adoption cost was the only examined construct that significantly differentiated the two groups (p < .001), with non-adopters recording a markedly higher mean rank than adopters. The evidence therefore substantiates a distinction between widespread implementation difficulties and barriers that more clearly separate adoption status: lack of knowledge should not automatically be treated as the primary explanation for non-adoption simply because it is the most frequently reported challenge, since it appears to be a broad capability problem affecting the SME reporting environment as a whole. Cost, by contrast, emerges as a comparatively stronger threshold constraint; organisations that have adopted IFRS for SMEs may still experience skills shortages, but their perceived cost burden is evidently lower than that of non-adopters, a conclusion compatible with Positive Accounting Theory's emphasis on economic consequences and with institutional explanations of how firms manage external reporting expectations.

Recommendations: Regulators and professional bodies should distinguish between capacity-building and adoption-cost constraints when designing interventions. Given that knowledge and skills are widely reported as

implementation challenges, professional bodies such as the Institute of Certified Public Accountants of Kenya should continue providing targeted training, practical workshops and simplified implementation guidance. However, the non-significant group difference in this construct suggests that training alone may not sufficiently address the adoption gap. Therefore, support mechanisms should also directly address the financial burden of implementation through subsidised or low-cost training, standardised implementation templates, sector-specific guidance, shared training programmes and partnerships with SME support institutions. Such interventions should be evaluated to determine whether they genuinely reduce implementation costs rather than merely increase awareness.

SME managers should treat IFRS implementation as an organisational change process rather than solely an accounting function. This requires allocating adequate budgets for training, accounting system modifications, professional support and documentation to minimise implementation disruptions. The findings further suggest that management commitment should be accompanied by concrete resource planning, since willingness to adopt the standards without a corresponding implementation budget may not be sufficient to complete the transition.

Accounting education and training providers should also strengthen the development of practical competence in IFRS for SMEs. The prominence of knowledge and skills among the challenges reported by non-adopters demonstrates the continuing demand for relevant professional training. Accordingly, training programmes should emphasise practical case studies, accounting system applications and sector-specific examples rather than relying exclusively on theoretical instruction. Furthermore, since adopters also appear to experience capacity-related challenges, continuing professional development should be treated as an ongoing implementation requirement rather than a one-time intervention undertaken before adoption.

Limitations and Suggestions for Further Research: The cross-sectional data cannot establish that high cost causes non-adoption, nor does the analysis test causal pathways among capacity, management commitment and cost; the findings apply primarily to the sampled SMEs in the selected North Rift counties, and the measures rest on respondents' perceptions, which may introduce response or social-desirability bias. The analysis further compares only three constructs and does not model other potentially relevant determinants, such as firm age, access to finance, ownership structure, external audit arrangements, regulatory pressure, perceived benefits, or availability of accounting software, and the non-adopter challenge frequencies, drawn from closed-ended responses, should not be read as evidence that each challenge operates independently of the others.

Future studies should employ multivariate logistic regression to model the probability of adoption while controlling for organisational characteristics, and qualitative interviews with adopters and non-adopters could illuminate how firms overcome capacity barriers and why some managers proceed despite high costs. Longitudinal research could examine the transition from non-adoption to adoption and determine whether training, subsidies or professional support alter adoption decisions, while a further opportunity lies in distinguishing initial adoption cost from recurring compliance cost, since the two may affect organisations differently. The findings highlight two complementary priorities for policy intervention. First, sustained training and capacity-building initiatives are needed to address the knowledge and skills challenges experienced by SMEs. Second, measures to ease the financial burden of adoption may be particularly important in encouraging non-adopting enterprises to embrace IFRS for SMEs. This distinction provides a basis for developing targeted interventions and guiding further research on the factors associated with adoption among SMEs in Kenya.

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