



## International Financial Reporting Standard (IFRS) Adoption and Foreign Direct Investments (FDI): A Comparative Analysis of Nigeria and Ghana

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### Authors' contributions

This work was carried out in collaboration among all authors. Author WO designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Authors ATA and MAI managed the analyses of the study. Author OM managed the literature searches. All authors read and approved the final manuscript.

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### ABSTRACT

This study examined the relationship between IFRS adoption and FDI in Nigeria and Ghana. Using ordinary least square as well as other diagnostic test, findings show a negative but insignificant relationship between IFRS adoption and FDI in Nigeria. Also, it was discovered that IFRS adoption has a positive and significant relationship in Ghana. Findings also show that IFRS adoption alone would not lead to FDI inflows and FDI is affected by other factors such as exchange rate, inflation and political instability. The study recommends that Effective execution of IFRS requires strategic planning and IFRS ought to be linked to an objective for it to have a beneficial outcome.

*Keywords: IFRS; foreign direct investment; economy; harmonization; convergence.*

## 1. INTRODUCTION

Globalization has added towards the promotion of foreign capital transactions. Also, it has amplified investors' necessity to source for standardized, consistent and in addition comparable financial statements. Over 100 nations are contending for FDI after embracing IFRS [1,2,3] while a notable amount of other significant nations have schemes to transition their local GAAP to IFRS [4]. A factor that unfavorably disturbs the capability to entice FDI is the deficiency in the credibility of financial statements. This barrier is specifically predominant in transition nations, because they lack a developed financial reporting system. Adopting IFRS is viewed as means to nullify this problem and various emerging nations are adopting or totally adopted IFRS to enjoy credibility in their financial reports as well as boosting uniformity and transparency which attracts investors [5,6]. IFRS as a universal standard has been extensively utilized as a vital contribution to boost accounting report quality for investing decisions [7].

One of the key notions of economic policy in nations is to boost their economic growth [8,9]. This goal is usually accomplished by attracting FDI into their economies [10,11]. [12] opined that there existed improved streams of investment globally since the 1980's and emerging countries specifically in Africa fall behind other nations in enticing FDI. Moreover, Entry barriers fashioned by nations specific local standard is extinguished through IFRS adoption, aiding investors to reduce cost that would have been accumulated in familiarizing themselves with accounting standards [13].

Nation like Indonesia as well as Vietnam have established high FDI inflows though they have not adopted IFRS. This invariably depicts that IFRS adoption by a nation should be tied to an objective. For instance, Brazil's adoption of IFRS had the objective to support multinational companies in the country to disclose balance sheets to stakeholders, as well as efficient and timely financial reporting yearly. A guaranteed after effect was an enhanced inflow of FDI. [14] posited that Nigeria has incorporated IFRS because of the benefits it proposes, plus attracting FDI, decrease in cost of operating a business, as well as cross border transactions. Ghana has moved from eight to seventh spot, in the confederation of nations that entices FDI in Africa. 2018 EY Africa Attractiveness Report also

classified Ghana second in West Africa for FDI attractiveness.

It is evident however that FDI flow rests on various factors other than the adoption of IFRS. Though, FDI has regularly been acknowledged as an economic consequence of IFRS adoption [15,16], very limited scholars have evaluated this subject in greater detail [17,18,19,20] and specifically, the comparison effect of IFRS adoption on FDI in developing nations.

This research work seeks to add its quota to the IFRS literature in several important ways: First, we examine a different approach to evaluating the effect IFRS adoption on FDI by focusing on two developing countries; Nigeria and Ghana.

Second, Since IFRS can be linked with improved transparency as well as advanced disclosure mandates, it has been contended that FDI might similarly be affected by the nation's political environs, foreign exchange changes as well as other irregular factors [12]. These factors are independent of the adoption of IFRS. This study considers the role of political instability in explaining the association amid IFRS adoption and FDI. This is because a country's adoption of IFRS will need suitable political and economic stability that creates the required incentive for investment security and growth. These issues have been unintentionally exempted from current studies on IFRS adoption. Consequently, we cannot disregard the role of mediating variables that are regularly confronting the models of some prior studies, which may affect the efficacy of the discoveries from their empirical assessments. These gaps in literature creates a lacuna to empirically determine the relationship between IFRS adoption and FDI in Nigeria and Ghana.

## 2. LITERATURE REVIEW

### 2.1 Conceptual Review

#### 2.1.1 Concept of IFRS

IFRS are a set of accounting standards created by the International Accounting Standards Board (IASB) widely perceived for the preparation of financial report. As indicated by [21], IFRS is certainly not a new notion; it initially came up amid the latter part of 1950, because of post-World War II capital market development. Preceding this time, endeavors were channeled towards Harmonization of Accounting Standards. This was aimed at diminishing differences in accounting methods in most capital markets in

countries around the globe. The idea of Convergence during the 1990s replaces Harmonization, which essentially implies the formation of worldwide standards that are of potent qualities to be utilized in practically all the significant capital markets of the world.

In 1973, IASC was formulated by professional accountancy bodies from ten different nations, which subsists of United States of America, Australia, Ireland, Canada, Germany, Mexico, France, Netherlands, Japan and the United Kingdom. These undertakings were to formulate and publish Accounting Standards to be adopted in order to guarantee that audited corporate reports are prepared, presented as well as reported towards encouraging worldwide acceptance. IFRS is the basic worldwide language created to be applied by multinational companies to mirror their financial operations as well as improving financial reporting understandability, comparability and quality. [22] posits that IFRS are meant to accomplish the resulting objectives: aid in the standardization of diverse accounting principles and procedures accessible globally as well as augmenting comparability of corporate reports.

Another objective is to decrease alternatives means of financial statements preparation and thus eradicating the component of subjectivity. For nations desiring to implement IFRS, [23] recommends six foundations for decision as growth in prosperity and wealth of society, inclusion of relevant information from all parts of the economy, stability over time, adaptability to changes in economic environment, robustness against manipulations, and resistance to capture by narrow interest groups.

### 2.1.2 Concept of foreign direct investment

FDI is an investment through controlling ownership in an entity in one country by an entity founded in another country. FDI is a major component of foreign investment mostly ventured by multinational corporations. The role of FDI to any nation cannot be overstressed. [24] posits saying a plethora of benefits accrue to emerging nations via FDI inflows like technology transfer, comparative advantages, creates higher-paying jobs [25], human capital development because beneficiaries of FDI mostly gain through training programs in the course of the new business operations.

Furthermore, government has regarded it as part of their social obligations to pull economic

benefits to their countries via FDI. Several researchers have acknowledged other factors spur FDI inflow into a nation. These factors include Financial Sector Development [26,27]; Inflation Rate [28]; Market Size; Exchange Rate [29]; Human Resource [30]; Urban Agglomeration [31]; and Technology Advancement [32]. The list of the determinants of FDI inflow is in-exhaustive.

## 2.2 Theoretical Review

A plethora of theories have been applied with respect to this study by different researchers. Some of these theories are Value Maximization theory promulgated by Michael Jensen in 2001 who posited that the central reason for providing corporate financial report in accord with the IFRS is to maximize its long-term worth [33]. Accordingly, this theory elucidates that all the actions of an entity are principally in quest of making profit. This theory also states that in the future, there will be maximization of all stakeholders' value [33].

Also, traditional economic theory posits that FDI is advantageous for the growth of the nation's economy. According to this theory, FDI will spur from emerging nations, like Nigeria and Ghana where decent opportunities are available for higher yields [34,35]. Within this hypothesis, it is predicted that FDI will augment economic growth via the transfer of technology [36].

Examining the Theory of Transaction Cost Economics (TCE) standpoint, costs economization is tagged a key objective of every economy [37]. Accordingly, there is larger motivation to operate production by international corporations in domains where production cost is moderately low. In line with TCE, these nations with low production cost features are viewed as attractive locations for FDI inflows as opposed to nations with quite high cost of operation.

Closely linked with the TCE is the Internalization Theory (IT) which tries to describe the factors that stimulate entities to go international and their choice of entry [38]. The IT augments TCE by showcasing the relative costs and benefits of operating in a foreign market internally by a locally owned corporation rather than doing it externally. The dispute is that an entity will lean towards increasing its activities through FDI rather as opposed to externalization when it has competitive edge over indigenous firms as well as better motivation to secure definite unique advantages.

Furthermore, Countries are probable to make the decision to adopt IFRS because they believe that IFRS adoption provides a strong signal to the world that entities in those countries will provide more meaningful and transparent accounting information than otherwise would be the case [39]. This signal should have a positive effect on attracting the foreign investors to investigate on those countries. Therefore, based on above arguments, this study applies signaling theory as a relevant theory to explain the relationship between IFRS adoption and FDI.

### 2.3 Empirical Review of Literature

Okpala [40] observed the link amid IFRS adoption and Foreign Direct Investment in Nigeria. Using primary data, Findings disclosed that IFRS has been adopted in Nigeria but only fraction of companies have implemented. Although, it is forecasted that IFRS application will boost FDI inflows as well as economic growth. This view was strengthened by the study of [41] whose findings revealed that there exists a positive and non-significant association amid FDI and IFRS adoption; showing prospects for IFRS adoption benefits. Also, [42,43] examining African countries applied regression methodology and found out that adoption of IFRS has a significant as well as positive impact on FDI. This finding was supported by [44] who discovered that there exists positive impact of IFRS on FDI in Nigeria.

Furthermore, [45] examined 116 developing countries from 1996-2013, revealed that that IFRS adoption, on its own, does not affect the amount of FDI inflows to developing countries. Also, [46] supported that view looking at 10 Asean countries from 2001-2016. They discovered that IFRS adoption is positively associated with FDI inflows. This view is also in line with that of [20] who considered the mediating variable of information asymmetry. The findings demonstrate that IFRS adoption is a determinant factor for FDI inflows and eventually economic growth.

## 3. METHODOLOGY

This study observed the association amid IFRS adoption and Foreign Direct Investment in Nigeria and Ghana between 1984-2017. Exchange rates, FDI inflows, Inflation rates and political unrest were utilized with relation to IFRS adoption of the countries sampled, were gotten from highly validated statistical bulletins. Pre-estimation analysis was done in two-folds: Firstly,

descriptive statistics for all variables captured in this study as well as correlation analysis to test for multicollinearity amongst the independent variables; the second shows the associations of the variables using a pooled ordinary least square regression. The control variables introduced include: Exchange rate (EXR), Inflation (INF), political unrest (POL).

### 3.1 Model Specifications

The study in achieving its objective, adapted the model of [42] to suite the variables considered for the study by the inclusion of political unrest. The model for this study is therefore presented below:

$$FDI = f(IFRS, POL, INF, EXR) \quad (1)$$

Equation (1) is detailed as an econometric model in equation (2) below:

$$FDI_t = \beta_0 + \beta_1 IFRS_t + \beta_2 POL_t + \beta_3 INF_t + \beta_4 EXR_t + \mu_t \quad (2)$$

Where:

FDI = Foreign Direct Investment  
 IFRS= IFRS Adoption  
 POL= Political Unrest/instability  
 INF = Inflation Rate  
 EXR= Exchange Rate  
 $\mu$  = Disturbance/ Error term

$\beta_0$  is the constant, and  $\beta_1, \dots, \beta_4$  are the coefficients of the individual independent variables of the above model. The Subscripts, t, denote time period of observations and in this present study t= 1984 – 2017.

### 3.2 Measurement of Variables

The variables adopted in the present study are measured below:

#### 3.2.1 Foreign direct investment (FDI)

The natural logarithm of the sum of FDI was used in this study to capture the degree of FDI inflow in Nigeria. This variable indicates the proportion of the economy that is made up of foreign direct investment.

#### 3.2.2 IFRS adoption (IFRS)

IFRS denotes the adoption of IFRS by a nation. This will be proxied as dummy '1' if the country has adopted IFRS and '0' otherwise.

### 3.2.3 Political unrest (POL)

POL captures the period of political unrest/instability by a nation. This will be proxied as dummy '1' if the country in a period experienced political unrest/instability and '0' otherwise. This measurement is adapted from the work of [47] who recognized four political instability dimensions (civil protest, politically motivated aggression, instability within the political regime, and instability of the political regime). This study introduced corruption into the dimensions which is a major political issue in developing nations.

### 3.2.4 Inflation rate

This is the rate at which the general level of prices for goods and services is rising and consequently, the purchasing power of currency is falling. This is usually measured in percentage.

### 3.2.5 Exchange rate

This is a measure of the currency of Nigeria and Ghana in terms of a foreign currency, usually in terms of the US dollars.

## 4. DATA ANALYSIS, INTERPRETATION AND DISCUSSION OF RESULTS

This study examined the association amid IFRS adoption and FDI in Nigeria and Ghana. This study made use of descriptive and inferential analysis to scrutinise the association amid IFRS adoption and FDI in Nigeria and Ghana.

## 4.1 Empirical Data Analysis

### 4.1.1 Descriptive analysis

From Table 1, the mean value shows the average value of the data set, the median shows the middle value for the variables while the maximum and the minimum tells us the highest and lowest value in the data set respectively. The standard deviation shows evidence of deviation from the sample mean. Also, examining the Jarque-Bera values and its probability, most of the variables examined in this study for Nigeria and Ghana are normally distributed because their values are greater than the 5% level of significance.

### 4.1.2 Correlation analysis

From Table 2, the correlation analysis shows the relationship between the independent variables and also to check for multicollinearity. With reference to the 80% benchmark as recommended by [48], it can be seen that there is an absence of multicollinearity between the variables because the highest level of correlation between variables is 0.79(79%).

## 4.2 Regression Result

From the result in Table 3. capturing the association amid IFRS adoption and FDI inflows in Nigeria, the R-squared value is 0.60(60%) while the adjusted R-squared value is 0.54(54%). This depicts that 54% of changes in the

**Table 1. Descriptive statistics of variables**

<b>NIGERIA</b>	<b>FDI</b>	<b>IFRS</b>	<b>EXR</b>	<b>INF</b>	<b>POL</b>
Mean	9.264598	0.176471	89.90176	19.74412	0.441176
Median	9.272780	0.000000	106.4650	12.70000	0.000000
Maximum	9.946510	1.000000	305.8000	72.80000	1.000000
Minimum	8.276840	0.000000	0.770000	5.400000	0.000000
Std. Dev.	0.461009	0.386953	79.84790	18.08646	0.503995
Jarque-Bera	1.193202	17.42484	2.222091	17.72824	5.671132
Probability	0.550680	0.000165	0.329215	0.000141	0.058685
Observations	34	34	34	34	34
<b>GHANA</b>	<b>FDI</b>	<b>IFRS</b>	<b>INF</b>	<b>POL</b>	<b>EXR</b>
Mean	8.214991	0.323529	21.54647	0.323529	0.938824
Median	8.152600	0.000000	17.30500	0.000000	0.630000
Maximum	9.542200	1.000000	59.50000	1.000000	4.350000
Minimum	6.301000	0.000000	7.100000	0.000000	0.000000
Std. Dev.	1.041573	0.474858	12.19689	0.474858	1.185595
Jarque-Bera	2.174127	6.125602	10.61735	6.125602	18.01453
Probability	0.337205	0.046757	0.004948	0.046757	0.000123
Observations	34	34	34	34	34

Source: Author's Computation (2019)

**Table 2. Correlation matrix**

<b>NIGERIA</b>	<b>IFRS</b>	<b>EXR</b>	<b>INF</b>	<b>POL</b>
IFRS	1.000000	0.672548	-0.210279	0.520988
EXR	0.672548	1.000000	-0.386969	0.304622
INF	-0.210279	-0.386969	1.000000	-0.061706
POL	0.520988	0.304622	-0.061706	1.000000
<b>GHANA</b>	<b>IFRS</b>	<b>INF</b>	<b>POL</b>	<b>EXR</b>
IFRS	1.000000	-0.470002	-0.075099	0.786007
INF	-0.470002	1.000000	0.211369	-0.410803
POL	-0.075099	0.211369	1.000000	-0.082194
EXR	0.786007	-0.410803	-0.082194	1.000000

Source: Author's Computation (2019)

**Table 3. Regression analysis of the relationship between IFRS adoption and FDI in Nigeria**

<b>Dependent Variable: FDI</b>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
IFRS	-0.351101	0.212212	-1.654483	0.1088
INF	0.002667	0.003264	0.817112	0.4205
POL	0.176321	0.126513	1.393703	0.1740
EXR	0.005300	0.000978	5.421576	0.0000
C	8.719662	0.131288	66.41649	0.0000
R-squared	0.598434		Mean dependent var	9.264598
Adjusted R-squared	0.543046		S.D. dependent var	0.461009
S.E. of regression	0.311634		Akaike info criterion	0.641081
Sum squared resid	2.816365		Schwarz criterion	0.865546
Log likelihood	-5.898383		Hannan-Quinn criter.	0.717630
F-statistic	10.80432		Durbin-Watson stat	0.725446
Prob(F-statistic)	0.000017			

Source: Author's Computation (2019)

dependent variable (FDI) can be explained by the dependent (IFRS) and control variables (INF, POL, EXR). The F-statistics shows a value of 10.80432 with a Probability value of 0.000017. This depicts the significance of the research model. The Durbin Watson value is 0.73 which shows presence of low serial autocorrelation which is usually present in time series data. Therefore, the model shows that there exists a significant association amid IFRS adoption and FDI inflows in Nigeria taking into cognizance the control variables (INF, POL, EXR).

The result further shows that there is a negative and insignificant relationship between IFRS adoption (IFRS) and FDI in Nigeria exhibiting a coefficient of -0.3511 with a P-value of 0.1088. This depicts that for every one unit increase in IFRS adoption will bring about at -35% decrease in FDI in Nigeria though not significant at 5% level. Also, the result shows a positive (0.002667) and insignificant relationship between INF and FDI in Nigeria. Furthermore, the findings reveal a positive (0.005300) and significant relationship between EXR and FDI in Nigeria.

Particularly, the findings reveal a positive (0.176321) and insignificant (0.1740) relationship between POL and FDI in Nigeria. These findings are in line with the study of [45] who posits that IFRS adoption on its own does not boost FDI inflows. The findings also flow with that of [20] who considered mediating variables and discovered that they boosted the IFRS-FDI nexus.

From the result in Table 4, capturing the association amid IFRS adoption and FDI in Ghana, the R-square value is 0.87(87%) while the adjusted R-squared value is 0.85(85%). This depicts that 85% of the changes in the dependent variable (FDI) can be explained by the dependent (IFRS) and control variables (INF, POL, EXR). The F-statistics shows a value of 46.97043 with a Probability value of 0.000000. This depicts the significance of the research model. The Durbin Watson value of 1.633793 shows absence of auto serial correlation in the model. Therefore, the model shows that there is significant relationship between IFRS adoption and FDI in Ghana taking into cognizance the control variables (INF, POL, EXR).

**Table 4. Regression analysis of the relationship between IFRS adoption and FDI in Ghana**

Dependent Variable: FDI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
IFRS	1.283686	0.249731	5.140278	0.0000
INF	-0.002925	0.006721	-0.435197	0.6666
POL	-0.806077	0.152484	-5.286300	0.0000
EXR	0.229141	0.096798	2.367209	0.0248
C	7.908374	0.193144	40.94554	0.0000
R-squared	0.866287	Mean dependent var		8.214991
Adjusted R-squared	0.847843	S.D. dependent var		1.041573
S.E. of regression	0.406289	Akaike info criterion		1.171549
Sum squared resid	4.787051	Schwarz criterion		1.396014
Log likelihood	-14.91633	Hannan-Quinn criter.		1.248098
F-statistic	46.97043	Durbin-Watson stat		1.633793
Prob(F-statistic)	0.000000			

Source: Authors Computation (2019)

The result further shows that there is a positive and significant relationship between IFRS adoption (IFRS) and FDI in Ghana exhibiting a coefficient of 1.283686 with a P-value of 0.0000. This depicts that for every one unit increase in IFRS adoption will bring about at 1.284 increase in FDI in Ghana which is significant at 5% level. Also, the result shows a negative (-0.0029) and insignificant (0.6666) relationship between INF and FDI in Ghana. Furthermore, the findings reveal a positive (0.229141) and significant (0.0248) relationship between EXR and FDI in Ghana.

Particularly, the findings reveal a negative (-0.806077) and significant (0.0000) relationship between POL and FDI in Ghana. These findings are in tandem with the empirical findings of [42,44,43].

## 5. CONCLUSION

The research objective was to explore the association amid IFRS adoption and FDI inflows in the context of Nigeria and Ghana for the period 1984– 2017. Hence, this study utilized the pooled ordinary regression to achieve its research objective. This research was steered to offer some proof of the macroeconomic consequences of IFRS adoption in emerging nations. Explicitly, this study offers empirical proof on the association amid IFRS adoption and FDI inflows in Nigeria and Ghana. This was done by ascertaining the role that Inflation, Exchange Rate, and Political Instability play in the IFRS-FDI nexus. The findings show that:

- i. A negative and non-significant association amid IFRS adoption and FDI in Nigeria.

Also, by inference, when modelled, IFRS adoption alone does not significantly influence FDI inflows. Additional analysis concerning the impact of IFRS adoption and the control variables in the study yields a statistically significant association with FDI. This affirms that Inflation, Exchange Rate, and Political Instability significantly controls the association amid IFRS adoption and FDI inflows.

- ii. A positive and significant association amid IFRS adoption and FDI inflows in Ghana. Also, with application of the mediating variables, the findings still show a significant association. This depicts that IFRS adoption in Ghana has yielded direct benefits in terms of FDI inflows.

Based on the research findings, adopting IFRS for financial reporting purposes would be a support system in enticing FDI inflows to a nation but its adoption alone is inadequate to spur FDI inflows to a country unless other factors affecting FDI inflows are considered. This study provides vital contributions to scholars as well as other interested parties because it discloses that there exist other stringent factors that affect FDI inflows which may dilute or boost the positive effect of IFRS Adoption. These discoveries have significant inferences for policies in emerging nations.

In light of these research findings, the accompanying suggestions are made:

- i. Effective execution of IFRS requires strategic planning. This depicts that IFRS ought to be linked to an objective for it to have a beneficial outcome.

- ii. IFRS adoption ought not be applied as a stand-alone plan, but in tandem with other policies and strategies to ensure the economy is ripe for FDI inflows
- iii. However, this study was not able to utilize all of those determinants as control factors. Along these lines, this study proposes that for future examination, more control factors ought to be considered.

### COMPETING INTERESTS

Authors have declared that no competing interests exist.

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