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Mandatory International Financial Reporting Standard Adoption and Foreign Direct Investment

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Abstract
This study examined the mandatory International Financial Reporting Standard Adoption in Nigeria and its effect on Foreign Direct Investment in Portfolio. Data were mainly gathered from various issues of quarterly publications of the Central Bank of Nigeria Statistical Bulletins. Analysis of data was done through the use of descriptive statistics and pair t-test analysis. Findings show that there was an initial increase in Foreign Direct Investment into the country in the year of adoption and a year after. But a decline occurred in 2014 and 2015 which can be referred to as post adoption period. It is recommended that the government should be more transparent and maintenance of security of life and property should be prioritized.

Keywords: harmonization, convergence, foreign direct investment, IFRS.

INTRODUCTION

The International Financial Reporting Standards (IFRS) is a form of accounting pronouncements that is published by the IASB to assists in the financial report preparations, all over the world there is a desire to have a financial information that is transparent, comparable , uniform and of a high quality (IASB,2001)the harmonization of various accounting principles and the changes that brought IFRS development had been a subject of discussion among scholars all around the world, both develop and developing countries are undergoing transition to a unify system of accounting reporting. Accounting standards (GAAP systems) had made attempts to reduce information asymmetry by controlling financial reporting through legislations. The financial reporting system is described as mechanism that is designed to reduce information asymmetries between market practitioners (Gassen & Sellhorn, 2006.) The International Accounting Standard Board (IASB) aims to have one set of accounting standard that is understandable, that is of high quality and an accounting standard that encourage transparency when preparing financial statement. IASB (2010) wishes to design accounting standard that meet the fundamental theory of accounting reporting that measures economic activity in and outside the stock exchange market.

The adoption of the International Financial Reporting Standard (IFRS) had been proven through various researches to enhance accounting information quality few nations, thereby making financial statements to be more useful to the users of financial records. Many nations of the world possess their domestic accounting standards that are developed, regulated and issued by their respective local standard setting bodies before the campaign for global convergence to International Financial Reporting Standards (IFRS).The Nigerian Accounting Standards Board (NASB) developed, issues and regulate accounting standards since 1982 in Nigeria till July 20th, 2011 when the Financial Reporting Council Bill was signed into law. Globalization and internationalization of the stock market had made IFRS to be popular, IFRS had become a world standard that was set and based on principles of accounting standards developed and issued by the International Accounting Standards Board (IASB) to assist in public company financial statements preparation. Every countries of the world are required to adopt IFRS in preparation of accounting financial statement, as at December, 2013, about 150 countries are reported to have adopted IFRS (Umoren & Enang, 2015).

The motivation for this study come from the various benefits that were attributed to the adoption of IFRS by countries that among other benefits that after the adoption of IFRS Nigeria will enjoy inflows of Foreign Direct Investment into the country, since there will be uniformity and comparability in the financial statement pre pared in the country. This implies that foreign investor shall be able to assess and examine the financial records where interpretations shall no longer cause any hindrance to investment decisions.

The motivation for the study lead to the objectives of study which intend to examined whether the after the mandatory adoption of IFRS in Nigeria there have been an increase in the inflow of foreign direct investment into the country compare to the period when the country was using the Nigeria Generally Accepted Accounting Principle (NGAAP)

The Need for IFRS Mandatory Adoption by Nigeria

Umoren and Enang, (2015) stated that main reason for adopting a single set of standard is to help countries to have an internally consistent accounting standard with high quality and meet global standard. Therefore need for a global harmonization of accounting standard or for an international standard setter that will meet the following criteria;

(i) To examines the increasing desire to have international accounting standards.
(ii) To ensure that no single standards setter possess the best solutions to accounting challenges.
(iii) To make sure that there is no single domestic standard setter should have the only power to provide the best answer to accounting challenges and issues.
(iv) To make it known that there are lot of financial reporting areas where local accounting standards setter finds difficult to decide on their own.

The process of adoption or convergence received a significant attention in 2002 when the European Union adopted a regulation 1606/2002 requiring all public companies in the territory to convert to IFRSs beginning in 2005 (Iyoha and Faboyede, 2011). African countries including Nigeria, Ghana, Sierra Leone, South Africa, Kenya, Zimbabwe and Tunisia among others have likewise adopted or made their intentions to adopt the standards know. Nigeria adopted IFRS in September, 2010. The Honourable Minister, Federal Ministry of Commerce and Industry, Senator Jubriel Martins-Kuye (OFR) announced the adoption according to Madawaki, 2012. The adoption was made to begin with Public Listed Companies in 2012 and by 31st December, 2014 all other stakeholders would have converged. Meanwhile banks in Nigeria have fully adopted IFRS as shown in their financial statement (Abata, 2015). Uniform accounting standard was refer as a welcome ideal for developing economies most importantly to nations that had no resources to create their own standards (Okpala, 2012).

Conceptual Framework

Obazee (2007) suggested that convergence could be either through adoption or when there is a complete change from a nation's accounting standards to IFRS or by adaptation or by modifying the IASB's standards to meet the requirements of its country's market and business without either compromising the accounting guidelines or the necessary requirements that need to be disclosed in respect to IFRS's standards. Convergence wishes to bring standards such as the US GAAP and IASB's standards closer so as to harmonies them in order to produce an identical standard that will have two types of approaches to IFRS adoption around the globe: convergence and endorsement approaches, SEC (2010) classed those that do not change to IFRS as issued by the IASB as nations that converge to IFRS as following the convergence approach.

Alajekwu & Achugbu, (2012) worked on the role of stock market development on economic growth in Nigeria, the study carried out a 15-year time series analysis from 1994-2008. The research method adopted use stock market capitalization ratio as a proxy market size while value traded ratio and turnover ratio were used as proxy market for liquidity. The findings revealed that market capitalization and value traded ratios have a very low negative relationship with economic growth while stock market capitalization has a high positive relationship with stock turnover ratio. The result implies that liquidity has a tendency to achieve economic growth in Nigeria and the market capitalizations have effects on market liquidity. It was recommended that government should make laws that will enhance the interest of local investors in Nigeria as this might improve positively investors' interest and improve stock exchange market trading. Earlier,

Ibiameke & Abanyan (2010) carries out a research on the usefulness of financial statements to investors in Nigeria, they recommended that the Nigeria Security and Exchange Commission (SEC) should mandate all quoted companies in the country to adopt IFRS in the preparation their financial statements.

Hypothesis Development

The study carried out by Ibiamke & Abayan, (2010) test whether financial statements are useful to investors in Nigeria and whether the adoption of International Financial Reporting Standards (IFRS) has any impact on the value relevance of financial statements in Nigeria. The study used an innovative research design known as "same year-firm" design. Same year firm design is a research design that varies GAAP in the sample composition while the sampled firms and period remains the same. The study comprises two models and the sample of 35 Nigerian quoted companies. The first model contains two important accounting measures namely book value per share and earnings per share to test whether they are reflected in equity prices. The second model extends the first by including adjustments of book value and earnings to IFRS to see whether such adjustments convey any new information to investors. The study found that the adoption of IFRS has resulted to a significant increase in financial statement value relevance.

In recent time business has become globalized and this has made significance impact on national identity of a country.In Okafor & Ogiendu (2011) it was predicted that the adoption of IFRS will improve foreign direct investment when there is improvement on uniformity and comparability among firms in Nigeria. Existing academic literature stated that improved comparability will likewise encourage across the border listing investments; previous studies further reveal that investors are reluctant to make cross-border investments because of the high costs of acquiring and processing information about foreign companies (Kang &Stulz 1997; Bradshaw, Bushee & Miller 2004; Chan, Covrig, & L. Ng. 2005; Covrig, DeFond, & Hung. 2007). Therefore this led to the first hypothesis which states that;
H_1; There was a significant increase in FDI in Nigeria immediately after the mandatory adoption of IFRS.

Researchers such as Zeghal & Mhedhbi, (2006); Hassan, Romilly, Giorgioni, &Power, (2009); Gyasi, (2010) argued that international accounting convergence assist developing economies to have a financial statement that is well prepared and with good accounting quality framework and principles Cerne (2009) argued that the accounting information that are prepared in relation to developed nation's accounting systems are irrelevant to the decision models of developing nations. He explained that the final decision to converge to IFRS by developing nations should depend on whether there are motivating factors or demotivating factors in these countries.

Irvine and Lucas (2006) stated substantial benefits that had been proposed by the convergence of IFRS, which include increase in capital movements, reduction in cost of capital, more efficient resource allocation, increase in comparability of financial statements and decrease in earnings managements. In Armstrong, Bath, Jagolzer & Reild (2007) they found out in their study that investors desires benefits after IFRS adoption in Europe, such benefits like improvement in information quality of financial statements and reduction in information asymmetry.

Though, IFRS became effective in 2001 in European countries it was aimed at the provision of a uniform high quality and globally acceptable accounting standards that is enjoyed by develop and developing countries so as to enhance comparability of accounting report by its users and encourage total confidence in the report, as well as assist businesses that wish to enter the stock market where full application of IFRS is required. (Armstrong et al ,2007, IASB 2009, Iyoha & Faboyede, 2011, Iyoha & Jafaru, 2011, Ikpefan & Akande, 2012, Kargin, 2013, Odia & Ogiendu, 2013, Okoye, Okoye & Ezejiofor, 2014, Umoren & Enang, 2015).

In Asein (2010) Nigeria was reported to have an estimated population of 2144 151 .541 million, this imply that the country happened to be the largest African market for goods and services. The estimated Gross Domestic Product (GDP) amounted to US$214.4 billion in 2008. While 864,902 companies were registered with the Corporate Affairs Commission, 26 are licensed commercial banks, 49 insurance companies and 2 are reinsurance companies. The Nigeria stock exchange has 216 listed companies with a market capitalization of N5.4 trillion about US$35billion as at January 13, 2010.

Nigeria has been perceive to be a risky country, Obazee (2010) observed that the decrease in inflow of cross-border Investments in Nigeria are attributed to poor and limited reporting system of businesses in the country in terms of disclosure level of financial statements. Since this firms find it difficult to provide investors with required and sufficient economic information which can assists in understanding the risk and economic profile of the entity in to make decisions and economic judgments.

Though as mentioned earlier business has become more global and this has a significant part on financial national identity. Though Nigeria is part of this globalization, Nigeria companies have raised capital from international stock markets, likewise there lot of Non-Nigerian issuers. Better information is also required to enhance comparability among countries, in competition for foreign investments (Ovute & Eyisi, 2014). The second Hypothesis;

H_2; there was a consistent increase in Foreign Direct Investments in Nigeria after the Mandatory Adoption of IFRS

The expectation of this study is to examine the impact which the mandatory IFRS adoption by the country whether it Led to improve Foreign Direct Investment as it has being predicted and evidenced in other countries.

Iyoha, (2011) emphasized that comparability facilitates investors' resource allocation decisions and improves investor confidence. Comparability is not a characteristic of a particular item of information, but rather a characteristic of the relation between two or more items of information. In the context of mandatory regulations in Nigeria, this means that comparability is not an inherent characteristic of regulations, but rather a potential outcome of the adoption of a common set of accounting standards and rules across firms in Nigeria.

Foreign Direct Investment was defined by Kumar, (2007) as the creation of a long term relationship with enterprises in foreign countries; it is the foreign direct inflows of investments in portfolio into the economy. Okpala, (2012) stated various advantages of FDI in an economy such as; Domestic export opportunities, Technology transfer, provisions of long-term relationship with enterprises in foreign countries

Benefits of Foreign Direct Investment (FDI) to an Economy

FDI can help developing economies by providing the capital to start business so that they can grow and contribute to a company's GDP. When businesses are given chances to develop this can create jobs which should in turn increase consumption and then lead to economic growth. Since the benefits of FDI generally outweigh the negatives, but that does not mean disadvantages do exist.

As mentioned in Okpala (2012) foreign investments will bring their technical knowledge and understanding of a particular market to the business that they are investing in. most pf the time foreign investments, have accumulated wealth from successful ventures in the fields they invest in so their enterprise can bring a fresh perspective to the target market benefit derive by.

Apart from the countries that enjoy foreign direct investment, the investors also have benefits that they derived, such as economic of scale that can be gained directly while investing in another country. These include the potential for using local goods and services to reduce transport costs, a local workforce that understands the nuances of the domestic market and using favourable domestic conditions to produce output for other countries. Therefore, making businesses to be more competitive, production of superior goods and services at cheaper prices, for example Telecommunication services in Nigeria.

Downslides to Foreign Direct Investments (FDI)

1. In Nigeria governments were criticized for making policies that suit foreign direct investments investors generally, than they suit the needs of domestic investors and the public. The government of the former President Olusegun Obasanjo was criticized for allowing the telecommunication corporations to have excessive profit.
2. Foreign Direct Investors most of the time has greater spending power than the average domestic investors. This can make the domestic investors to be price out of the market.
3. Foreign Direct Investors were also criticized that they are merely a tool that is use to enter a foreign market to avoid protectionist trade policies that are used against importers for example Dangote Cement in Cameroun.

Theoretical Framework

Value relevance is described as the ability of a financial statement to gather and summarized necessary information needed to be disclosed in relation to enterprises worth (Tharmila and Nimalathasan, 2013).The information provided by financial statements along with capital market returns is used as a measuring tool through their statistical relationship to measure value relevance. The main objective of financial statements is to make available relevant information about an organization in order to assist investors and other users to make better decisions (Germon and Meek, 2001). Prediction of future actions is based on amount of knowledge gathered by users of financial statement, which aid their decision capacity.

Also the signaling theory provide the sign given by an high quality financial statement through the information provided to an investor, for example two firms wishes to borrow from a bank, one firm was able to provide a better collateral compare to the other firm this implies that the firm with the collateral has sent a signal to the bank that it is less risky. Allen & Faulhaber (1989) through an empirical evidence developed a model which is consistent with the observation that made the assumption that firm with most favourable prospects find it optimal to signal their issue of shares and investors know that only the best can recoup the cost of this signal from subsequent issues. In Grinblatt & Hwang (1989) and Welch (1989) as cited in Allen & Faulhaber (1989) stated that underpricing is a signal that a firm is good.

Research Method

This study used mainly secondary source of data, where data are sourced through Published financial reports of Central Bank of Nigeria quarterly bulletin. This is a quantitative research because of the use of statistical analysis since variables have been mathematically measured. Under this research design data relating to the variables are collected at about the same time to basically describe the relationship between the variables under study. The research is to examine whether there have been any evidence of foreign investment attraction into the country after IFRS adoption.This study adopted the use of observation and review of performance; through publish reports from regulating institution like the Central Bank of Nigeria (CBN) quarterly statistical bulletins

This research involves analyzing information from statistical reports while pair-t test was used to test the relationship between the pre and post adoption values of the independent variables. The pair t-test analysis was used to analyze the pre and post adoption period of FDI inflows into the country.

Model Specification

$$Y= \beta_0 + \beta X_1+\varepsilon \quad (1)$$

Equation 1 can be defined as;

$$IFRSMDA = \beta_0 + \beta_1\ PEMFDI + \beta_2\ POMFDI \quad (2)$$

Where;

IFRSMDA =International Financial Reporting Standard Mandatory Adoption

PEMFDI = Pre Mandatory Adoption Value of Foreign Direct Investment was measured using value publish in the different issues of CBN statistical bulletin on foreign direct investment in portfolio between 2010 and 2011.

POMFDI = Post Mandatory adoption value of Foreign Direct Investment was measured using value publish in the different issues of CBN statistical bulletin on foreign direct investment in portfolio between 2013 and 2015.

β = Coefficient of parameters

ε= error term

$_{(1-t)}$= time coefficient.

FINDINGS

The Central Bank of Nigeria was the main source of data used to achieve the objectives of this study. The information was interpreted using pair t-test for analysis of data. The findings in this work agree with the study carried out in Okpala, (2012) that there was no significant relationship between IFRS adoption and FDI in Nigeria, the finding shows that there was an increase in foreign direct investment in portfolio immediately the country adopts IFRS that is in 2012, though the difference were not significant this agrees with prediction made in Okafor &Ogiedu, (2011)

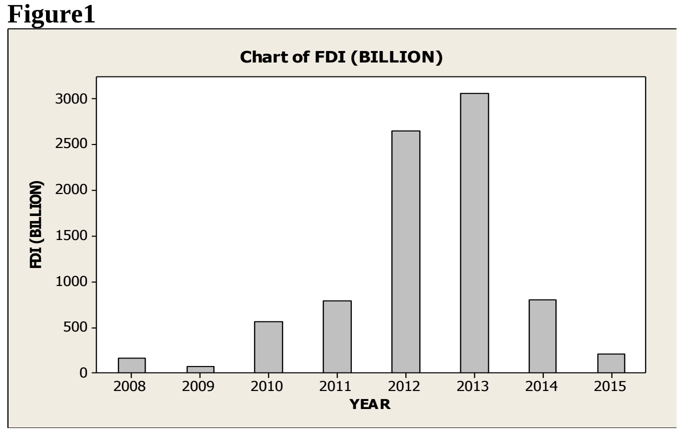
Table 1 shows the value of foreign direct investment in portfolio from year 2008 to 2015 in billions of Naira. While the highest value for FDI was recorded in 2012 and 2013 respectively.

Table1 Foreign Direct Investment in Portfolio between 2010 and 2015

S/N	YEARS	FDI #'billion
1	2008	157.16
2	2009	70.14
3	2010	556.59
4	2011	792.36
5	2012	2647.62
6	2013	3,059.47
7	2014	793.94
8	2015	208

Though a drastic inflow was witness immediately the country adopt IFRS in 2012 and the increase was sustain till 2013, until 2014 when there was a decline. These findings in 2012 and 2013 agree with the findings made in (Mark et al, 2010; Okafor & Ogiendu, 2011; Okpala, 2012; Odia and Ogiendu, 2012, Abata, 2015) that having a uniform standard in the preparation of financial statement will improve cross-border investment. But 2014 witness a serious decline in FDI in portfolio which might be as a result of the country' peculiarity as mentioned in Okpala, (2012).

Figure1



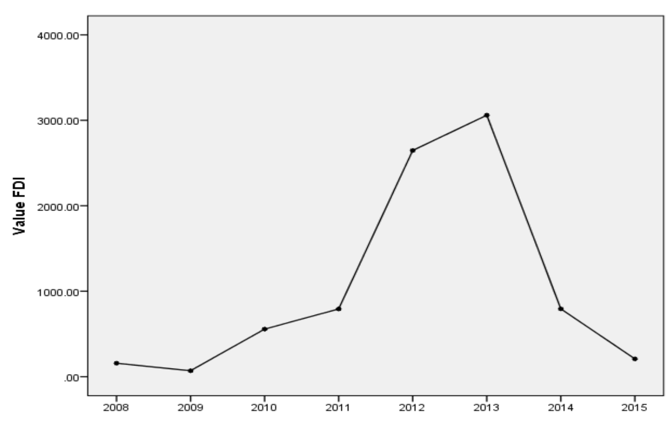


Figure 2 above shows the movement of FDI from 2008-2015, there was an increase in 2012 and 2013 but this increase could not be sustained in 2014 and 2015.

Table 2 Paired Sample Statistics
FDI Analysis
T-Test

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre	473296666666.6667	3	367851924873.76404	212379407847.78964
	Post	1269005706666.6667	3	1298467491055.10470	749670555494.64270

The table above shows the mean and standard deviation with the standard errors of mean for pre and post adoption period for Foreign Direct Investments from 2010-2015, where 2010-2011 were pre adoption periods, and 2013-2015 were the post adoption periods.

Table 3; Paired Samples Correlation and Paired Samples Test

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	pre & post	3	-.992	.080

There is a negative correlation (-.992) between the pre and post adoption period as shown in table 4.3.6 and a significant level of .080

There is a negative correlation (-.992) between the pre and post adoption period as shown in table 4.3.6 and a significant level of .080.

Table 4

Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	pre – post	-795709040000.00000	1664079622540.94210	960756818026.98380	-4929511985709.21000	3338093905709.20950	-.828	2	.495

This table 3 shows that there is a very strong negative relationship (R= -0.992) between the pre and post adoption in FDI. This simply means that as the FDI decreased during post adoption period, it increased during pre-adoption period.

Table 4 above indicates that the t-value is -0.828 with degree of freedom of 2 and significant value is 0.495. We then conclude that the test is not significant, that is there is no significant difference in FDI in post and pre adoption period. However, looking at the mean for the pre-period and post period, it shows that the FDI is high in post-period compared with pre-period but not significant.

CONCLUSION

This finding contributed to knowledge in respect of FDI inflows into the country because the sustenance of FDI is relevant since it is very easy for the investors to withdraw their investment any time therefore after the adoption of IFRS and subsequent inflow of FDIs, sustenance of tempo is important so as not to witness a decline as evidence in 2014 and 2015 due to the uncertainty of the political atmosphere in the country.

POLICY IMPLICATION OF FINDINGS

1. It was evidence that there was significance increase in foreign direct investment in portfolio after the mandatory adoption in January, 2012.
2. There was a higher increase in foreign direct investment in portfolio between 2013- 2015 which was the post adoption period.

Meanwhile the increased in foreign direct investment is not dependent on the adoption of IFRS only in Nigeria because after the increase in 2012 and 2013, 2014 and 2015 witnessed a decline in FDI, if this should persists to the end of 2015, that means the country is following the law of diminishing return on FDI, since foreign direct investments also depends on other non- financial implications such as transparency in governance, accountability, security of life and properties. Okpala, (2012) attributes decline in flow of foreign investments to political unrest in certain section of the country in 2010.

POLICY RECOMMENDATION

1. It is recommended that to have Foreign Direct Investment, there should be an enabling environment free of insecurity and uncertainty.
2. The government should make economic laws that will attract foreign investors into the country. Government should be transparent, accountable and exhibit body language that give room for global world practices in financial regulations.
3. The theory of value relevance of financial statement should be employ; there should be full disclosure of financial report concerning businesses in the country.

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