INTERNATIONAL FINANCIAL REPORTING STANDARD, TRADE AND FOREIGN DIRECT INVESTMENT IN SUB-SAHARA AFRICAN COUNTRIES

By

EFOBI Uchenna Rapuluchukwu
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APRIL, 2017

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A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES OF COVENANT UNIVERSITY, OTA, OGUN STATE, NIGERIA

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APRIL, 2017

ACCEPTANCE

This is to attest that this thesis is accepted in partial fulfillment of the requirements for the award of the degree of **Doctor of Philosophy in Accounting** in the Department of Accounting**,** College of Business and Social Sciences, Covenant University, Ota.

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DECLARATION

I, **EFOBI, Uchenna Rapuluchukwu**, (CU021010062), declare that this research was carried out by me under the supervision of Professor Iyoha F.O. of the Department of Accounting, Covenant University and Dr. Uwuigbe U. of the Department of Accounting, Covenant University, Ota. I attest that the thesis has not been presented either wholly or partly for the award of any degree elsewhere. All sources of data and scholarly information used in this thesis are duly acknowledged.

EFOBI, Uchenna Rapuluchukwu   ……………………..
                                                                                        Signature & Date

CERTIFICATION

We certify that the thesis titled "International Financial Reporting Standard, Trade and Foreign Direct Investment in Sub-Saharan African Countries" is an original work carried out by EFOBI Uchenna Rapuluchukwu (CU021010062), in the Department of Accounting, College of Business and Social Sciences, Covenant University, Ota, Ogun State, Nigeria, under the supervision of Prof. Iyoha F.O. and Dr. Uwuigbe walomwa, U. We have examined and found the work acceptable for the award of a degree of Doctor of Philosophy in Accounting.

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DEDICATION

This research is dedicated to the Almighty God, who has given me the wisdom and the inner strength to complete this project.

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Uchenna Efobi, 2017

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ABSTRACT

Since the promulgation of IFRS as a result of the metamorphosis of the International Accounting Standard Board from the International Accounting Standard Committee in 2001, improved global capital flow and trade were identified as some of the outcomes from using IFRS for global financial reporting practice. Due to the fact that IFRS includes more realistic measure of accounting numbers and promotes better disclosure of accounting transactions, it is adjudged as a better form of financial reporting practice. Thus it reduces information asymmetry between preparers and users of financial information and promotes better disclosure and lowers cost of monitoring of subsidiaries and information barriers to cross border investments and trade. The rising global campaign for developing countries, including those in Africa, to adopt IFRS, still requires further examination as to its impact. More so, Africa is confronted by poor institutional framework and accounting infrastructure, and based on this, the consequent effect of IFRS adoption on trade and investment require empirical clarification. In essence, three important questions were asked: (i) to what extent has IFRS adoption enhanced trade flow of selected African countries? (ii) How has IFRS adoption impacted on the volume of FDI inflow to selected African countries? (iii) to what extent has the development of the accounting infrastructure in the selected African countries' affected the influence of the adoption of IFRS on trade and FDI inflow. In answering the research questions, a panel data, consisting of 48 African countries were gathered and for the period 2002 – 2014. The econometric model were sourced from different database including the World Bank's World Development Indicator, the United Nations Conference on Trade and Development Statistics and the Price Water House Coopers data on the extent of IFRS adoption around the world. The data were estimated using three approaches: the Ordinary Least Square regression, the Random Effect approach and the system GMM. The three estimation methods are deemed important considering their merits and weaknesses; thus, a multiplicity of methods will help for sensitivity checks. The key results from the study include that African countries will benefit more from IFRS by improving their institutional framework and more so through the development of accounting infrastructure.

Keywords: Accounting Information; Accounting Standards; Foreign Direct Investment; Financial Reporting; Institutions: Trade

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

There is a new direction to foreign trade and foreign capital flow which is given prominence due to globalization. This is based on the fact that African countries are beginning to attract foreign investment and are becoming more competitive in the international market (Asiedu and Lien, 2011). The gains derivable by countries from globalization include improved trade and attraction of foreign capital to sustain domestic investment, which can result to improved economic growth and productivity, increase in balance of payments position and employment, crowd-in of domestic investment and technology spill-over (Agosin and Mayer, 2000).

Trade includes the exchange of goods and services between countries. The trend for African countries, using the component of trade, reveals that African countries have relied more on the trade of goods-agricultural products and natural resources (World Bank, 2012). The volume of trade in services for African countries is still dismal as the level of industrial development and technology utilization is low. Dwelling on this, extant consensus has it that African countries over reliance on trading of agricultural and natural resource goods is as a result of the fact that most of the economies are undiversified (Douglas, 2013). This implies that African countries depend on a 'restricted' trading basket and there is the need to expand on the categories of products that are traded.

African countries have also depended on Foreign Direct Investment (FDI) for the improvement of her growth and development (Asiedu, 2006). This includes net inflows of foreign investment into other economies other than theirs, with the aim of acquiring a lasting management interest that may be 10 percent or more of voting right in another enterprise (World Bank, 2012). It includes the addition of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as identified in the balance

of payments of the country. Consensus has it that the focus of FDI inflow into African countries is natural resource and market driven. The consequences of this form of FDI are that they crowd out domestic investment and under-develop the market base of the country (Agosin and Mayer, 2000). Despite this, African countries still depend on FDI inflow as they have been attributed to contribute to the productive capacity of the country, improve employment and local capacity utilization, among others (Pigato, 2001).

The trend of Africa's trade and Foreign Direct Investment (FDI), in the past decade, has improved as a result of globalization. The statistics from World Bank (2012) reveal that between 1980 and 1990, Africa's trade contributed beyond 50 percent of the total output of her economy, while FDI inflow grew from 0.09 percent to 0.43 percent. Likewise, trade volume of African countries between 1990 and 2000 further increased from 63.71 to 75.89 percent in 2008 and then reduced to 64.75 percent in 2010. FDI contribution (between 1990 and 2000) was 1.97 and then 3.67 percent in 2008 and 2.29 percent in 2010 (World Bank, 2012).

The need for improved trade flow and FDI inflow around the world has brought about a demand for uniform financial reporting language. This is with regards to the comparability and uniformity of financial reports across different countries. Ashcroft, Chevis and Smith (2008) noted that the need for uniformity in financial reports was caused by the increase in the global integration caused by trade and financial asset flow between countries. Portes and Reys (2005) also earlier noted that global integration of financial reporting is much more important than the diversifications opportunities in foreign market. This is because financial reporting uniformity is demanded by many international organizations and regional economic communities.

In 2003, the International Accounting Standard Board (IASB) released the IFRS as an international standard which is expected to foster uniform financial reporting across countries. Since 2005, over a 100 countries around the world have adopted the standard. Focusing on Africa, about 34% of countries in Africa have either required all listed

companies on their stock exchange to utilize the IFRS for financial reporting or have shown interest in adopting the standard in a later date (Deloitte, 2012).

The adoption of IFRS will enhance financial reporting comparability and lower information asymmetry, thereby improving international capital mobility (Portes and Rey, 2005). This is supported by the fact that better information symmetry, will improve foreign investment and international trade in goods. Besides, some studies such as Marquez-Ramos (2012) have observed that a country's decision to adopt IFRS will boost trade competitiveness and FDI inflow. However, the relative impact of the adoption of IFRS on trade and FDI in Africa has not been given considerable attention. The current literature in Africa that relates to this issue and featured in scientific database have focused on the level of compliance by companies after the adoption of IFRS (Yahaya, and Khadijat, 2011); the general implication of the adoption of IFRS in Nigeria (Iyoha and Faboyede, 2011; Madawaki, 2012); financial statement effect of IFRS adoption by African countries (Okpala, 2012); perception based analysis of mandatory adoption of IFRS in Nigeria (Adeyemo, 2013); the adoption of IFRS in relation to curriculum development (Onuoha, 2013); the effect of the adoption of IFRS on the stock market performance of African countries (Okoye and Ezejiofor, 2014).

In this study, emphasis was given to the effect of the adoption of IFRS on trade and FDI by focusing on some selected African countries for which data were available. Apart from investigating this relationship, the role of the development of indigenous accounting infrastructure was also examined as it is suspected that the effect of IFRS adoption is conditional on the level of development of the indigenous accounting infrastructure of the country. Put differently, the effect of the adoption of IFRS by African countries cannot be examined in isolation. This is because it is plausible for IFRS to have minimal impact on the trade and FDI inflow of countries, depending on the strength of the indigenous professional accounting body. Accounting infrastructural development connote the presence of professional accounting bodies and professionals to complement the adoption of IFRS in informing trade and FDI flow.

When countries' adopt IFRS, for instance, the switch from national GAAP to IFRS will signal a favourable business environment for FDI, especially with monitoring their subsidiaries in the country. However, sustaining the FDI inflow will require a well-developed accounting system and available professionals to be hired for the preparation of financial reports. This is following the argument of Oxley, Le and Gibson (2008) who emphasized that the people in a society are critical for sustainable development. In this context, development connotes all factors that can improve the well-being of the society such as trade and FDI. This calls for human capital development, in terms of education and professionalism. This will also be empirically considered in this study.

1.2   STATEMENT OF RESEARCH PROBLEM

Over the last decade, some African countries are waking up to the need for the adoption of IFRS. There are a number of reasons put forward to justify their decisions. On one stance, some have argued that the decisions to adopt IFRS are as a result of colonial imperialism (Nnadi, 2011). Amiram (2009) argued that the need to improve foreign capital inflow, trade competitiveness by the reduction of cost of access to information and asymmetry of information are possible reasons for the adoption of IFRS. This is apart from other reasons put forward for IFRS adoption such as network effect and net political value (see Ramanna and Sletten, 2009; Iyoha and Faboyede, 2011).

Given the reasons for IFRS adoption and the possible implication, debate on the relationship between trade, FDI and IFRS adoption is inconclusive. Some studies have noted that IFRS adoption improves the trade and foreign capital flow of the adopting countries (Ramos, 2008; Gordon, Loab and Zhu, 2012). While some other stance emphasize that it is not necessarily IFRS that improves trade, but countries that trade more and depend on FDI are more likely to adopt IFRS (Ramanna and Sletten, 2009; Ramanna and Sletten, 2010). This debate is not even considered when zeroing in to IFRS adoption literatures that have focused on the African context. At best, the conclusion in Afrocentric IFRS adoption literature have climaxed on considering the level of compliance by companies after the adoption of IFRS (Yahaya, and Khadijat, 2011); the implication of the

adoption of IFRS in Nigeria (Iyoha and Faboyede, 2011; Madawaki, 2012); financial statement effect of IFRS adoption (Okpala, 2012); perception based analysis of mandatory adoption of IFRS in Nigeria (Adeyemo, 2013); the adoption of IFRS in relation to curriculum development (Onuoha, 2013); the effect of the adoption of IFRS on the stock market performance of African countries (Okoye and Ezejiofor, 2014).

Noting the inconclusiveness of the literature on the linkage between IFRS adoption, FDI and trade, and the incongruity of this debate in the African context, this study took this up by further investigating into the relevance of IFRS adoption on the volume of trade and FDI attractiveness of the adopting African country. The approach of this study is unique considering that the conclusions reached by non-African literature, on the FDI-Trade implication of IFRS adoption, made use of panel data that comprise of both developed and developing countries. The pitfall in this mixed sample is that, the combination of data of countries from different regions will result to an inefficient conclusion as a result of heterogeneity in the structures of the economic system (i.e. political, social and economic structures), thereby implying that conclusions reached in those studies may not be generally applicable. This has possibly accounted for the inconclusive debate on the impact of IFRS adoption on countries trade and FDI.

This study also observes that some of the non-African studies (e.g. Gordon, Loeb and Zhu, 2012) have considered a linear relationship between IFRS adoption, trade and FDI. This implies that they have considered the adoption of IFRS as having a direct impact on trade and FDI without being conditioned on any other intervening variable. However, in this study, the role of some intervening variables was suggested based on the intuition that IFRS adoption will only have an impact on trade and FDI when certain structures are in place to facilitate this process. A country's decision to adopt IFRS will signal to the international community that the business environment in the country is conducive for investment. This is especially for FDIs that will require the adoption of IFRS for easy control and supervision of their subsidiaries in host countries. However, for sus-

taining the FDI inflow and trade, institutional, professional and human capital infra-structure will be needed. For instance, a country that adopts IFRS and has stringent busi-ness regulations will not be able to attract FDI. Likewise, a country that adopts IFRS but have poor professional accounting bodies and low human capital (such as education) will not have the capacity to sustain the inflow of FDI. This was not considered in extant studies and in this study, there was an examination of the interaction term between the prevailing indigenous professional accounting infrastructure and IFRS adoption out-comes.

1.3 OBJECTIVES OF THE STUDY

The main objective of the study is to empirically determine the impact of IFRS adoption on Trade and FDI in Africa. The specific objectives of this study are to:

I. Examine the extent of relationship between the adoption of IFRS and trade in-flow in selected African countries.
II. Determine the extent of relationship between IFRS adoption and the volume of FDI inflow to selected African countries.
III. Examine the extent to which the level of the accounting infrastructure within the selected African countries affects the IFRS, trade and FDI nexus.

1.4 RESEARCH QUESTIONS

The following research questions will be considered in this study:

I. To what extent has IFRS adoption affected trade flow of selected African coun-tries?
II. How has IFRS adoption impacted on the volume of FDI inflow to selected Afri-can countries?
III. To what extent has the development of the accounting infrastructure in the se-lected African countries' affected the IFRS, trade and FDI nexus.

1.5 RESEARCH HYPOTHESES

The research hypotheses developed for the study are stated in null form *(H0)* since the alternative hypothesis *(H1)* can be inferred from H_0. Three main hypotheses tested include:

Hypothesis One

H_0: The adoption of IFRS has not significantly improved trade flow in selected African countries.

Hypothesis Two

H_0: The adoption of IFRS has not significantly affected the volume of FDI inflow to selected African countries.

Hypothesis Three

H_0: The level of development of accounting infrastructure of the selected African countries does not significantly enhance the impact of IFRS adoption on trade and FDI.

1.6 SIGNIFICANCE OF THE STUDY

This study will be significant to the following group of individuals.

Policy Makers:

The significance of this study is tied to policy makers in Africa is based on the relevance of FDI to African countries especially in relation to augmenting the fund for development projects. Asiedu (2006), in support of this, noted that an increase in FDI flow to African countries will help in providing development fund for the achievement of the Millennium Development Goal (MDG) of poverty reduction by half in 2015. More so, the author highlights that in order for African countries to achieve the MDG, the region needs to fill an annual resource gap of 64 billion USD, which is only about 12 per cent

of GDP. The consideration for the improvement of FDI flow to African countries surpasses the requirement for development finance but the attendant benefits that come with FDI presence in a host country (see Abdulai, 2007). More so, based on the fact that African countries have low income and domestic savings and may not have ready access to foreign capital market, then the raising of development finance is further constrained and the need for improved FDI flow cannot be over-emphasised. Therefore, policy relevant investigation of this form will be required for policy actions on the role of IFRS for attracting FDI

Accounting Profession:

The analysis of this study will also be relevant to the accounting profession in general and the accounting professional bodies in African countries. This is because we controlled for the development of accounting professional bodies in the country and how it affects the relationship between IFRS adoption, trade and FDI. The result from the inclusion of this variable in the analysis of this study will be provide insight into the complementary effect (or otherwise) of the development of the accounting profession on the nexus (IFRS, FDI and trade). At least, from the result, it will be clear as to how the accounting profession affect this relationship.

Researchers:

Since an important gap, informing the statement of research problem, was observed, the result of this study will be relevant for future researchers that intend to delve into the issue of IFRS adoption impact on macro-economic outcome. For Africa, this is very relevant as not much study has considered the macroeconomic effect of accounting numbers, thereby making the outcome of this study to be of significance for the advancement of knowledge. Also, this study makes immense contribution to the literature by considering the role of institutions, human capital and the development of accounting professional bodies in enhancing the relationship between IFRS adoption, trade and FDI.

The Accounting Department of my Host Institution:

This study will also be relevant to the accounting department of my host institution (Covenant University) especially because of the methodology adopted for this study. In this study, the panel data analysis framework was used in the estimations of the relationship between IFRS adoption, FDI and trade and this approach will be beneficial for future postgraduate students in the department.

1.7   SCOPE OF THE STUDY

This research contains five chapters, distributed as introduction, literature review, and research methodology, discussion of results, and conclusion and recommendation. Next to this introductory chapter is the literature review, which discusses the existent literature in this area of focus. The theoretical framework is also included in the second chapter. The theories discussed spans from the Agency Theory, Stakeholder Theory, New Institutional Accounting Theory, New Trade Theory and Network Economic Theory of IFRS adoption. The essence of this broad discussion is to have a wide view of possible theory that explains the relationship that is being modelled in this study and to identify their possible criticisms. After this discussions, there was a more succinct examination of the theory that was used in this study.

The third chapter focuses on the applicable research methodology. The main issue in this section is the data and method of analysis. The data involves countries for which data is available and they are 48 in number. They include Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, DRC, Cote D'Ivoire, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Tu-

nisia, Uganda, Zambia, Zimbabwe. From these countries, Botswana, Egypt, Ghana, Lesotho, Kenya, Malawi, Mauritius, Morocco, Mozambique, Namibia, Nigeria, South Africa, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

The period for this study was 2002 to 2012. 2002. The period was chosen in order to effectively capture the transition of countries from the GAAP to IFRS because 2002 was the earliest year after the replacement of IASB with IFRS in 2001. The year 2012 was chosen as the climax year because most of the data required for this study did not have indices for years after 2012. The period of analysis is critical for the comparison of FDI and trade prior to and after the adoption of IFRS.

The data analysis involved the use of descriptive statistics and econometric data estimation techniques. The econometric technique includes the application of the Ordinary Least Square (OLS) regression technique, the Generalised Feasible Least Square Technique, and the Systems Generalized Methods of Moments (SGMM) for dynamic panel data estimations. The justifications for these estimation techniques are presented in the subsequent chapter that contains the research methodology in Chapter three (3).

The fourth section includes the presentation of data and the discussions of results. The fifth section concludes with policy recommendations.

The data for this study was sourced from databases that provide relevant statistics for modelling the relationships envisaged in this study. Some databases that was consulted include: Deloitte website on the extent of IFRS adoption around the world. The data on the extent of countries' legal adoption of IFRS was sourced principally from this database available at www.iasplus.com. However, to complement this database and in some cases where some countries were not included in the Deloitte database, the IFRS website (www.ifrs.org), and World Bank Group Report on Standards and Codes (www.worldbank.org/ifa/rosc), provides an alternative database for the IFRS adoption variable. Data for the other explanatory variables are sourced from the World Bank-

World Development Indicator 2012, World Governance Indicator 2012, and United Nations Conference on Trade and Development online database. The data for the accounting infrastructure was gotten from the websites of the various accounting associations in the respective countries.

1.8   OPERATIONAL DEFINITION OF TERMS

The following are the operational definition of terms that were commonly used in this study.

Accounting Infrastructure: This includes those structures that are put in place to promote the professional accounting practice in a country. It includes structures like the professional accounting association that provides a framework for the practice of accounting.

Accounting Practice: This is the act of playing the role of a professional in the discharge of the duty of preparing and interpreting financial information for informed decisions by users that will rely on such information.

Accounting Standards: These are those guidelines, framework and principles that guide the computation and reporting of accounting transactions.

Annual Report: this includes the financial statement of a company. These reports are released annually, depending on the financial year of the company. It shows both the quantitative and qualitative information about the company and can be relied on for economic decision because they have been duly certified by a professional.

Financial Statement: Financial report include those reports that have been certified by a professional accountant as true and fair, and includes quantitative and qualitative information that shows the financial position of the company as well as the efficiency of the management at the end of a given period.

Generally Accepted Accounting Principles: this includes those accounting standards that are prepared by a statutory organisation with the aim of guiding the preparation of annual report of companies that are located within the jurisdiction of the standard.

Globalisation: This is the interrelatedness and connectivity that exist between countries, firms and individuals that has fostered both economic and non-economic relationships.

Investment: This involves monetary input into a particular venture with the aim of expecting a gain at a later period.

Parent Company: This is a company that owns a sizeable amount of holdings in another company that is located in another country. This imply that such a company – called the parent – has the right to make decisions and influence the actions of the other country for which they have a holding.

Subsidiary Company: this is a company that another company owes a substantial amount of its holdings.

Trade: This is the exchange of goods and services between countries, firms or individuals who are separated by distance.

CHAPTER TWO

LITERATURE REVIEW

2.1   INTRODUCTION

In this chapter the conceptual and theoretical issues relating to financial reporting and the requisite standards that informs the extent of financial disclosure are discussed. These discussion is aimed at nuancing the relevant issues that spurs the empirical investigation in this work.

2.1.1   CONCEPTUAL DEFINITIONS OF FINANCIAL REPORTING

Financial reporting are sets of documents that are prepared by a financial information provider – be it a professional or otherwise – with the aim of disclosing financial transactions in an orderly manner, so that users can engage them in making informed decisions (International Accounting Standard Board-IASB, 2010). These information are prepared over a series of period (be it daily, weekly, monthly, quarterly or yearly) and are explicit enough to contain summary of accounting data, background notes, and other relevant information that will be useful for making informed decision.

The IFRS framework views financial reporting as general purpose financial reports (GPFRs) and the act of presenting same to the users of the report for decision making (Financial Reporting Council, 2013). The components of this report include the balance sheet (statement of financial position), the profit or loss account (income statement), changes in equity, cash flows, and the notes to the account. These aspect of the financial report are called the quantitative section. The qualitative section of the financial report includes the chairman's statement, the director's and auditor's report, among others. Broadly speaking, financial reporting is the periodic process for the provision of information that reflects the financial position and performance of a reporting entity (Gee, 2001): most times, these are publicly listed firms with stakeholders that are interested in the company's financials.

To understand financial statement, it is necessary to also consider the financial reporting cycle and the sources through which financial statements emanates. The cycle runs from source document, books of original entry, the ledger, trial balance, final accounts, which will then be assured by an external auditor. The end product of the cycle if the preparation of the financial statement, which begins from the daily recording of day to day financial transactions that involves the record keeping in source documents (Woods and Omuya, 1982). The source documents are not accounts but those records those orderly highlights the series of recurrent financial transaction in an organization and it contains the dates, purpose, tracking details and amount of the transaction. It includes documents like the cash receipt, cheque registers, invoices, credit and debit note, tellers and slips. These list are in exhaustive, but the fundamental understanding is that any document that shows clearly the arising financial transaction in an organization can be termed as source document.

The Source document has its diverse uses. Apart from the fact that it acts as an objective evidence of a business transaction, it serves as part of the audit trail that proves the authenticity of a claimed transaction. It also helps the accountant in minimizing errors and improving the efficiency of the financial report, especially when the source document is orderly documented.

The items in the source documents are recorded in the books of original entry (Woods and Omuya, 1982). The books of original entry, also called the books of prime entry or day book are accounting journals that summarizes and aggregates business transactions from the source documents. In this book, the detailed records of items from the source documents are grouped into an orderly manner to inform easy summing of items that are of similar nature. These journals include: sales journal/day book (records only credit sales); purchases journal/day book (records only credit purchases); return inward journal/day book (records items that are returned by customers); return outward journal/day book (records items that are returned to suppliers); cash journal- records cash transactions (Woods and Omuya, 1982).

The books of original entry are tremendously valuable for investigating individual accounting transactions, and just like the source documents, they are commonly accessed by auditors for the verification of the origination of selected business transactions and to ensure that these transactions were properly recorded (Omolehinwa, 2000). It is important to note that these concepts apply to manual record keeping and may not be referred to in a computerized accounting system, where business transactions are recorded in a central database.

From the books of original entries, accounting data may not clearly make for easy understanding of the implications of such transactions. Therefore, these data are transferred to a form of account called the ledgers. The ledger is an account that records all the business transactions to show the double entry processes and to reach a monetary summation of such transactions (Woods and Omuya, 1982; Omolehinwa, 2000). This is the principal book of account because all other accounting entries has its foundation from the prepared ledgers. From the ledger, the trial balance is generated: this is just a summary of all the prepared ledger in a particular accounting period. It is not an account but a list of all the closing balances that are extracted from the ledger. As a rule of thumb, the trial balance must balance; implying that the debit side must be equal to the credit side of the trial balance. Thereafter, other accounts like the income statement, the statement of financial position and other final accounts are prepared from the trial balance.

The final account may not be valid for informed decision until it is been assured by the external auditors. The external auditors are independent professionals, contracted by the reporting entity to carefully and technically pass an opinion as to the fairness of the financial information, after a careful review of the foundational document and other as sundries as deem fit, and are willing to bear the risk of any contingencies that may arise from their opinion (Bell *et al*, 1997; Elliot, 1998; Umoren, 2012). It is after this process that a financial statement can be termed as reliable for economic decision.

2.1.2 ISSUES IN FINANCIAL REPORTING

The final accounts can either be prepared for internal or external users (see Higson, 2003). The internal users include those economic agents, who require the financial information and are within the organization or setting that the financial information is originating from. These users require the financial information to aid their planning, strategizing, decisions and informed judgment with regards to making economic decisions that involves any form of economic value (see Botosan, 1997; Canadian Institute of Chartered Accountants-CICA, 1999). They can be members of the strategic, tactical or operational ranks of the organization. The external users of financial information include those economic agents, who are located outside the organization or setting that the financial information are originating from. These parties require the financial information to also make economic decisions but they are independent of the processes of preparing the financial information. The list of these parties are in-exhaustive but they include the auditors, investors, government officials and competitors.

The dynamism of the business environment is reconditioning the way and manner through which these financial information are presented, in such a form that it makes for easy understanding and assimilation of the end user – be it internal or external (see Elliot, 1998). These dynamism involves the development of accounting figures in such a form that it provides assurance to those users outside the reporting entity and does not mislead those within the entity, as well (Higson, 2003). This supports the view of oversight function and appropriate accountability that the management of an enterprise is supposed to provide for efficient utilisation of resources in their custody (Miles, 2012). Of course, assurance cannot be effective without the critical role played by an external auditor, in collaboration with the internal audit of the reporting entity. This makes for effective corporate governance, in the sense that effective reporting and accounting involves external scrutiny from auditors (Company Law Review Steering Committee, 2001).

This imply that financial reporting cannot be discussed in isolation of the forces that must be put in place to ensure required assurance. These forces include the intermingled

negotiations and discussions between the reporting entity and the external auditors, who are made to give assurance to the financial statement before it can be relied upon for informed decision. For the financial statement, the final figures are derived as a result of consistent negotiations between the management and the external auditors that are expected to examine the reasonableness of the management's justifications for their representations (Higson, 2003). This includes the fact that emphasis will be placed on the level of business risks exposed to the reliance of such financial statement. In some cases, the auditors may be held liable for assuring the representations made by the management and as a result of this, there are economic consequences to be borne by the auditor. Due to this, the auditors consistently negotiate the items to be included in the annual report and go as far as verifying the authenticity or reliability of such items.

Higson (2003) also noted that financial reporting and auditing are not just technical subjects, but encompasses the application of judgements and assumptions. This explains why some companies collapse after the external auditor has given assurance on the reliability of their annual reports. Put differently, the assurance of the annual report of firms does not necessarily mean that the firm cannot collapse and this is likely to happen in cases where the external auditor has not effectively negotiated the items to be included in the annual report. They may likely depend on their judgement or their trust in the management's capacity to produce a fair representation. In essence, auditing goes beyond vouching for the contents of the accounting records, but on focusing on the importance of understanding and exploring the interdependences between financial reporting and the factual occurrences in the firm.

It is this barrage of negotiations that there are rising fundamental issues in financial reporting in the global context. For instance, users who are outside the political domain of the reporting entity, might find it difficult to establish the assurance of the financial report, knowing that the opinion that is passed are informed by negotiations between the 'independent professionals' and the reporting entity. More so, the regulatory framework of the political terrain of the reporting entity can likely inform the manner and procedure

that structures the information that is being disclosed in the financial statement. This explains the divergence in the financial reporting format across firms that are located in different countries of the world. Likewise, the role of accounting has been classically redefined from recording, classifying, summarizing and interpreting financial information to a service activity that provides quantitative and qualitative information that is primarily financial in nature about an economic entity and it is intended in making economic decisions and resolved choices among alternative course of action (Accounting Principles Board, 1970).

Noting these developments and the continuous upgrading of the role of an accountant in a firm, there is the need to understand the developments in accounting and the major drivers of these developments.

2.1.3   THE CHANGING ROLE OF AN ACCOUNTANT

Traditionally, accountants are seen as professionals, whose main responsibility is recording, classifying, summarizing and interpreting financial information to aid decision making of users. This definition is tied to the classical definition of the Accounting Principles Board that relates accounting to an art of recording, classifying and summarizing monetary transactions in such a significant form, which are in part and at-least of a financial character and interpreting the results thereof. However, in the definition put forward by the US Accounting Principles Board, as earlier stated, accounting role and responsibilities has transcended beyond quantitative to qualitative. In essence, the issue of recording financial information and then interpreting it is a subset of the broader responsibility of an accountant.

In contemporary times, the accountant is supposed to use his numeric background in undergoing qualitative task that is supposed to yield economic benefits to the organization. Accountants now get involved in other fields like human resource, petroleum, environment and institutional framework, to mention but a few. For instance, Iyoha and

Faboyede (2011) clearly distils the perspective of an accountant in relation to prevailing institutional settings that affects their responsibilities.

It is not surprising that accountants are becoming broader in their scope of operation and significance. This may not be disassociated from the fact that the responsibility of an accountant is influenced by many other exogenous factors that are outside the regular quantitative framework. For instance, the projected profit of an accountant will likely be incorrect if the accountant does not consider the contingent regulatory instability that may affect the projected sales volume from which the profit was earlier estimated (Association of Chartered Certified Accountants, 2012). The implication of this is that, tacitly, the organization and the society where the accountant is based, expect more from the accountant beyond the regular balancing of the book and creation of report. They expect the accountant to foresee any contingencies that will likely affect the performance of the organization; they expect the accountant to be versatile in information and be able to point out possible upcoming that will likely have an adverse effect on the performance of the firm.

The main question that stems from this changing role of the accountant is: what are the drivers of this change?

2.1.4   DRIVERS OF THE CHANGING ROLE OF AN ACCOUNTANT

These drivers will be discussed in context. The first of the driver is:

Globalization

Globalization has reduced the distant between countries into a model of interconnectedness (Cheong and Wu, 2013; Bandyopadhyay, Sandler and Younas, 2014; Bergh and Nilsson, 2014); in essence, making the world a global village. The implication of this is that for an accountant to be relevant – in terms of playing the role of financial reporting and advice – there must be an adequate know how of the play out of business models in particular region or countries. This includes the fact that the accountant must understand

the different strategic challenges and opportunities faced in the application of the different business models confronted by the accountant (Association of Chartered Certified Accountants, 2012). Perhaps, there should be a global awareness by the accountant that their duty is beyond serving indigenous client or firm, but they are serving global client with more intricate and complex needs/demands.

Noting these increased complexities and demands from an accountant, countries are awake to the improvement of regulations that will guide and monitor the approach of accountants in financial reporting. In the late twentieth century, it was recorded that there was increasing proliferation and politicization of the standards-setting process, with attendant economic consequences (Zeff, 1978; Zeff, 2002). One of the main consequence is the dis-uniformity of accounting standards, which makes global "understand ability" of financial information difficult. The economic consequences of this is that users of accounting information, who are hitherto unaware of the reporting guideline in the reporting country, will incur an overhead cost of translation of the financial information. Sometimes, these translations are not without its own demerits of misinformation.

Regulations

This includes those rules and regulations, policies, guidelines and decrees that controls, monitors and enforces economic transactions in such a form that the cost of such transactions are immensely reduced (North, 1990;1991; La Porta *et al*, 1997; 1998; 1999; 2008; Wysocki, 2011). As businesses expand and their stakeholders increase, especially spanning across borders, the businesses are confronted with the pressure of aligning with different regulations that confront them. This is not leaving out the rising local regulations that seeks at preserving the environment and fiscal sustenance of the host country (North, 1990). For instance, due to environmental pollution and the rising effect of industrial pollution on the environment where the firm operates, countries are now beginning to tax firms on the amount of carbon emission that their operation generates. More

so, other forms of pollutant are taxed in order for corporate entities to strategically organize their operation in such a form that the environment is preserved.

In an exposition, the ACCA (2012) reports on accountants and financial professionals in business reports the following about the challenges faced by the accountant in today's business order. They noted that accountants are to invest more in personal resources by dealing with regulatory matters that arises as a result of their engagement with policies (and policy makers) to ensure that regulatory requirements provide benefits to their businesses. The Chief Financial Officers (CFO) are expected to play a critical role in the prevention of overly onerous and burdensome regulation, for them to be relevant in the changing business world. They play other roles such as lobbying on behalf of the business, and even put in place business processes and protocols to negate the adverse consequences of contemporaneous regulations.

It is clear that corporate entities that must have a competitive and efficient financial information department must be such that invest in acquiring and retaining professional personnel that are abreast with regulatory matters and engage policy makers in ensuring that new regulatory requirements are able to provide benefits to the business. This is no wonder why in most corporate entity of contemporary times, there is the presence of a legal department, who works hands-in-glove with the accounting department. At least, the accounting department is able to provide the cost implication of compliance, or otherwise, with the rising number of legality that confronts the business entity.

Advances in Technology

The changing role in the extent of technological infrastructure has affected different societal strata (Boateng, 2012; Alberto, Margarita and Fernando, 2013). The accountant role is also becoming more complex due to the fact that the accountant is confronted with advancement in technology and software that enhances their role and the speed of financial reporting. This is as a result of the increasing demand for timely financial report that howbeit is informed by the urgency for timely investment decision by the users.

CICA (1999) observed that accounting information user have increased their demand for timely and comprehensive information, in order to use it comes from decision doing, or may want to do, business with the reporting entity: due to this increasing demand for information and the urgency involve, the need to utilise platforms for quicker and easier access to database of the financial information has enhanced the need for advanced technology to speedup this process.

In corroboration, the Panel on Audit Effectiveness (2000) noted that technology-driven information systems are capable of accessing, unifying and disseminating information in `real time'. This implies that investors can have access to quick information and consequently expand their demands for both financial and non-financial information. Some of these information includes the traditional historical financial data, as well as those qualitative information that shows the culture, branding, mission statement and other relevant information that may not be attached an economic term.

In essence, the financial reporting process has transcended beyond the mechanical book keeping procedure to the use of technology infrastructures, which enhances the speed and accuracy of the process. Of course, the business environment demands the saving of time for processes. This is because of the urgency of making decision and the cost of slowing down the decision process. As it seems, if accounting process does not incorporate the saving of time into their process, it may not be able to meet the demands and the need of the users of financial information – especially the internal users. ACCA (2012) noted that technological developments will serve to help gather, organize, standardize and make data timely to the users of financial information. This development has a driving effect on the business intelligence and will be useful for identifying new market and profit opportunities by running simulations through customers' insight and preferences that can indulge the company into new business opportunities.

The financial information providers is now involved in dealing with complex database. The growth of corporate organizations and even the proliferation of 'tentacles' of cor-

porate operations and branches, makes the accountant role to demand an advanced technology to keep abreast with these data. With advanced technology, they are able to use better tools with predictive capacity and in a short time, they are able to generate adequate information that can enhance strategic decisions.

Development of the Knowledge Economy

The advancement of the Solow growth model of the inclusion of the total factor productivity as an enhancer of the traditional factors of production of labour and capital, has brought new insights into the growth of economies. Principally, Oluwatobi *et al* (2014) observed that countries thrive better than others based on the relative input of innovation in their production process. This is termed 'knowledge economy', where countries thrive relative to the quality of the knowledge that drive the economy. Asongu (2013) has extensively discussed this in his study on the knowledge economy, intellectual property right and intuitional development in the African state.

The drive towards knowledge economy has implications for financial reporting. The main agitation is the ability of financial statement to capture the intangible assets 'knowledge' that drives the knowledge economy. As a matter of fact, this constitute the major asset of the company because it enhances the usefulness and effectiveness of other forms of asset. As gleaned from The Enterprise Development (2014), since the last two centuries, neo-classical economics has recognized labour and capital as the only two factors of production. This is now changing as information and knowledge are beginning to gain prominence as the major factors of production. This is in the sense that these factors of production are replacing capital and energy as the primary wealth-creating assets. In addition, the advancement of modern technology have transformed wealth-creating enterprises from the use of physically-based instruments to "knowledge-based" technology, which now makes knowledge to be the key factor of production (Asongu, 2013; Oluwatobi *et al*, 2014).

The implication of this advancement of technology and the prominence of knowledge as one of the key factors of production is that there is an increased mobility of information that makes the global work force, knowledge and expertise to be transportable at the instance of time around the world. Corporate firms even face increased challenges based on the fact that any advantage gained by one company can be eliminated by competitive improvements overnight (Lindsey, 2001). This means that corporate firms can only enjoy comparative advantage by improving on its process of innovation, while combining market and technology know-how with the creative talents of knowledge workers.

The effect of this trend on the financial statement is enormous. Principally, apart from the inability to capture these intangibles, research has revealed that the financial statement of most firms that thrive on innovation is underestimated. Lindsey (2001) reported the research by a (then) leading auditing firm, who stated that out of 10,000 public companies, under 30 percent of their market capitalization was represented by the book value that was reported by their professional accountant. They went on to state that more than 70 percent of their value was not sufficiently captured by the public measurement and reporting system. This occurrences is a sporadic shift from the period when the book values of firms provided about 95 percent of market value (Higson, 2003).

Rising Business Risk

The business environment is now becoming more risky (Busse and Hefeker, 2005; Hayakawa, Kimura and Lee, 2011). The cost of misinformation has increased (Wysocki, 2011) and the rising rate of litigation and law suits even makes the job of an accountant to be more sensitive than before. The accountant need to be aware of this and this will affect the quality of discretion that is applied by the accountant, in terms of scrutiny of the effectiveness of risk management and the necessary process involved. The implication of increased risk imply that the users of financial information will be demanding for higher assurance over the financial viability of the business strategy that applies the financial information (ACCA, 2012).

From another perspective, the ACCA (2012) observed that the consequential relationship that exist between poor corporate behaviour and risk should be embedded in the fact that the accountant is seen as the internal safeguard to a better corporate ethos. The CFO should guard the organization's assets and should recognize that poor discharge of this duty can lead to value erosion and ultimately the capital providers will withdraw their capital. This leaves the company with only one option – folding up. This was the case of many 'big' firms like Arthur Andersen and Enron, who collapsed after a misstatement by the financial reporting officer.

2.1.5   DEVELOPMENT IN ACCOUNTING AND CORPORATE REPORTING

This sub-section gives an historical perspective to the contemporary accounting situation. In essence, the sub-section helps a proper conceptualization of why accounting is what it is. Accounting development has followed the trend of the industrial development process as well as the societal commercial and social changes (Higson, 2003). As a matter of fact, there has been a debate in the extant literature as to the school of taught to fit the development of accounting into. They (Tinker, 1985; Yamey, 1964; Winjum, 1971) include: those that believe that accounting is socially constructed and those that believe that accounting development was primarily involved in the construction of modern society. Higson (2003) took a stand that accounting is socially constructed and noted the following:

1) The original concept of `stewardship', which is the basis for financial reporting, pre-dates the production of accounts.
2) Management accounting presents the earliest uses of accounting data and was entirely used for internal control purposes. Therefore, it is prudent to believe that stewardship and management accounting were – in some way – linked.
3) The development of double-entry bookkeeping is another example of internal control mechanism role of accounting.

These connotes that the development of modern accounting is borne out of the development of the society and accounting and stewardship are inseparable. This cannot be denied owing to the earlier argument that recent developments in the modern society has affected the role of accounting.

To understand the development of accounting and corporate reporting, there is the need to understand some underlining definitions of the concept of some of the issues that will be subsequently unfolded. Some of these concepts include stewardship, accountability, transparency and true and fairness.

2.1.5.1 The Concept of Stewardship

The concept of stewardship connotes attending to the resources of another party. Although, the early forms of accounting includes these concept (concept of attending to the resources of others), the nature of these early forms of accounting has been more akin to management accounting than financial accounting (Higson, 2003). The reason for this medieval approach is that accounting records of those times were targeted at internal control mechanisms and its main objective was to monitor and account for the resources of the owner(s) of the business organization. However, this may not be plausible in recent times, when the size of the businesses has increased and there is a growing demand for more information about the business than just the demand for information regarding the resources of the firm.

The definition of stewardship, in accounting, follows different directions and they include: Stewardship include the duties and obligations of a person who manages something on behalf of other persons. This connotes that a steward's main responsibility is the management of the resources that is handed over to them by another party. In this case, the party requires the professionalism of another individual to effectively manage the resources.

This definition is lacking some vital points. In most definitions, the authors are not able to distinguish between the different forms of resources that is being managed and does

not clearly state the role of accounting in this stewardship responsibility. Another definition is considered by Whitehead (1998), who defined the concept using an analogy as described: the concept of stewardship is seen in the analogy that the owner of a business entity are not personally involved in its operations. In some cases, it may even be forbidden by law for the owners to play an active role in the operations of the business. This implies that the owners will have to seek for the inputs of other persons to actually be fully involved in the running of the business and they are supposed to keep relevant accounts. These individuals are called the stewards, who are individuals that stand in lieu for the owners of the business and accountable to them for the conduct of the business's affairs. In preparing the accounts of any business the accountant must prepare their financial statement in such a way that they comply with national laws as well as with the requirements of the owners of the business: whoever they may be (Whitehead, 1998: 13).

This definition is an improvement on the earlier version by Derek (1985) in the sense that it included the role of an accountant in the stewardship definition. In this definition, Whitehead (1998) noted that, apart from the accountant performing the role of taking care of the resources of the principal, the accountant is also involved in preparing the accounts in such a way that they comply with national laws and the directive of the owners of the business. The necessity for this is predicative to the fact that the owners of the business are also interested in understanding the dimensions of their businesses such as the cost, profit, investments and other aspects of their businesses. With these information, the owners of the business are able to make a better informed decision than they would have if they are not privy to such information.

Considering the accounting regulator's definition, the July 2005 meeting of the International Accounting Standards Board and the Financial Accounting Standards Board as a tool used to distinguish or separate the performance of a reporting entity's management and the performance of the entity itself. The boards noted that the definition of steward-

ship as the custodian or safe-keeper of the resources of another party, is a narrow defi-
nition of the term stewardship. Making reference to a broader definition of stewardship,
it can be defined as how the manager/owners has used the resources that is put into a
business.

Stewardship includes the custody and safekeeping of the resources of an enterprise and
also the efficient and profitable use, which includes the protection of the resources
against unfavourable economic factors like the inflation, deflation, technological and
social changes. Therefore the boards concluded that stewardship can be taught of as the
state of being appointed to manage something and being responsible for that action.
Management encompasses being in custody of the resource but providing information
about the quality of the resources and playing other responsibilities that is of interest to
the boards of the organisation (International Accounting Standards Board, 2010).

The role of stewardship is seen in an imperfect market (Young, 1998). By market im-
perfection, we imply the unpredictability of the value of the firm and accountants' role
– in terms of stewardship – is seen when the assets and decisions are entrusted to the
managers and these managers have absolute information advantage (with respect to
whether they are making appropriate use of the assets to which they were entrusted) over
the owners of the business. In this case, the role of accounting is magnified to enhance
the information quality and accessibility to the owners of the firm. Of course, the main
reason for this is that investors usually delegate decision making process to the managers
and will usually demand form information about the actions that are taken for the pur-
pose of controlling them (Gjesdal, 1981). In the same vein, Rosenfield (1974: 126) states
that the main objective of the financial statements is to present reports that shows the
control and use of resources by the stewards to whom they are accountable to.

Having understood the meaning of the concept stewardship, we go further to examine
some other issues like who is a steward and the responsibilities of a steward.

Who is a Steward?

A steward is one, who is appointed to manage the holdings or resources of another individual called the agent (Miles, 2012). Some of these resources include financial and non-financial resources and they cut across the overall overseeing of the wellbeing and effective management of the resources of the individuals (Jensen and Meckling, 1976; Fama and Jensen, 1983; Jensen, 1983; Eisenhardt, 1989).

A steward in a business entity takes on a number of responsibility depending on the different organizational forms, such as corporations, partnerships, trusts, and proprietorships. Generally, the stewards are managers in these organisation (Jensen and Meckling, 1976). For example, the members of an elected board of directors of a publicly traded company are stewards and are appointed by the present shareholders of the company in order to manage the affairs of their business entity. Omelinhwa (2000) expounded that in the situation where a business owner (sole proprietor) who owns a small family business hires an individual to manage the affairs of the business, the individual hired is also called a steward. Such an individual is a steward whose services is required to manage a part of the owner's business affairs. In partnership business as well, the partners also appoint individuals to run the affairs of the business to function for the affairs of the partnership.

A steward or stewards are responsible for the performance of a number of actions. Some of them include the initiation of proceedings for the sale or lease of corporate assets that are outside the regular course of business, new price determination and the general overseeing of the negotiations of major contracts. Their responsibilities include the appointment, overseeing, supervision and the removal of corporate officers and other employees; likewise, the determination of their compensation is included in the responsibility roster of a steward. They also perform the role of financial decisions that include the declaration and payment of dividends to shareholders, among others.

2.1.5.2 The Concept of Accountability

The term accountability have been used in different disciplines and context and refers to varying but similar concept. For instance, in institutional economics perspective, the term accountability connotes the ability of an elected public officer to be responsible enough to explain and justify his actions to the public that elected the individual, knowing that some form of resources has been handed over to be managed by such individual. Posner (2006) noted that in the governance structure, effective accountability include transparency on how the resources are been managed. Lederman, Loayza and Soares (2005) further stressed this.

On the other-hand, accountability connotes a different but similar definition in the management sciences. It includes the ability to manage resources and report the outcome of the management processes to the owner of the resources. Similarly, accountability includes those individuals' or organisations' obligation to account for activities, accept responsibility for them, and then transparently disclose the results. It also includes the responsibility for money or other entrusted property.

Considering another fundamental exposition of the concept of accountability, the trueblood committee that was set up in 1971 and 1972 to advice the American Institute of Certified Public Accountant (AICPA, 1973) noted that the basic objective of a financial statement is to provide those sets of information that are useful for making economic decisions. In the same vein accountability encompasses stewardship. This connotes that a financial statements should provide information that assists users of the information to assess whether the management of the enterprise is using the firm's resources effectively for the achievement of the primary enterprise goal of maximizing economic returns.

In essence, accountability denotes a stewardship responsibility of ensuring that proper care is put in place in the management of the resources of principal and reporting same in such a way that the principal has an absolute knowledge about the developments in the aforementioned resources.

2.1.5.3 The Concept of True and Fairness

The concept of true and fairness in financial reporting entails that the financial statement of an organization are free from any form of material misstatements (substantial items that can cause economic loss) and it faithfully represents the financial performance and position of the reporting entity (Omolehinwa, 2000). The concept 'true' suggest that the financial statement of the reporting entity are factually, accurately and truthfully correct and it is prepared in accordance with applicable financial reporting guidelines/frameworks and it does not contain any information that are either misstated or false and can be misleading. While on the other hand, the concept of 'fairness' connotes that the financial statements faithfully presents the information about the operations of the reporting entity without any form of bias and they reflect the economic substance of transactions and not just the legal form (see Arnold *et al*, 2010; Omolehinwa, 2000).

True and fair view is a fundamental bedrock principles of preparing financial information and reporting same to the users for informed decisions. The concept can be linked directly to four basic concepts in accounting and that pertains to presenting financial information to the users. These basic concepts are the going concern, accruals (matching), consistency, and prudence (Arnold *et al*, 2010).

The concept of true and fairness in financial reporting is paramount to the legal perspective of stewardship and accountability. For instance, the section 393 of the United Kingdom's Companies Act in 2006 requires that the directors of an existing entity must not approve an accounting report unless it is certified by a professional as it is giving a true and fair representation of the financial position of the entity (Financial Reporting Council, 2013). Likewise, the Nigerian company act also mandated that all financial statement of publicly traded entities are required to hire the services of a professional in passing a comment about the truthfulness and fairness of the financial statement of such entity. This statement is paramount in providing a reliable source of information for financial statement users to depend on in making their investment decisions. This implies that any form of economic loss that arises from their dependent on the financial statement will

be entirely borne by the professional who passed such comment on the financial statement.

Importantly, the concept of true and fairness originated in the United Kingdom for many decades and its principal strength is that the financial statements are expected to reflect the economic realities of a business and its financial transactions (Financial Reporting Council, 2013). The concept of true and fair draws heavily from the principle of substance over form, which connotes that the financial information of a company must not omit any substantial information, despite the legal form of such information (Arnold *et al*, 2010). In the case that the financial statement omits a substantial information as a result of the legal form, the entity is still liable for misleading users of financial information.

2.1.6 STEWARDSHIP AND CORPORATE GOVERNANCE

The concept of stewardship will not be complete without taking into cognisance the recent development of this concept in modern industrial trail. In contemporary industrial hub, the concept of stewardship has metamorphosed into corporate governance (Higson, 2003). The concept of corporate governance was made prominent in recent times as a result of some corporate failures and this concerns about the working of the corporate system by criticisms of the lack of effective board accountability for such matters as directors' pay (Cadbury Report, 1992).

The Cadbury committee defines corporate governance as the systems by which companies are directed and controlled (See Cadbury Report, 1992). In essence, it includes those frameworks that are put in place to ensure that the resources of the organisation are efficiently utilised and controlled and even monitored in such a form that the owners of the resources do not suffer losses on their resources. The committee also noted that the corporate boards of directors are responsible for the governance of their companies. In essence, the shareholder's role in the governance of the firm is to appoint suitable directors and the auditors who should be responsible for satisfying themselves with the fact

that they have efficiently installed an appropriate governance structure in place. In ensuring this, the board is responsible for the setting of the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and ensuring that they report same to shareholders on their stewardship. After this process is fulfilled, the board also ensures that they appoint external auditors who are supposed to provide the shareholders with an external and objective check on the financial statement that is prepared by directors of the firm.

The board should pay particular attention to their duty in order to present a balanced and understandable assessment of their company's position. The term balance imply that any form of setback that may jeopardise the success or efficiency of the annual report should be handled and dealt with such that the report presents a readily understood emphasises on the relevance of words over figures (Cadbury Report,1992). Tricker (1984) beautifully noted that *management* is to do with running a business, whereas *governance* is about ensuring that it is run properly. The author viewed the corporate governance process in four major principal activity. They include: formulating strategic *direction* for the future of the company; efficient involvement in crucial executive decisions; efficient monitoring and oversight function of the management performance; and ensuring accountability.

Higson (2003: 49) noted that the concept of corporate governance was earlier pointed out by Adam Smith, way back in 1776. The author noted that the directors of companies, also being the managers of other people's money, may likely not be too involved in the efficient management of the resources with such intensity with which the partners in a private *copartnery* frequently watch over their own affairs. Like every other stewards, these individuals may likely be apt to pay attention to small matters as against the intention of the principals. The author also noted that in the light of the self-interest of managers of firms' resources, the boards of directors (managers) should aim at ensuring the integrity and consistency of their reports and also ensure the integrity and consistency

of their reports. Therefore, is important to consider corporate financial reporting within the overall context of corporate governance.

2.1.7 FINANCIAL REPORTING

Financial reporting is the act of presenting the financial performance and other as sundry information to users of the financial information. This act is aimed at ensuring that the users of these financial information receives adequate information that will enable such user to take meaningful decisions that pertains to their interest in a reporting entity. The financial reporting process is highly regulated by some statutory regulatory authorities such as the Accounting Standards Board, Securities and Exchange Commission and the Stock Exchange.

The typical financial report should aim at answering the following questions: what is the profit making trajectory/potential of the business and in terms of how much profit is being made? How does the assets of the business of the enterprise stack up against the liabilities? What is the source of finance for the business and how is the business making use of the available capital to earn further revenue? How solvent is the business in terms of cash flow? How is the business managing its current success, in-terms of utilisation of the profit? What is the going concern of the business and can the business be self-sustaining?

In Nigeria, the Nigerian Accounting Standards Board, now called the Financial Reporting Council (FRC), is the body that is responsible for the issuance and monitoring of the compliance of entities with such released standards. Other regulatory authorizes in Nigeria include: the Central Bank of Nigeria (CBN), the Nigerian Insurance Commission (NAICOM) and the Securities and Exchange Commission (SEC). However, most accounting standard in countries are beginning to comply, adopt or conform to the international financial reporting guideline.

2.1.8 INTERNATIONAL FINANCIAL REPORTING

The introduction of common financial reporting standard around the world can be traced to globalization and internationalization of business operation. This has led to the demand by parent companies to ensure efficient and effective monitoring of the activities of their subsidiaries around the world. This has brought about international stewardship demand by accountant and by extension international accounting.

The concept of international accounting can be viewed from three different perspectives: the supranational accounting, which involves the standard set by international organization to govern the reporting framework for related parties. Such organizations include the United Nations, the World Bank among others. The second perspective is that international accounting relates to the framework of reporting adopted by companies and business in relation to their network of subsidiaries and foreign investments around the world. The third perspective is that international accounting relates with those standards and guidelines for reporting, auditing and taxation that is diverse and peculiar with different countries around the world. International accounting can be traced to specific factors caused by globalization such as the growth of customer base of multinational companies, hedging of foreign exchange risk, among others.

Most multinational companies have customer base around the world. This is as a result of the growth of the business operations thereby causing international expansion and customer demand around the world. The growth in the customer base will require bills to be drawn up in foreign currencies and the process of reporting these in the financial statement will require adequate foreign currency translation. This will require international accounting/foreign currency translation mechanism to properly account for the transaction. Similarly, exchange fluctuation exposes the company to certain risk and the company will require adequate technique to hedge against these risks. The company may also require establishing plants in foreign countries in order to meet the demands of their customers and reduce the cost of transporting the goods from the factories to

their customers. This will result to foreign taxation because the plants that is been established in the foreign country will be subjected to the tax regulations suffice in the country. The parent company will want to adequately monitor the affairs of the foreign subsidiaries by engaging the services of auditors (international audit) to evaluate the financial statements of the subsidiaries and ensure the information disclosed by them are of a true and fair view of their activities per time. These among others bring about the need for international accounting.

This chapter is divided into six sections. The first section will describe the historical perspective to international accounting around the world. The second section will focus on the evidence of accounting diversity around the world. Stylized facts on reasons for accounting diversity around the world with focus on legal system, taxation, and providers of financing, inflation and political and economic will be discussed in section three, four, five six and seven.

2.1.9 INTERNATIONAL ACCOUNTING: HISTORICAL PERSPECTIVE[1]

The concept of international accounting can be traced back to the development suffice from the 1904 St. Louis world congress accountants. However, the concept of international accounting especially with regards to international uniformity around the world was first introduced. Prior to this, different countries have developed their accounting system based on the relationship between the agents and the stewards, the legal system within the country, inflation, and tax system, culture and history of the country among others. These systems were encapsulated in the Generally Acceptable Accounting Principles (GAAP), which different countries impose on companies doing business within their borders. These GAAP are aimed at generating comparable and reliable accounting information to aid investors, creditors and others make informed decisions.

However, due to globalization and the internationalization of business activities around the world, the need for comparable financial reporting by different countries of the world

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[1] This historical perspective was gathered and summarised from the IASB website

suffices. The concept of convergence of financial reporting standard around the world was first initiated in the late 1950s in response to economic integration and related increases in cross-border capital flows caused by post World War II. Although the need for international financial reporting was highlighted, which later translated to the actual initiation of forming the Accountants International Study Group (AISG), which was the forerunner to International Accounting Standard Committee.

Chronologically, the development of the international accounting has witnessed several milestones, which has translated to the convergence plan of countries in recent years. Some of the milestones witnessed during the years with particular dates and events are highlighted below (*Note: this exposition was drawn from the IASB website on chronology of development of accounting standard)*:

In the 1950s and early 1960s, the desire for international accounting standards and some early steps by the accounting communities was prompted by economic integrations of different countries as well as the increase in cross border capital flows such as the foreign direct investment, portfolio investment among others. The economic integration after the World War II affected the growth in international trade as well as world economic returns (GDP). For instance, world trade in goods and services has risen to nearly double that of world real GDP. Explicitly, the volume of world trade in goods and services increased from about one-tenth of world GDP in 1950 to about one-third of world GDP in 2000. The rise in the global prosperity stirred up the demand for international accounting as companies began to require accounting procedure to handle issues relating to foreign exchange translation of foreign sales, comparable accounting system to monitor the activities of foreign investments among others.

In the period 1962 and 1964, three events occurred, which include the 8th international congress of accountants convened by the American Institute of Certified Public Accountants (AICPA) and the reactivation of the AICPA committee on issues relating to international relation. The international congress convened by the AICPA was aimed at discussing issues that relates to the accountants role in the growing world economy. The

outcome of the meeting includes the need to develop reporting, auditing standards amongst others that can be understandable internationally. After the congress, the AICPA set up a committee whose objective was to establish programs aimed at promoting international cooperation among accountants. The cooperation was to facilitate discussions that would lead to agreement on common standards. The outcome from the committee was a completed review of an accounting standard that would be used internationally. This standard was published by the association in 1964 titled "Professional Accounting in 25 Countries".

In 1966, the accounting association in America, United Kingdom and Canada converged to form a group called Accounting International Study Group (AISG) with the aim of studying the differences in their respective standards. The group was in existence for 10 years and 20 different divergence was observed in relation to different accounting issues. This culminated into the publication of the first book in international accounting. The book by Mueller was the first text discussing issues with regards to international accounting.

The AISG was later transformed to the International Accounting Standard Committee (IASC) in 1970s. The discussion towards the establishment of the IASC as the first international accounting standard setting body was carried on with the aim of setting standards that should be adhered to for international financial reporting purposes that will soothe the interest of users. Such financial reporting must also be internationally accepted. To achieve this, body collaborated with other national accounting bodies especially with issues relating to divergence between the standards and the various national GAAPs. The IASC was established in 1973 by the AICPA and other accounting bodies in eight other countries. In 1979, the IASC collaborated with the UK and Canada accounting standard board to form a joint task force to ensure formal collaborations when developing standards. This resulted into the issue of about 25 standards on different accounting issues in 1987. In the same year, the IASC undertook a comparability and improvement project on the standards to reduce the number of allowable alternative

treatments. This is because the standards allowed for alternative treatment for same transactions because they were to substitute GAAPs of different countries.

In 1988, the IASB became a member of the IASC consultative group and a non-voting observer in IASB meetings. Prior to this period, the relationship between the IASC and IASB was informal and they were only consulted when the need be. In the same period, the support for common accounting standard around the world was pushed forward by the FASB. The aim of this drive was to ensure a common accounting standard that would surpass national standard and aid for international financial reporting. This drive was propagated by the then chairman of FASB Dennis Beresford and in 1990; IASB became more voracious by collaborating with other standard setting bodies around the world. This voracity co-opted many other bodies like the US congress and the Security and Exchange Commission to support the goal.

By 1991, the first strategic plan towards a common accounting standard was issued by the IASB. The strategic plan includes five specific efforts such as: considering the existing requirements of international standards; engage in joint projects with other standard setting bodies; participate actively in the IASC's processes/meetings; foster international relationships among standard setting bodies around the world; expand international communications, especially with regards to financial reporting. The first strategic plan paid off with the release of segment reporting from the joint project between the FASB and the accounting standard setting board of Canada in 1993. Similar collaboration was observed in the relationship between the FASB and the accounting standard setting body of Canada, United Kingdom, Australia and New Zealand to form the G4+1. The aim of the collaboration was to pursue carryout research and propose solutions to common accounting issues. A major outcome from this was the project undertook by FASB in collaboration with IASC to improve the standard on earning per share.

As part of the community service, IASB undertook a project to compare the US GAAP and the IASC standards in 1995. This resulted into the publication of the book *The IASC-U.S. Comparison Project: A Report on the Similarities and Differences between IASC*

Standards and U.S. GAAP in 1996. Also, in 1995, the International Organization of Security Commissions (IOSCO) agreed to endorse the IASC standards based on the condition that IASC core standards would be acceptable for recommendation for cross border capital and listings purposes.

In 1996, the need arose to seek for an international standard that would enhance cross border listings and inflow of foreign investors into the United States capital market. Concisely, the American Securities Market reiterated the need to attract cross border security offerings in the US stock market. The SEC was mandated to enhance this process and report was expected within a year. The SEC considered the IASC standard for this purpose, but required that the standard satisfy three main criteria: very comprehensive, high quality and can be interpreted and applicable to users.

The Asian crisis in 1998 further prompted the need for an international financial reporting standard by a joint decision from the World Bank, International Monetary Fund and the various finance ministers of the G7. This was because there was an urgent need for rapid adoption of high quality financial reporting practice.

In 1999, the FASB Publishes its Vision for the Future of International Accounting Standard Setting. At this date, the FASB published *International Accounting Standard Setting: A Vision for the Future,* which described the vision of the ideal international financial reporting system. The report noted that the system would be characterized by a single set of high-quality accounting standards characterized by a single standard setter that will be absolutely independent. As at 2000, the Pace of Convergence Accelerated. At this date, the FASB and IASB agree to Work Collaboratively. At the same period, the SEC Issued a Concept Release on International Accounting Standards. The concept release was aimed at developing a broad input on a framework of the convergence of accounting standards. They also sought input on the conditions that must be in place for the SEC to accept the financial statements of foreign private issuers prepared using IASC standards.

In 2001, the IASC was reconstituted Into the International Accounting Standard Board. The IASB was in response to calls for the improvement in the governance, funding, and independence of the IASC. There is similarity between the governance, oversight, and standard-setting processes of the IASB and that of the FASB. As an independent stand-ard-setting Board that is appointed and overseen by a group of Trustees of the IASC Foundation, the IASB was established. Since then, the IASB has made progress. For instance, in 2002 the European Union decided to use the IASB standard (IFRS) by re-quiring all listed companies to prepare their consolidated financial statements using the standard, starting from 2005. This become the first major capital market to require IFRS. After this, the EU subsequently decided to "carve-out" a portion of the international standard for financial instruments, which became an European version of IFRS.

In 2002, the FASB and IASB Agree to Collaborate, which was tagged the 'Norwalk Agreement'. In September 2002, the FASB and the IASB had a joint agreement to work together to improve and converge U.S. GAAP and IFRS. The agreement was tagged the "The Norwalk Agreement," which was issued after the joint meeting. The Norwalk Agreement set out the shared goal of developing compatible, high-quality accounting standards that could be used for both domestic and cross-border financial reporting. In 2003, the SEC re validates the position of the FASB as the U.S. private sector standard setter, based on the pursuant of the Sarbanes-Oxley Act of 2002; the FASB was to ensure the convergence of high-quality standards with international practices, which should be appropriate in the public interest and for the protection of investors.

In 2005 the SEC Proposed a Roadmap to the Elimination of the Reconciliation Require-ment. The proposed Roadmap identified several milestones that would support elimi-nating the reconciliation for foreign private issuers filling financial statement under IFRSs and reconciling reported net income and equity to US, , if achieved. By 2006, the FASB and IASB Issued a Memorandum of Understanding that described the progress they hoped to achieve toward convergence by 2008. While in 2007, four major events

occurred. Firstly, the SEC proposed and subsequently eliminated the Reconciliation Requirement. In the same year, the SEC Issued a concept release on possible optional use of IFRS by U.S. Issuers. Thirdly, the FASB responds to the SEC's Concept Release on Possible Optional Use of IFRS by U.S. Issuers. The response reaffirmed the FASB's support for a single set of high-quality common standards developed by an independent and international standard setter. Fourthly, the FASB and IASB issued a converged standards on business combinations.

In 2008, the FASB and IASB updated their Memorandum of Understanding. The MoU is an update to the 2006 MoU to report the progress made since 2006 and to establish their convergence goals through 2011. In 2008, the SEC issues a proposed roadmap to adoption of IFRS in the U.S. and a proposed rule on optional early use of IFRS. Under the proposed Roadmap, the Commission would decide by 2011 whether adoption of IFRS would be in the public interest and would benefit investors. The response to the comment letter was released in the same year. By 2010, the SEC Issued a Statement in support of convergence and global accounting standards. In the same year, FASB reports periodically on the status of their project to improve and converge with the U.S. GAAP and IFRS. In 2011, a progress report on IASB-FASB convergence work was released. In April, the FASB and IASB reported on their progress toward completion of the convergence work program. The Boards were giving priority to three remaining projects on their Memorandum of Understanding (financial instruments, revenue recognition, and leasing) as well as their joint project on insurance.

2.1.10 CONCEPT OF IFRS ADOPTION

The International Financial Reporting Standard (IFRS) is a globally-accepted standard that aids in the preparation of financial reporting as well as in the interpretation of accounting numbers that are included in the said financial report. It is a guideline that aids the preparers of financial report to present a financial statement that is of higher quality, transparent and comparable with globally prepared financial report (Asiemo, 2013). Stemming from this, the drive towards the usage of a globally acceptable financial report

in a global context is embedded on the fact that accounting numbers ought to be comparable and easily utilised irrespective of the location of the individual that requires them. Therefore, an accounting number that is prepared by a professional in Africa can easily be understood by professionals in other African countries and around the world in general.

Financial reporting are designed to be used by profit oriented entities (Asiemo, 2013), who are operating with the perspective of having a global audience that have a stake in their annual report or who utilises their annual report for decision purposes. Firms have gone beyond private entities because of the complexity of the business environment and the dynamic requirement of their annual report for investment purposes. The need for the transition of firms from private enterprises to a public one can also be linked to the fact that most firms require more capital to run their operations. Being this as it may, they gather capital from varying sources to foster their operations. This suggest that these firms will require proper accountability and reporting practice to be able to gain the trust of their stakeholders. More so, some of these stakeholders are not nationals of the country of resident of the firm and based on that, there will be the need to utilise an accounting framework that is universally and generally applicable at varying contexts.

Gordon, Loeb and Zhu (2012) clearly emphasises the need for the adoption of IFRS as it will aid the global flow of capital. Asiemo (2013) also noted that having a single set of high-quality globally accepted accounting standards is important especially in increasing the global capital markets. This can be achieved by the functionality of IFRS in bridging the information gap between the providers of capital and the users. The cumbersomeness involved in the interpretation and understanding of accounting statements prepared using the national gaps will be reduced with the advent of IFRS. This is because the singleness of accounting standards that are utilised in the preparation of the annual report will reduce the cost of translating the financial report as well as the cost of interpreting it. In this case, the overhead cost of operating a capital investment venture in a host country will be expunged with the adoption of IFRS.

In having a grasp understanding of IFRS, it will be important to devote some time in the study of the conceptual framework that encumbers the underlining concepts of IFRS. If these concepts are understood, it will be easy to follow through in understanding the general framework that guide the interpretation and understanding of IFRS. Taking this further, the *Conceptual Framework* sets out the varying concepts that trigger the preparation and presentation of financial statements. In essence, it is a practical tool that assists the IASB when developing and revising IFRSs.

2.1.10.1 The Evolving Concepts in the IFRS Framework

The first revolving concept that will be discussed is the concept of assets and liabilities. The traditional definition of Assets and Liabilities is such that they focus attention on economic phenomena that exist in the real world, which include resources and obligations that are relevant to users of financial statements. These items (assets and Liabilities) cannot be classified as such if they are not seen or felt, and in the usual auditing process, external auditors requires a verification of assets and liabilities before they are included in the annual report of the firm. This is coined as audit evidence in Izedonmi (2000). In this case, it includes those physical evidences that verifies the information provided by the audit client in the annual report.

The IASB made some clarifications to the traditional definition of assets and liabilities. They noted that an asset (or a liability) should be such that it represents the underlining resources in a business, rather than it being the ultimate inflow (or outflow) with yielding economic benefits. They also highlight that an asset (or liability) should be such that it is able to generate economic benefits from its inflow or outflow. Hinging on this, the IASB proposes that an asset should be any item that represents a present economic resource that are controlled by the firm as a result of their past events. In the same vein, a liability should be such that it represents a present obligation of the entity to transfer an economic resource as a result of past events. Building on this, an **economic resource** therefore is a right, or other source of value, that has the capacity to produce economic benefit (see IASB, 2010).

IASB also noted that the definitions of assets and liabilities should be such as does not retain the notion that an inflow or outflow is expected before such an item is qualified to be called an asset or liability. In essence, an asset must be such as is able to produce economic benefits, while a liability should be such as is able to result into the transfer of economic resources from the firm to other parties. Since it is an obligation, then it is required to be paid back to such persons that the company is obligated to pay.

In the view of the IASB, an obligation can be viewed as an event that has arisen from previous events, depending on the amount of the liability, which will be determined by reference to benefits received or other form of activities that are conducted by the entity before the end of the reporting period. The IASB views an obligation from three different perspectives: the first is that it is a present obligation that must have arisen from past events and must be strictly unconditional on other events. This imply that the entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions. Therefore, the entity must pay and not be able to transfer the payment. The second view is that the obligation must have arisen from past events and be practically unconditional. The term 'practical un-conditionality' implies that the obligation is practically not dependent on whether the entity does not have ability to avoid the transfer through its future actions. The third view is that the present obligation must have arisen from past events but may be unconditional on the entity's future actions.

The next to be discussed is that of income and expenses. In the IFRS conceptual framework, the definition of income and expense transcends the traditional definition of these two concepts. Traditionally, income is seen as a form of inflow of economic resources into the particular business entity. On the other hand, expenses are seen as a form of financial outflow that involves financial resources leaving the business entity (see Wood and Omuya, 1982). In relation to IFRS conceptual framework, income involves those increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or those decreases of liabilities that result in increases in equity of the business entity. This is other than those relating to the contributions from equity

participants. Expenses on the other hand include those decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities and obligations that result in the decrease of the equity of the business entity.

The income and expenses of the firm, provides users of financial information with those set of information that relates to some of the changes in an entity's resources and obligations. This is linked to the fact that the return on the equity of the business is tied to some of these information. For instance, to understand the return on the equity of the firm, there is the need to produce the volume of the economic resources attributable to such firm. This information also helps users to understand, in return, the extent of the future net cash inflows of the reporting entity. They can use this information to predict about the future occurrences in the firm, in relation to its capacity to earn. It can also help users of financial information to understand how efficiently and effectively the management of the entity has effectively discharged their responsibilities in the management of the resources entrusted to them.

The IASB also clearly distinguishes gains from revenue and losses from expenses. In their definition, revenues arises from the course of the ordinary activities of the business entity. Gains represents all those other items that meet the definition of income and may likely or may not arise in the ordinary activities of the business entity. On the other hand, expenses arises in the course of the ordinary activities of the business entity, while losses may or may not arise in the ordinary course of the operations of the business entity.

2.1.10.2 IFRS Application around the World: The European Union Experience

Particular attention is given to the European Union and how they have fared with the adoption of IFRS. The reason being that this regional organisation were among the first to adopt the IFRS by making it mandatory that all member states begin the usage of IFRS for their publicly listed entity latest by first January, 2005. An in-depth observation

was given to the survey conducted by IASB in 2015 on the state of IFRS adoption in European Union (EU) and the following fall out was observed:

The EU has made its public commitment for the support of moving towards a single set of high quality global accounting standards, which in its form is the IFRS. The public commitment was made in 2002, which was exactly a year after the formation of the IASB from the IASC and the subsequent release of the first IFRS standard in 2003. The EU adopted the IFRS for usage in preparing the consolidated financial statements of listed companies, whose securities are traded in member countries stock market. The adoption was supposed to be effective in 2005.

The IFRS adoption in EU member countries allowed for the freedom of the member states to have an option of permitting IFRS for small security exchanges that are not – in any form- deemed regulated markets; for separate financial statements for all or some of the companies whose securities are traded on a regulated market; for the consolidated financial statements of all or some companies whose securities are not traded on a regulated market; used for the financial statements of all or some companies whose securities trade on a regulated market.

The EU countries require IFRS for some foreign companies whose securities are publicly traded in the stock market of any member country. They require that these companies use the IFRS in the preparation of their consolidated financial statements unless the European commission deems their accounting standards to be equivalent to IFRS. In such a case, such company can use their local standard in the preparation of their financial statements. This provision is applicable to all listed foreign companies whose securities trade in a publicly listed companies.

The external auditors report are also expected to state clearly that the financial statement of the firm are prepared in accordance with stipulated guidelines as such as it is IFRS as adopted by the EU. This is expected since the IFRS is seen as the acceptable legal frame-

work for the preparation of financial statement in this region. More so, the IFRS is translated into the different languages of members of the EU. This is a pointer to the fact that the commission is interested in the usability of IFRS by member countries and goes ahead to reduce any form of encumbrance that might usurp the ultimate goal of unifying the accounting standards.

The European Union has twenty four (24) official languages including Bulgarian, Croatian, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Irish, Italian, Latvian, Lithuanian, Maltese, Polish, Portuguese, Romanian, Slovak, Slovene, Spanish and Swedish. This implies that IFRS must be translated into these languages before they are applicable to the respective member countries (European Union, 2014).

The European Union has not adopted IFRS for Small and Medium Enterprises. The reason being that the IFRS for SMEs was seen as being incompatible with the European Union accounting directive. As a result of this, the IFRS for SMEs was not endorsed by the European Union commission.

2.1.10.3   The African Experience

In the African region, there has not been any tangible step taken by the African Union to support the need for a continental adoption of the standard. Individual countries are making such moves as they perceive the benefit emanating from the adoption of the standard. Bruce (2011) has this to say about Africa's adoption of the IFRS standard: the recent change in the global economic landscape of the BRICs countries (i.e. Brazil, Russia, India and China), which is tandem to the rising economy of Africa and their focus on the rapid expansion of their economy, hinges on the fact that the improvement of financial reporting within these countries and region (as a whole) is an important part of strengthening of the story of economic growth. This suggest that for a sustainable form of development to be in existence, countries rapid growth and the need for expansion must be tied to the development of their financial reporting infrastructure.

There is also the need for the deepening of Africa's capital market for sustainable growth. To achieve this, there is a range of events that must be brought to light. Chief of them is the need to transcend from the local accounting standards to the adoption of International Financial Reporting Standards-IFRSs (Rooyen, 2011). This is in order to create an investor friendly business environment that will be suitable to ensure the returns on investment.

There are some challenges in the adoption of IFRS in Africa (Rahman, 2011). Some of these challenges include the fact that Africa is a vast continent and have their strengths and weaknesses in the implementation of a common form of financial reporting standard with the west. Her institutional strength is not as developed to contain the investor protection attribute that underlie IFRSs extent of disclosure. More so, the diverse colonial root makes it difficult for some countries with a strong colonial tie find it difficult to break away for the implementation of IFRS. For instance, countries of the Francophone African origin tend to retain their culture of sticking with the French domestic accounting rules. This cannot be separated from the fact that most investment and trade in these countries are preoccupied by French investors and partners.

There are difficulty in the application of a uniform accounting standard, especially for African countries to effectively adopt the IFRS guidelines and framework. This is because the legal standard for the preparation of annual reports must be matched with the capacity to apply the requirements of the standard. For example, the author notes that the number of qualified accountant in the Francophone part of the region. Therefore, the author suggest that it will take longer time for them to get the requisite technical capabilities required for the successful adoption of IFRS. Hence, some authors note that with a simplified IFRS, countries in this region will not easily comply with the stipulations of IFRS in the next ten (10) years. Some countries in Africa are developing their capacity through an intensive training of professionals in the form of workshops and seminars.

Some of these countries include Kenya, Uganda and Zambia, who are all moving towards a critical mass of professional and capable professionals to perform their duties and responsibilities.

This is the central issue with the adoption of IFRS in Africa – the unavailability of capable professionals to follow through with the guidelines and principles of IFRS. As typical of the African region, there is enthusiasm regarding the adoption of IFRS as African countries are expecting deluge of FDI inflow from this policy action. However, building up of the critical mass of the means to successfully implement IFRSs is still lacking in diverse ramifications. Countries in the West African Economic and Monetary Union (WAEMU-comprising of Benin, Burkina Faso, Guinea Bissau, Ivory Coast, Mali, Niger, Senegal and Togo), for example, are on the road map to the implementation of IFRS for SMEs and has the legal ability to enforce same. However, the necessary capacity to drive this accomplishment is lacking.

The Eastern Central and Southern African Federation of Accountants (ECSAFA) presents a different report. The region comprises of Angola, Botswana, the Democratic Republic of Congo, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Namibia, Rwanda, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. As such, the countries in this region have all agreed to adopt IFRSs and the IFRS for SMEs. They believe that the adoption of IFRSs was the right thing to do and adapting IFRSs was not the thing to do. South Africa, being the power house for the development of accounting infrastructure in Africa and as a result of this, its national standards have been converging with IFRSs and has led driven the need for the implementation of IFRSs in their financial reporting infrastructure.

The issue with the African countries decision to adopt IFRS goes beyond the adoption of the standard, but on their ability to implement such standard. However, apart from the reasons given above, there are other bottle-necks that hinders the ability of African countries to derive measurable benefits from their adoption of IFRS. Some of these bottle-necks are:

First, considering the pecuniary benefit from the adoption of IFRS – that is the improved comparability and uniformity of financial statements among companies that will bring about a decrease in the equity cost of capital and improved transparency, it is evident that these benefits may likely not be reached in then African context. This is based on the argument that IFRS was designed for the capital markets that are already developed or matured. This is based on the fact that financial statements prepared by the preparers are supposed to aid in investment valuation, especially in the buying and selling of securities. In this case pushing IFRS for usage in countries without stock market or for which there are no tangible quoted stocks makes the benefit of IFRS to these countries to be questionable. More so, some of these African countries have a totally different financial reporting needs than developed and industrialised countries do.

Another interesting point to note is that some of the highly industrialised countries have converged their national GAAP with the IFRS. Thus, suggesting that the weak adopt IFRS while the strong converge their national GAAP with some parts of IFRS. In this case, the strong countries converge their national GAAP with some provisions of IFRS in order to have a more robust accounting standard for usage by quoted companies. In developing countries like those in Africa, have adopted the standard hook-line-and sinker. Most developing countries have adopted IFRS without modifications.

2.1.11 WHY WILL A COUNTRY ADOPT IFRS?

This study is focused on the International Financial Reporting Standard-IFRS adoption or otherwise decisions of African countries to adopt the IFRS. This is based on earlier submission that dearth of knowledge on country specific factors that can have influence the decision to either adopt or otherwise IFRS. In Africa, unlike Europe (European Union), there is no unified mandate subscribed by member countries to adopt the standard. This is evidenced in the *solitary* decisions based on diverse dates of subscription of African countries to implement the financial standards.

These *solitary* decisions are influenced by some factors inherent in the country. For instance, countries are likely to adopt the IFRS if the expected growth and level of foreign capital inflow and international trade are high. This is because these countries will perceive IFRS as beneficial to sustaining their economic growth. This study will examine this stance in relation to countries in Africa by finding out if perceived value from having a shared body of accounting standards is able to explain the decision to adopt IFRS by African countries.

In line with this, Ramanna and Sletten (2009) notes that institutions and the quality of local governance institutions of countries can explain the decision to adopt IFRS. This is based on the fact that countries with higher quality institutions will demand better transparency as well as quality accountability. Scoot (2001) also noted that the major factors accountable for the decision to adopt IFRS by a given country are the isomorphism emanating from the societal institutions; however, this stance is not ravelled in Africa. This is based on the fact that the institutional development in Africa is poor compared to other regions of the world and this may affect their decisions to adopt standards that will enhance transparency and accountability. This is because African countries may not have the relevant institutional infrastructure to facilitate the adoption of IFRS. Hence, the study is poised to find out the extent which quality of indigenous governance institution of African countries is able to explain the decision to adopt IFRS.

IFRS has been adduced to be Pan European (Ramanna and Sletten, 2009). This implies that the standard is set to soothe demand by European financial reporting users. This is no doubt why the European Union general assembly subscribed to the compulsory utilization of the standard by all quoted companies in member state from 2005 (see the 2002 European Union report). Therefore it is possible that countries acculturation with Europe will influence the countries decision to adopt the financial reporting standard. Therefore, this study also intends to find out if African countries acculturation with Europe has an impact on their decision to adopt IFRS.

More so, the network effect of countries relationships is also envisaged as an influencing factor to adopt IFRS. Network effect is a phenomenon where countries decision to adopt IFRS is influenced by actions of other countries in the same regional blocs/or countries they have close ties with. For instance, if the major source of FDI is a country that has adopted IFRS, there is a high tendency that pressure will be mounted on the recipient country to adopt IFRS. Similarly, in a regional bloc where many influential countries in the region has adopted IFRS, there is a high tendency for other countries to follow soothe. Although there is no empirical evidence validating this especially with regards to African countries, thus this study also intends to find out if IFRS decision is influenced by network benefit attributable to country's relationships with other countries that has adopted IFRS.

The influence of the country in international politics can affect their decision to adopt IFRS. For instance, a country that is influential in international politics may likely adopt IFRS. This is because they may want to align with global demands compared to less influential countries on issues in international politics. By extension, this may not be the outcome in all cases. For instance, America is yet to adopt the IFRS irrespective that they are influential in international politics. However, African countries have been more of adopters of international views on relevant issues. Therefore, the study wants to also find out the extent of effect a country's influence in international politics will have on their decision to adopt IFRS.

The quality of education also matters in the formation process of standards in a country. This is because it is expected that country with an enhanced education and literacy level will find it easier to adopt IFRS since users and preparers of financial information will be able to understand the standard. This supports the normative isomorphism that countries will tend to adopt IFRS depending on the capacity and quality of their educational system (Scoot, 2001). The quality of education can also include the extent of professional accounting education penetration in a given country. However extant studies have

not investigated this, therefore this study also intends to understand the extent educational quality will have on the countries decision to adopt IFRS.

The study also intends to find out the relationship existing between countries natural resource endowment and their decision to adopt IFRS. This is pertinent given the fact that countries with more natural resource may be an attraction for foreign investment, thereby putting pressure on them to adopt IFRS. Most foreign direct investment (FDI) in Africa is resource driven and tends towards the exploitation of the primary sector. As a result of this, there is a tendency that the parent companies of these FDI may want efficient monitoring of the activities of their subsidiaries in Africa leading to undue pressure on the government of the countries to adopt IFRS. Hence, this study intends to observe whether the extent of a countries natural resource endowment have an impact on their decision to adopt IFRS.

2.1.11.1 Value from having a Shared Body of Accounting Standards

There are several values that can be derived from having a shared body of accounting standards. IASB (2010) observed that the adoption of IFRS can help to reduce the cost of capital. This was elaborated by Jensen and Meckling (1976) and Fama and Jensen (1983), who documented that the monitoring cost of debt by creditors can be reduced through better disclosure and this cost saving can be transferred to the company by the reduction in the cost of capital. Put differently, when a country adopts the IFRS, there is the tendency to reduce the cost of translation of financial statement. At this point, providers of finance spend less in understanding monitoring the financial statement of the borrowing company.

Some other studies have found that foreign direct investment (FDI) inflow can be a major benefit from having a shared body of accounting standards (e.g. Ramanna and Sletten, 2009). FDI has to do with the transfer of capital, managerial and technical assets of a firm from one country (home country) to another (host country). These transfers are induced by the need to reduce operational cost (cost of labour and materials), better

access to capital, to avoid trade restrictions and better access to cheap available factors of production. Despite the benefit of FDI in host countries, not many countries attract FDI's. The reason attributable to this is diverse. However, the cost of monitoring subsidiaries can be a major disincentive for not establishing subsidiaries in some countries.

In support of this, Beneish *et al*. (2012) stated that IFRS adoption has an influence on the extent of foreign equity and debt inflows. The relationship between a country's adoption of IFRS and the extent of FDI inflow can be viewed from the fact that companies will want to establish subsidiaries in countries where the monitoring cost is low. This is because the parent company wants to minimize cost and maximize profit and by so doing, will demand for lower cost of translation and monitoring the financial performance of their subsidiaries. Gordon *et al* (2012) examined this issue in the light of transparency as fostered by IFRS adoption. They observed that IFRS adoption can enhance financial report transparency, which can lead to the attraction of multinational corporations to the country.

Some other benefits attributed to the adoption of IFRS is trade benefit. Trade includes the exchange of goods and services between different countries of the world. IFRS has been noted to enhance this exchange in the form of attracting companies to set up plants that can enhance the production process and by extension, foster trade. Ramanna and Sletten (2010), studying the network effect from the adoption of IFRS observed that greater dependence on foreign trade increases benefits from reduced transaction cost as a result of IFRS adoption. As a result of these benefits from IFRS adoption, countries that are dependent on trade or FDI will have more reasons to adopt IFRS than less dependent countries. This promotes the argument that a country will likely adopt IFRS when the perceived benefit from the adoption decision is high.

2.1.11.2   Quality of Indigenous Governance Institutions

Institutions are rules and frameworks that are put together by a set body, intended to regulate human behaviour within a society. The majority of scholars define institutions

as the rule of the game (e.g. La Porta *et al*, 1999; Williamson, 2000; Acemoglu *et al*, 2001). This includes the humanly devised constraints that shape interactions in an economic system (North, 1990). In consequence, institutions structure the incentives in human exchange, whether political, social or economic. North (1990) further expounded the definition of institutions by noting that any formal rule is partially backed, supplemented or contradicted by implicit rules, which can take the form of taboo, customs and traditions. This implies that in a society, the quality of institutions can be viewed from two perspectives: the formal institutions and the informal institutions.

The formal institutions include those written down rules and regulations which are supposed to be abided by in the relationship between economic agents. These include the constitutions, policies and other forms of regulations. The informal institution include those non-written down guidelines, in the form of traditions, customs, beliefs and norms that regulate behaviours of a particular group of persons. These kind of institutions are usually not formalized but are upheld by the behavioural pattern of the persons that are banded by the institutions. For the focus of this study, we will focus on the formal institutions.

The quality of indigenous institutions can influence a countries decision to adopt IFRS. For instance, a country with poor institutional framework in terms of poor regulatory quality, poor rule of law and poor judicial system, may not have the necessary capacity to foster the adoption of IFRS. Ramanna and Sletten (2009) pointed out that accounting standards evolve in the context of domestic, cultural, legal and other institutional features. This includes issues such as the auditing framework of a country. Ball (2006) observed that the cost of accounting harmonization may be gruesome if it is not accompanied by changes to related capital market institutions.

The relevance of institutional quality cannot be neglected because accounting standard is a subset of the quality of institutions prevalent in the country. Ramanna and Sletten (2009) noted that local accounting standards are part of a complex system of governance institutions. Therefore, the development of the indigenous institutions will lead to the

development of accounting standards in the country. In this case, the compatibility of institutions with world practice matters. For instance, a country with autocratic system of governance may not promote the implementation of IFRS standard, other things been equal. This is because the implementation of IFRS will require a system of government that protects property rights; enhance the role of the press and reduction of corruption.

2.1.11.3   Countries' Acculturation with Europe

Acculturation with Europe relates to the country's affinity with European culture. This includes a country's closeness to the values and tenets of Europe. In this case, the language affinity, religious affinity and international relations cannot be over emphasized. Dong (2014) noted that the perception of IFRS as a European institution will likely affect the acceptance of the standard in a given country. This is especially when the country is not acculturate with Europe. Ramanna and Sletten (2009) noted that countries that are more acculturated with Europe will find it more politically feasible to accept IFRS. This is unlike countries where European institutions are non-native and the adoption of IFRS in such case will be viewed as abrogating authority to a European standard-setter.

When examining the extent of European acculturation of a country, it is note-worthy to put into consideration the colonial relationship of a country. This is because a country that is a colony of a European country will hold allegiance to their colonial master. This implies that their economic values and institutional framework will be patterned after their colonial masters. Ramanna and Sletten (2009) further observed that colonial relationships with Europe can bring about strong cultural ties regardless of the religion of the country. They made an annotation that the cultural ties are likely to become stronger with the passage of time. This is because as the time goes by, the former colonies view begins to have a favourable view of their former colonial masters.

2.1.11.4   Relationship with other Countries that have Adopted IFRS

The relationship of a country with other countries that have adopted IFRS is crucial in
the adoption of the standard. Many studies have considered this relationship as the net-
work effect. Countries do not make national policies in isolation. This implies that be-
fore a country adopts IFRS, there must have been a reason as a result of their relationship
with other countries. This connotes that the impact of IFRS on the country that has ear-
lier adopted the standard will act as a motivation for other countries to adopt the stand-
ard.

Studies have observed that IFRS, as a globally recognized body of standards, can lower
the transaction costs for foreign users of financial statements (Ramanna and Sletten,
2010). That is, users of financial statement outside the country will spend lower cost in
understanding and interpreting the financial report prepared using IFRS. By this, a coun-
try will rather adopt IFRS in order to sustain the relationship with other countries that
have adopted the standard. Put differently, as more jurisdictions with economic ties to a
given country adopt IFRS, the perceived benefits to that country from lowering transac-
tions costs to foreign users, and thus from adopting IFRS, can increase (Ramanna and
Sletten, 2009).

The African experience may not be entirely different. For instance, the adoption decision
of Nigeria may be traceable to the decision to adopt IFRS by other countries in Africa
such as Ghana and South Africa.

2.1.11.5   Strength of the Adopting Country in International Politics

Considering the strength of the country in international politics is vital in explaining the
decision to adopt IFRS in Africa. Due to the protection of the countries status in the
international sphere, the country will want to align itself with international occurrence,
therefore the need to adopt IFRS.

On the contrary, Ramanna and Sletten (2009) noted that a country that is more powerful in the international sphere will less likely adopt IFRS. This is based on the fact that more powerful countries will be less likely to surrender their standard for international standard. They have influence over their decision and they can stand with their decision irrespective of pressure from the international community. The United States FASB is a testimony in this regard. Despite the benefit from the adoption of IFRS, the US has not adopted the standard, owing to the peculiarity of the US GAAP.

The discourse on the influence of the strength on the country in international politics is still under contentions. There are basically two sides to the discourse considering that more powerful countries may intend to adopt the standard in order to sustain their image. On the contrary, these countries may not intend to adopt the standard in order to sustain their local standard.

2.1.11.6   Quality of Education and IFRS Adoption

In the comprehension and adoption of national policies, the role of the education of the populace cannot be neglected. The literacy level of the citizens of a country will affect the extent of their comprehension of national policies and guidelines. Focusing on the issue of IFRS adoption, the standard may be too complex if the educational capacity of the people is low. Scoot (2001) noted that the major factors accountable for the decision to adopt IFRS by a given country are isomorphism emanating from the convergence of the desires, structure and actions from the three levels of institutions. These isomorphism include the level of education of the country.

It can also be argued that a lack of adequate education of accounting information users can lead to increase in accounting illiteracy. This can affect the extent of adoption as they become cultural barrier for the adoption of IFRSs in the country. Apart from acting as barriers to the adoption of IFRS, the extent of education can also influence the length of time it takes for the citizens to get accustomed to the newly adopted IFRS standard. This is because users of the financial information may take a while to get accustomed to

the newly adopted standard if they are not well educated to comprehend the tenets of the standard.

Madawaki (2012) observed that the practical challenges facing the transition from local standards to IFRS in Nigeria can be traceable to the level of education and training of the users and preparers of financial statement in Nigeria. This implies that the level of education cannot be neglected in the adoption process of IFRS. Furthermore, the practical implementation of IFRS will require the relevant technical capacity among the preparers and users of financial statements. This includes the auditors and other regulatory authorities such as the security and exchange commission.

2.1.11.7 Natural Resources and IFRS Adoption

There remains a rising contention that the demand for IFRS can be traceable to pressure from the international community for countries to adopt the standard in order to enhance the reporting of subsidiaries in other countries. In Africa, multinational corporations are mostly involved in the extractive industries, where they deal with the mining and processing of raw materials. By this, the tendency for pressure to adopt IFRS increases in order to enable a better understanding and interpretation of financial statement prepared using the local standards.

Dirk (2006) argued that literature on FDI inflow has emphasized that the risk of FDI destroying local capabilities and extracting natural resources without adequately compensating poor countries persist. A vivid example is the case of Nigeria, where the bulk of multinational inflows have focused on the oil extractive industry. This will have a long run effect on national policies and framework of reporting.

The inflow of multinationals having an impact on reporting framework of a country is not farfetched. This is as a result of the fact that Parent Company will want to induce the host country about the need to change their reporting framework in such a way to soothe their monitoring capacity. This is most rampant in FDI dependence countries

such as most African countries. This can also be explained in line with the coercive Isomorphism as illustrated in Scoot (2001).

2.1.12   CONCEPT OF FOREIGN INVESTMENT

Foreign direct investment, commonly known as FDI, include those types of investment that are made to acquire a lasting or long-term interest in an enterprise that operates outside of the economy of the investor. This form of investment is termed a direct investment because in involved investors (which could either be a foreign individual, company or group of individuals) that are seeking to control, manage, or have a significant influence over the foreign enterprise. On a simpler sense, foreign direct investment can be seen as a firm having controls or a strong influence over another firm that is located abroad (Piana, 2005). Such controls can come in the form of owning an equity control of more than 10 percent, where the firm that owns this percentage is termed the parent while the other firm is regarded as the affiliate. Foreign Direct Investment is also those financial investment that gives rise to a sustaining investor's significant degree of influence over the management of the affiliate. These investments can be out rightly purchased of an existing firm – by merger and acquisition – and can involve the founding of a new legal entity which involves building a factory in the foreign country i.e. greenfield real investment.

This form of investment is such that involves investment from one country to another: this form of investment is normally by companies rather than governments officials or affiliates and it involves the establishment of an operation or the acquisition of tangible assets that includes stakes in other businesses. This form of purchase or establishment is such that is directed towards the acquisition and control of the operation of an asset in a foreign country and that is income-generating.

Sometimes, FDI is confused with portfolio investment. Both of the investment are foreign capital flow; however, there is a marked difference between the both of them. Port-

folio investment is the purchase of one country's securities by nationals of another country, with the aim of establishing a lasting control. By control, it implies a 10 percent threshold of voting power. Considering FDI, it involves investment in an asset and not security (World Bank, 2012). Such asset must be of a tangible form and it is not just a transfer of ownership but it usually involves the transfer of complementary factors to capital (including human capital like management, technology and organizational skills).

Foreign direct investment plays an important role in the growth of global businesses (Graham and Spaulding, 2005). The reason being that foreign direct investment can provide a firm with new market opportunities and market channels that helps in the facilitation of cheaper production facilities, access to new technology, products, skills and financing. For a developing country, the inflow foreign direct investment can provide new technologies in the form of capital and technological transfer, improvement in the processes or products of an organisation and as such, can provide a strong platform for enhanced economic growth and development.

Classically, foreign direct investment is defined as a company that makes a physical investment in another country and such physical investment plays the role of the subsidiary of the original/parent company. These investments can either be direct or indirect, depending on the form in which these investments are made. For instance, an investment in physical assets like building, machinery and equipment is regarded as a direct form of investment. On the other hand, when the investment is focused on portfolio form of investment or investment in equity, this form of investment is considered an indirect investment.

Foreign direct investment include those forms of investment that involves the acquisition of a lasting management interest in a company or enterprise abroad. As such, the foreign investor can either directly invest in the firm by the construction of a facility, or they may invest in a joint venture or strategic alliance position with a local firm with

their attendant input of technology, licensing of intellectual property (see Graham and Spaulding, 2005).

Graham and Spaulding (2005) also noted that there has been some profound changes in the size, scope and methods of foreign direct investment. New information technology systems, decline in global communication costs have made management of foreign investments far easier than in the past because of the ease of accessing information and the reduction in the encumbrances to global information flow.

2.1.12.1   Forms of FDI

FDI flows into a country in three forms. They include: horizontal, vertical and conglomerate.

Horizontal Flow: this is a situation where the FDI flows into a country and carries out the same activities in the foreign country as it is doing in the home country. For instance, most car manufacturing country are involved in horizontal flow, where the car manufacturer sets up factories abroad and then assembles cars abroad such as it does in their home country. A vivid example is the apple corporation, who sets up factories abroad (in Asian countries) and does the same manufacturing as it does in the home country (America).

Vertical Flow: this kind of flow occur when the FDI flows into a country but at different stages of activities are the flows that are carried out abroad. The vertical flow of FDI can be categorized into two (2) distinct groups. The first is the forward vertical FDI, which occurs when the FDI takes the firm nearer to the market. Most Chinese companies get involved in this form of FDI, where they set up plants in countries where they have the market share with the intention of taking the firm closer to the market. On the other hand, a backward vertical FDI is such a firm, where there are flows into foreign countries but with the intention of accessing raw materials (see Asiedu, 2006; Asiedu and Lien,

2011). A vivid example is a car manufacturing firm, who sets up its subsidiaries in counties where they can easily access rubbers that can aid them in the manufacturing of tyre for their cars.

Conglomerate Flow: Conglomerate entry occurs where an unrelated business is added abroad. This is the most unusual form of FDI as it involves attempting to overcome two barriers simultaneously - entering a foreign country and a new industry. The authors also noted that this situation leads to the analytical solution that internationalization and diversification are often alternative strategies, not complements. However, due to the evolving and dynamic international business land-scape, the forms of foreign direct investment have changed to incorporate recent advances in their operations. The forms of FDI are considered as follows:

Licencing and Technology Transfer: Licensing and technology transfer have been an essential instrument in the promotion of collaboration between businesses. The development and growth of research and development (R&D) as well as technology improvement have enhanced the need for the strengthening of the licensing processes in order to protect intellectual property of individuals. As a result of this, there has been an increase in industry clusters that are in the area of technological improvement as well as intellectual property cluster. There are also growth in licensing agreements that allow companies to take advantage of new and existing technologies, while they limit their overall risk to royalty payments until the completion of the technology development processes and thus the technology being ready to put new products into the manufacturing pipeline (see Graham and .Spaulding, 2005).

Reciprocal Distribution Agreements: Graham and Spaulding (2005) also pointed out that this form of foreign direct investment is more in tune with trade related activities. It is a strategic alliance that involves the coming together of two enterprises, usually within the same or affiliated industries, who agree to act as the national distributor for each other's product. For instance, using the hypothetical example, we can clearly see how this alliance works. A Nigerian based supermarket enters into a legal agreement with a

South African supermarket, where both companies gain direct access to each other's distribution network, without having any recourse to pay distributor support payments and other related expenses that are associated within the distribution network. The implication of this is that neither of the company has the capacity to hurt the other's market for its products or even out rightly refuse the sale of the others product in their own mall. Where such an agreement is inexistent, the Nigerian supermarket may have out rightly invested in South Africa to sell its product and vice versa for the South African supermarket's product. More so, the agreement reduces the overhead cost that can be associated with the sales office coordination, the coordination of the distributor network, managing the warehouse in the host country abroad and other administrative expenses and tasks that may likely occur.

Joint Venture and Hybrid Strategic Alliances: Traditionally, joint venture is bilateral and involves two parties/individuals who are within the same industry and are partnering for some strategic advantages, with the aim of making profit. Firms engage in this form of partnership with the ultimate aim of accessing proprietary technology that might be relevant for bringing about a competitive edge in the favour of the venture (Graham and .Spaulding, 2005). The author also highlights that another reason why joint venture partnership involves two persons is as a result of the difficulty in integrating different corporate cultures. In essence, when there are two domestic companies from the same country, it would still be very difficult of integration but in the case of two companies from different cultures, it is almost impossible at times. In the case of a joint venture partnership that involves more than two parties, such a joint venture is termed syndicates and are most often formed for the accomplishment of a specific projects that might involve a wide variety of expertise and (economic and non-economic) resources for successful completion. Syndicates – most times – are easier to manage because the project itself sets certain limits on each party and does not require close cooperation for completion (Graham and .Spaulding, 2005).

2.1.12.2   How Does FDI Gain Foreign Presence?

Apart from these three forms of FDI flow, FDI can take the form of Greenfield entry or merger and acquisition (takeover situation). The Greenfield entry occurs in a situation where a foreign investor gets into a country in order to assemble all the elements of a product from the scratch. It also includes the flow of FDI into a country with the aim of acquisition of new assets (Calderon, Serven and Loayza, 2004). This form of FDI seems to affect growth through its investment in physical asset, while merger and acquisition affects the productivity in a country.

The merger and acquisition form of foreign investment include those investments that are solely motivated by the need for efficiency gains and strategic planning to reduce competition in a market where the firms are not atomistic and affects the behaviour of other firms (Stepanok, 2013). The firms that are categorized in the merger and acquisition categories are solely focused on efficiency gains through the transfer of knowledge and are driven by the need to reduce their short-run variable cost by establishing their firms in a particular location.

The decision by a multinational to go into another country springs up with the need to expand the operation of the business. This include three options: to export the final products into the foreign market, acquire a foreign firm in the foreign market and the last option is to build a plant in the foreign market (Stepanok, 2013). In this research, the last two options are the kinds of FDI presence being studied.

For a business to expand its operation abroad, an important dilemmas that the business is being faced with is the need to create its presence in the foreign market either through the green-field investment or through mergers and acquisition (as earlier discussed). Businesses most times will likely be more inclined to opt for the acquisition of an already existing foreign firm, especially when the foreign markets seems tough to penetrate. The benefit of this kind of establishment of foreign presence is that the foreign

firm faces mild challenges in harnessing human resources, indigenous experience, establishing a market niche or even securing licenses to operate. Also, the lag of creating/establishing a corporate identity is reduced because the indigenous firm that is being taken over have already created such goodwill for itself.

An investor who does not want to acquire an already existing business, but wants to build the business from the scratch will choose to do so depending on investment climate in the foreign country. Some countries may set-up tedious regulations and policies that makes it difficult for an FDI to establish its presence in the foreign market. Also, a foreign investor can decide to set-up its foreign presence in countries where there are no suitable target indigenous firms for the foreign investor to acquire.

There are other circumstances where the foreign country's policy favours foreign businesses to establish a start-up firm in the country. For instance, some countries grants tax holidays to foreigners who decides to establish their firms in such country. Some African countries like Ethiopia has used this strategy to attract foreign investors.

2.1.12.3   Main Drivers of Foreign Direct Investment

The main issue to be discussed in this section is explaining the reasons for the locations of FDI. A popular theoretical paradigm that explains the reasons for the locations of foreign investment is defined in the "eclectic paradigm" attributed to Dunning (1980; 1988). The eclectic paradigm groups the factors that explains FDI locations into micro and macro level determinants. The framework suggest that firms invest in countries other than theirs in order to derive three main advantages. The first is the ownership advantage, location advantage is the second, while the third is the internationalization advantage.

Ownership Specific Advantage

The ownership-specific advantage allows a firm the advantage to compete with other firms in the market it serves irrespective of the disadvantages of being in the foreign

market because of its accessibility to and exploit the export opportunities in the natural resources and resource based products that are available in such a market. These advantages are tied to the firm's ability to coordinate their complementary activities such as manufacturing and distribution and their ability to exploit the differences between both countries (Anyanwu, 2012).The ownership specific advantage refers to those intangible asset that are, at least, for a while, the exclusive possession of the company who invest in such a location and may be transferred within themselves at a low cost and this leads either to higher incomes or reduced costs (see Vintila, 2010).

It is not far-fetched to consider the underlining reasons explaining why a multinational will locate its firm in a foreign country depending on the advantage it can derive from such a location. Some of these advantages are seen in the property competences of the firm, which are specific to its operation. The firm is expected to have a monopoly over its own specific advantages and using such an advantage abroad will only lead to having a higher marginal profitability or lower marginal cost than other competitors. (Dunning, 1980, 1988). To buttress this, three specific ownership advantages exist. They are: the monopoly, technology and economics of scale advantage.

The monopoly advantage involves those forms of economic advantage that accrues to the multinational as a result of privileged access to markets through their ownership of natural and limited resources in the form of patents, trademarks, among others. The technology advantage involves technology knowledge that is broadly defined by forms of innovation that accrue from the ownership of such technology. While the economies of scale advantage stems from the economies of learning, economies of scale and scope and greater access to financial capital that comes from the size of the firm (Vintila, 2010).

Location Advantage

Location advantage occurs when the location of the firm is more advantageous for the parent company to use the foreign investment than sell them or rent them to foreign

firms. Location advantages of countries are one of the principal factors that attract foreign investments into them (Asiedu, 2006; Asiedu and Lien, 2011). Some specific location advantages are those advantages that consist of quantitative and qualitative factors of production like the cost of transport, telecommunications, and market size among others. Other location advantages include the political advantages that are common and specific to the regulations and government policy that influences the return on investment. The final location advantages includes those socio-cultural factors that are specific to a particular location that affects the inflow of foreign investment. It includes items that relates to the extent of cultural diversity of the country among other factors like religion, ethnic fractionalisation among others.

Internationalisation Advantage

The internationalisation factor that informs FDI location is conditioned on the profitability of the company when considering internationalisation. This comes as a result of exploiting economic power that stems from the sale of goods and services that can be traceable from the agreements entered into by the firm with other international clients. As this benefits increases, the more the firm will be willing to engage in foreign production than base their firms' location in their home country. In essence, some of these agreements are in the form of franchise and licenses that is tied to the international collaborations of the firm with other parties.

The internalization advantages also arise as a clear answer to the issues of market failure. The underlining assumption in the internationalisation advantage is seen in the understanding that buyers and sellers have asymmetric information, which creates uncertainty around the quality of the transactions and the determination of the appropriate price to be paid. The internalization advantage perceives that the firm considers its ownership advantages as best exploited internally within the firm rather than being sold directly through spot markets or offered to other firms through some contractual arrangement such as licensing, the establishment of a joint venture or management contracting (Dun-

ning, 1980). Internationalisation advantage also involves the firm exploiting the imperfections in the external markets such as the reduction of uncertainty and cost if transactions so that knowledge can be generated more efficiently (Anyanwu, 2014).

In recent literature (e.g. Fedderke and Romm, 2006; Anyanwu, 2012) there has been a classification of the drivers of FDI location and this can be classified policy and non-policy factors. The policy factors includes those factors that are informed by the government policy in the FDI host country that has attracted such FDI to that particular location. Some of these policy factors include openness of the economy, product market regulations and labour market arrangements, corporate tax rates, FDI restrictions and any other factors that inhibit the free flow of capital (Asiedu, 2006; Asiedu and Lien, 2011; Anyanwu, 2012). On the other hand, the non-policy factors include those that affects market size of the host country, distance and infrastructure, factor endowment, among others (Mateev, 2009).

Anyanwu (2012) further classifies the factors that explains the location of FDI based on the following categories: foreign aid; infrastructure development; institutional and political factors that informs investment climate; attraction of natural resources; human resources development, productivity and cost; basic macro-economic and other factors. The most controversial of these factors is the foreign aid. The reason being that foreign aid is form of development assistance that is given to the host country government by a multilateral or bilateral organisation for development projects. In relation to FDI, some form of foreign aid substitutes FDI, while others act as complimentary.

2.1.12.4 Foreign Direct Investment and Portfolio Investment

Foreign direct investment consist of direct investment by large multinational (or transnational) firms or corporations into a foreign country, with their headquarters located in the parent's country. Most times, the headquarters of these multinational firms are located in developed countries and their interest are distributed across different countries of the world. This is unlike portfolio investment, which also involves huge capital that

is disabused by a foreign investor in the form of stocks, bonds and notes as a form of security in a foreign market.

With the rise of foreign investment across the world, the main drivers of this are multinational corporations. A multinational corporation is defined as a corporation or an enterprise that conducts and controls productive activities in more than one country of the world. These corporations are usually operate in an oligopoly form of market, which restricts new market entries and the already existing market operators are so powerful that they can influence the price in the ordinary market.

Foreign investors involves much more than the simple transfer of capital or the establishment of local factories in developing countries. It includes the transfer of technology by multinational firms, change of taste of the local markets, managerial philosophies and improved business practices which includes cooperative arrangements, marketing restrictions, advertising and the phenomenon of transfer pricing.

2.1.12.5   Benefits of Foreign Direct Investment.

The benefits of foreign direct investment vary across countries. For a typical small and medium sized company, the inflow of foreign direct investment presents an opportunity for the small businesses to become more actively involved in the global sphere of businesses. However, to properly understand these benefits, the discussion was distributed into varying sub-sections. These sub-sections are:

Resource Transfer

The first advantage of foreign direct investment is that it enhances the transfer of resources from the foreign investor to the host community. Foreign direct investment makes positive contribution to a host country economy by supplying capital, technology and other form of management resources that spills over to the host country and may not be readily available to boost the economic growth of the host country. More so,

foreign investors also have access to huge forms of capital that can be utilised to establish their investments abroad (Anyanwu, 2012). Being this the case, many of these investors are by virtue large in size (economically and non-economically) and as a result of this, these funds are available to be redistributed in their host countries by their collaboration with indigenous businesses. Other forms of resource transfer include technology and management transfer. Most of these foreign investors also have technological advantage based on the fact that they have access to cutting edge technology and management structure, which they can transfer to indigenous firms as a result of their presence in the host country.

Razin and Lougani (2001) notes that foreign investment allows the transfer of technology especially those that are in the form of new varieties of capital inputs that cannot readily be achieved through financial investment or trade in goods and services. Apart from this, beneficiaries of FDI flow can also benefit from the presence of FDI by the trainings that officer for those who they have employed and these trainings can be spelt over to other firms whom the individual will be working for later in the future.

Employment Effect

Another benefit from the presence of foreign investment in the host country is that they bring about employment effect. This imply that the presence of foreign investment creates employment opportunities for the host country citizens. Some of these employment opportunities that are created by the presence of foreign investment would hitherto not have been created assuming these investors were not present in the host country. The employment benefit from the presence of foreign investment can be classified into direct and indirect employment effect. The direct employment effect occurs when a foreign investment in the host country employs the citizens of the host country to work a paid employment in its establishment. The Indirect effects arise when jobs are created in local supply chains that are created by the presence of the foreign investment. As a result, when jobs are created because of the demand for factor input – in terms of raw materials

– that are required by the investor and which are to be supplied by the indigenes. In the process, they create employment opportunities.

Effect on Competition and Economic Growth

The presence of foreign investors in a host country brings about the creation of economic competition (see Kurtishi-Kastrati, 2013) that makes the market to function efficiently in such a form that suppliers and buyers have an open market function in which value will be encouraged and prices will be efficiently determined. The presence of foreign investment increases the consumer choice. This increase in consumer choice is based on the fact that the market is opened up to the participation of many suppliers of goods in which only those goods that are of better economic value will prevail in the market. More so, price will be regulated in the market thereby driving at consumers' welfare. Increased competition in the host country will also stimulate the flow of capital investment by firms in plant installation, the purchase of equipment, and expenditure on research and development as the need to gain a competitive edge will be the driving force of firms. The long-term results of this includes increased growth in the productivity of firms, innovations in the development of products and processes that will be attained through the improvement in the innovative capacity of these firms, and therefore leading to greater economic growth.

2.1.13 CONCEPT OF TRADE

Trade (be it international or local) is the exchange of goods and services for an economic benefit. The theoretical and empirical literature on trade indicate four different channels to show the various aspects of "trade" and its effect on the broader economic outcome: trade integration that is measured by the volume of exports or imports; trade openness measured by value of exports plus imports over gross domestic product (GDP); trade liberalization measured by the observed changes in the trade policy regime such as the changes in the level of industrial or agricultural tariffs; and the value of outsourcing or total flows of FDI (Jansen, Peters and Salazar-Xirinachs, 2011; Anyanwu, 2014).

In the trade literature, there is a concept of free trade and protectionism. The debate over these two strands have continued to be recurring in both academic and policy platforms. Those that advocate for free trade considers a minimization of the restrictions to international trade in the favour of openness and painless access to the global market. On the other hand, protectionists perspectives advocates for a national interest and economic welfare that will be implemented through regulating imports and market entry of other countries.

Trade is generally seen as an essential instrument to the growth of a country. Likewise, trade affects economic development from both the demand and supply sides. This assertion stems from the empirical and theoretical studies of a number of academic scholars. Some of the popular scholars include Dollar *et al* (2001), Sachs and Warner (1995). Grossman and Helpman (1995) also revealed that the process of international trade has an influence on entrepreneurs, which has a direct impact on the social structure of a country's economic system. These findings, amongst others, emphasize the relevance of trade liberalization in enhancing economic growth and development (Winters, 2004). Krugman (1983) further suggest that the positive effects of economic development, especially with regards to employment generation, poverty reduction, income re-distribution and economic can be linked to the growth of global trade.

The main issue in international trade is the occurrence of trade inhibiting measures that are policy instruments tagged protectionist actions. This action defeats the tenets of international trade and hinders the free flow capacity of international trade. By the occurrence of these inhibitors, the gains from trade such as economic growth (see Grossman and Helpman, 1991), are hindered by the occurrence of protectionist actions.

Protectionism is as an attempt by the government of a particular country to impose or enact certain restrictions on the exchange of goods and services between itself and other countries of the world. The underlining philosophy that governs the framework of protectionism postulates that the regulation of international trade is vital in ensuring that markets function properly, and this emanates from the fact that market inefficiencies can

impede the benefits of international trade. This therefore implies that there is the need to provide avenues of mitigating these inefficiencies. The implication of market inefficiencies and the consequent *loss of trust* in free trade is the persistent occurrence of protectionist actions. Some of the instruments used for protectionism include: export subsidies (financing indigenous export), quotas, embargoes (trade restrictions), exchange controls, import licensing, voluntary export restraint arrangements, and intellectual property laws such as patents and copyrights (Osabuohien *et al*, 2014; Evenett, 2011).

There are some justifications proposed for the employment of protectionist measures by countries and they include infant industry argument, import dumping, externalities, market failures, import controls, and non-economic reasons. The argument for Infant industry is one of the most widely adopted theories that supports protectionist actions. The underlining framework in this argument is that in certain situations, when foreign companies are allowed to freely operate in some industries without due regulations, the competition will be stringent and may crowd out indigenous infant industries. These infant industries have the potential to develop and gain comparative advantage and the occurrence of these crowding out effect would limit their ability to flourish beyond their foreign counterparts.

Some of the shortcomings of protectionist action is that it creates productive inefficiencies, in the sense that domestic firms that enjoy protection from competition may likely become lackadaisical in the reduction of productive costs. It also provides little protection for employment. This is because in the long-run, tariffs and other barriers to trade (which protectionists argue help to protect low-skilled workers of industries facing grim international competition), are found to be ineffective, inefficient and possessing high-level opportunity costs (Osabuohien *et al*, 2014). Another fundamental argument against protectionism is that it creates negative multiplier effects by the occurrence of trade disputes which adversely affects the trade volumes and leads to negative outcomes for

countries. This may also trigger high taxes and high prices of goods by imposing a dou-ble burden on tax payers and consumers.

2.1.13.1   Why Do Countries Engage in International Trade

Principally, every economic activity is motivated by the need to maximise benefit and minimise cost. Likewise in international trade, countries indulge in the exchange of goods for an economic value in order to maximise their gains from trade and minimise their cost. This implies that all trade is motivated by expectations of gains, either in-creased income or reduced costs (Byrns and Stone, 1992). Put differently, the global value of income and output is always maximised when the opportunity costs of produc-tion of everything everywhere are maximised. More so, the distance between countries has also made international trade to of immense benefit to consumers, as consumers are able to maximise their utility by purchasing goods without having to relocate nor travel to the countries where the goods are produced. In the same vein, factor input suppliers like labour are able to be productively engaged in a venture and get paid without having to travel out of their country of resident. Therefore, an efficient global trading system is expected to improve the welfare and standard of living of people everywhere.

For a clearer understanding of the benefits from trading, we analyse this issue based on some conceptual frameworks. These frameworks include:

Absolute Advantage

The concept of absolute advantage was propounded by Adam Smith, who says that as a result of the differences that exist in the abilities of individuals and nations to produce a particular good with the same amount of factor endowment. The concept of absolute advantage is seen when country A produces more of a commodity than another country B with the same resource endowment. The excess will then be traded between the coun-tries. Adam Smith proposes that each country should specialise in the production of those materials for which they have an absolute advantage in and then exchange in trade with those products for which they do not have absolute advantage in.

Comparative Advantage

This was propounded by David Richardo as an improvement of the Adam Smith's absolute advantage concept. This concept takes into account gains that may be available through trade. This classical theory of trade shows that with international trade, countries can benefit immensely from trading with other countries even though they may not have an absolute advantage in the production of a particular product. This theory suggest that mutual gain in trade is always possible between countries even though the pre-trade relative costs and prices differ between themselves. In comparative advantage theory, the main focus is the terms of trade of each country.

Specialisation Gains from Trade

Countries that engage in international trade gain from trade because their access to export markets makes what they produce to be more valuable. Free trade enables countries to specialize in the production of those commodities in which they have a comparative advantage. More so, with specialization, countries are able to take advantage of efficiencies that are generated from economies of scale and increased output. More so, it cannot be denied how international trade helps to increase the size of a firm's market, especially in the global market, and this will inevitably result in the lowering of average costs and increased productivity that will ultimately result in the increment in the volume of production.

Uniqueness Gains

There are some goods and resources that are uniquely available in some locations of the world, which are not distributed in other locations of the world. For instance, natural resources like diamond, tin, petroleum, bauxite and gold are not found in all countries of the world but in some unique locations. In the same vein, technologies may also differ across countries and this brings about a unique advantage for some countries compared to other countries. Byrns and Stone (1992) notes that the uniqueness advantage is seen in the trading for goods that are not available from local sources. These include the

uniqueness advantages that comes from the trade in certain minerals and agricultural produce.

Gains from Scale Economy

This involves the increase in the size of the market that results from international trade. In essence, moving beyond domestic market to international trade will provide an intrinsic incentive for the firm to increase their productivity beyond the domestic consumers. As the production increases, the average cost of production will definitely reduce because of the volume of production.

Technology Diffusion

Another gain from international trade is technology diffusion. Trade increases the spread of technology that would not have spread if the country did not engage in international trade (McAfee and Bryniolfsson, 2009). Trade has increased the speed at which technology is transferred from developed and industrialised economy to developing countries.

International Political Relations

Countries also engage in international trade in order to foster their relationship with other countries around the world. Due to the development of this trade relationships, the likelihood of hostility will be reduced between these trading countries. Political gains from trade arise as a result of the rising interdependency that trade fosters between countries and as such, facilitates international political stability (Byrns and Stone, 1992).

2.2.   THEORETICAL UNDERPINNING

In this sub-section, we discuss, broadly, various theories that relates to financial reporting and then we concentrated on the theory that underpins this study.

2.2.1 SOME THEORIES RELATED TO FINANCIAL REPORTING, FDI AND TRADE

The theories that are of particular interest to this study include: agency theory, stakeholder theory, new institutional accounting theory and the isomorphism concept.

Agency Theory

The first to be considered is the classical agency theory that suggest that a typical firm is viewed as a complex structure that involves the relationships transcending among economic agents as a result of binding contracts between the agents; in essence the agents are those resource holders and those managing the resources. The agency relationship arises whenever one or more of these individuals that own the resources (principals) hire other agents (or individuals) to perform some service, which involves the delegation of decision-making authority over the resources.

The agency theory is borne out of the need to understand the risk sharing problem that arises as a result of cooperating parties having different attitudes towards the risk (Eisenhardt, 1989). The uniqueness of the agency theory is that it included the agency problem as a fundamental tool in understanding the risk sharing problem that arise from economic cooperation. In essence, due to the arising divergence of goals and visions between the parties in the economic cooperation, the agency problem will likely arise (Jensen and Meckling, 1976). The agency problem therefore arises when one party (the principal) delegates work to another (the agent), who performs that work and by the reason of the contract, some misaligning intention arises and to understand this, the agency theory was formulated.

Fundamentally, the agency theory was initiated to solve two problems that arise as a result of the contractual relationship between the two parties: the first is the agency problem that arises as a result of the conflicting desires or goals of the principal and agent and the difficulty encumbered by the principal in verifying the actual actions of the agents. The latter is paramount because the principal intends to have absolute

knowledge about the agents since they are the owners of the resources and the agents were appointed to act on their behalf in managing the resources for profit (Jensen and Meckling, 1976; Eisenhardt, 1989). The second problem is the risk sharing that arises when the principal and agent have different attitudes toward risk, which informs their actions (Eisenhardt, 1989). For instance, because of the high risk of losing the resources provided, the principal may not take some actions that may jeopardize the going-concern of the resources. However, the agent may be willing to take such actions because of their low stake in the resources.

The main unit of analysis of the agency theory is the contractual agreement that govern the relationship between the principal and the agent and based on this, the agency theory was propounded to understand and ascertain the most efficient contractual agreement that should govern the parties. This is given the assumptions that people are self-interest driven, bounded by rationality and are risk averse; organizations are challenged with conflict among members and information is a costly commodity, which can likely be asymmetric in nature (Eisenhardt, 1989).

The main underlining assumption of the agency theory is the supposition that human beings are driven by self-interest. This imply that a company's manager (agent) may likely have personal goals that competes efficiently with the principal's goal of maximizing their wealth. This suggest that in an imperfect market, the agents will seek to maximize their own goals (utility) at the expense of that of the principal. As a result, the agents have the capacity to operate in their own self-interest rather than in the best interests of the firm as a result of asymmetric information – that is the agents have a better information about the firm than the principal.

Some of the evidences that portrays the self-interest agenda of the agent include their consumption of some corporate resources, using such corporate resources for personal benefit and profit, avoidance of optimal risk positions and initiate risk-averse behaviours that bypasses profitable opportunities that the firm's shareholders would have preferred. As a result of these myriads of occurrences, the agency cost arises where the principals

bear some cost to encourage the managers to maximize the principal's wealth rather than behave in their own self-interests manner (Jensen and Meckling, 1976). These costs include expenditures to monitor the agent's activities (e.g. cost on hiring professional auditors), expenditures to structure the organization in a manner that will curtail objectionable managerial behaviour (e.g. cost of appointing outside directors as part of the board members), and the last is the opportunity costs that arises when the principal-imposed restrictions on the agents limit their ability to take actions that can advance the wealth of the principal.

The agency theory has been criticized because its assumptions are overly simplistic and do not reflect the contemporary business environment. More so, empirical research has failed to support its basic assumptions (Miles, 2012) because it has a low predictive capacity. For instance, among the solutions put forward by the agency theory to reduce the incidences of agents pursuing their self-interest include: expand the number and influence of independent (non-executive) board directors on corporate boards so that they can act as an eye of the principal and check the excesses of executive board members; ensure that the roles of the Chairman of the board is separated from the Chief Executive Officer (CEO) in order to reduce the power vested on the CEO; create markets for corporate controls and hostile takeovers so that acquirers can dismiss wasteful managers; ensure that managers have stake in the company – by paying them with stock options – so that they can effectively pursue the interest of the shareholders.

Despite the submissions of this theory, recounting empirical evidence exist that does not validate some of the assumptions of the theory. For instance, some studies have observed that the separation of the power of the Chairman of the board and that of the CEO, as well as the board composition of independent directors does not affect the performance of the firm in any way (Dalton *et al*, 1998). More so, in realistic point of view, corporations like Enron that applied the agency theory by providing a stock option for her board of directors and whose board compose of over 80 percent of independent board members, still collapsed following series of self-interest agenda of the agents.

Some other critics highlighted that the agency theory did not address any clear organisational problems as it only highlights that there is a divergence of interest between the principal and the agents. More so, the solution of using the option of owning stock to control the behaviours of agents is excessively narrow and more so, using the organisational stock price to measure the wealth of the principal does not garner the complexity of the contemporary business environment (Hirsch and Friedman, 1986).

Stakeholder Theory

The second theory is the stakeholder theory, which is an advancement of the traditional view of organizations that they are primarily in existence for the purpose of improving the wealth of the providers of resource (those who own shares in the company) that initially puts them in existence. In view of this, the main objective of the company is strictly making profit to maximise the wealth of the shareholders and this is at the expense of other types of interest that may be in existence (Miles, 2012). The stakeholder theory markedly advances this traditional view of the objective of the firm (Freeman, 1984). This theory was made popular following the works of Freeman (1984) in his book on strategic management: a stakeholder's approach.

In Freeman's (1984) book, the author noted that corporations will cease to be merely a legal device through which the transactions of private business of individuals may be carried on. The author also notes that a typical corporation has become both a method of property tenure and a means of organising economic life. It is important to clearly define who a stakeholder is.

A stakeholder is an individual or a group of individuals, entities and related parties, whose existence can affect or are being affected by the actions of the firm. They include all other entities or parties other than and inclusive of the shareholders. For any party to be classified as a stakeholder of the firm, the interest of such party must be directly

linked to the firm's operation or corporate objectives (Walsh, 2005). They can be categorised into three broad groups: internal stakeholders, external stakeholders and distal (Sirgy, 2002).

The internal stakeholders include those parties who are within the firm and whose existence affect or affected by the operations of the firm and they include employees, executive staff and the board of directors of the firm. The external stakeholders include those parties who are existing outside the firm but whose existence are affecting or are being affected by the operations of the firm and they include: shareholders, suppliers, creditors and the environment of the firm. The distal stakeholders include the competitors, consumer, advocacy groups and government agencies (Miles, 2012).

The main intuition underlining the stakeholder theory is that the firm's existence is focused primarily objective should be focused on meeting the broader interests of the stakeholders rather than maximising the shareholders wealth. This implies that instead of the firm to focus their entire attention on maximising financial performance, they should also focus on enhancing their social performance. This include their ability to understand, respect, and meet the needs of all of those who have a stake in the actions and outcomes of the organization; this will enhance the competitive advantage of the organisation (Plaza-Ubeda, de Burgos-Jimenez, and Carmona-Moreno, 2010; Miles, 2012).

Donaldson and Preston (1995) laid down some precedence on the underlining thesis explaining the stakeholder's theories. Among them are: the stakeholder theory is unarguably descriptive. The theory presents a model that describes the basis for the existence of a corporation. It describes the corporation as a constellation of cooperative and competitive interests that possesses intrinsic values. The second is that the stakeholder theory is instrumental and it establishes a framework that examines the connections, if any, that exist between the practice of stakeholder management and the achievement of various corporate performance goals. The principal focus of interest here has been the proposition that corporations practicing stake-holder management will, other things being

equal, be relatively successful in conventional performance terms such as their profitability, stability and growth.

The third underlining thesis is that fundamentally, the basis for the stakeholders' theory is normative and it involves the acceptance of the ideas stakeholders are persons or groups of persons with legitimate interests in procedural and (or) substantive aspects of corporate activity. This implies that the stakeholders of corporations are identified by their interests in the corporation, irrespective of whether the corporation has any corresponding functional interest in them. More so, the interests of all stakeholders of the firm are of intrinsic value and by this, each group of stakeholders deserve to be considered in the corporate stake of the firm.

The fourth thesis is that the stakeholder is managerial in the broad sense of its existence. It does not simply describe existing situations or predict cause and effect relationships but it also recommends attitudes, structures, and practices that constitutes stakeholder management. By stakeholder management, it implies that key attributes and simultaneous attention should be given to the legitimate interests of all appropriate stakeholders of the firms, which includes both in the establishment of organizational structures and general policies that affects the stakeholders. The theory does not necessarily presume that the managers of the organizations are the only rightful locus of corporate control and governance.

The concept of stakeholder is brought to bear with the existence of the activities of the firm affecting their environment. By this, we imply the corporate social responsibility of the firm, which includes the responsibility of the firm towards the broader audience, apart from those within the firm. Corporate social responsibility (CSR) has become an increasingly prominent issue for companies and the corporate boards of directors of firms are becoming more involved in assessing and shaping company policies and practices on a wide range of social and environmental topics.

To match up the demands for firms to begin to pay attention to the broader stakeholders of the firm and those whom the activities of the firm are affecting, there is the need to beef up the governance structure of the firm and ensure that a proper structure, composed of the behaviour of corporate boards are properly checked to ensure that they align with the overall goal of enhancing corporate 'stakeholdership'.

The stakeholder implies that there is a drastic shift in the traditional role of the board of directors as individuals that are set-up and that exist in ensuring that they defend the interest of the shareholders. Although, it cannot be denied that the board of directors exist based on the responsibility of setting the values and standards that structures the operations of the organisation through instruments like strategies, incentives and internal control systems. Therefore, for a board to effectively function and impact the industry, they must be such that needs to commit to corporate social responsibility and address the needs of the diverse stakeholders. Therefore, the firm is viewed as a locus of responsibility that relates to a wider array of stakeholders interest and therefore maximises the sum of the various stakeholders' surpluses.

The major criticism of the stakeholder theory is that it stems from the difficulty of defining the concepts of who really constitutes a genuine stakeholder. There is an expansive list that shows the stakeholders of a company and this ranges from most bizarre to include terrorists, dogs and trees and this makes it even more complex on the categories of individuals to be included as the stakeholders of a company. In essence, there are many shareholders that forms the categorization of the stakeholders and this makes it even more worrisome on who to be regarded as the stakeholder of the firm.

A major shortcoming of the theory is that if the directors intend to serve all the stakeholders in the company, they may not be able to serve the interest of the stakeholders whose impact is supposed to be genuinely serviced by the company. For instance, it is obvious that not all stakeholders' matters as much as the other and the management team concentrating on satisfying all the stakeholder may be a displeasure to some whose interest matters as much. Another criticism of the theory is that relating to the range and

diversity of stakeholders, the stakeholder theory is being accused of being 'superfluous' by which they mean that the intent of the theory is better achieved by relying on the hand of management to deliver social benefit where it is required.

The New Institutional Accounting Theory

The New Institutional Accounting theory is a spring forth from the popular and contemporary New Institutional Economics (NIE) School of taught that directly relates to the La Porta *et al* (1999) theories of institutional development. The NIE theory is a new development in economic thoughts that posits that economic activities that involves economic agents within a society is mostly informed by the social and legal relationships that exist among them (Osabuohien, 2011). These relationships can be termed as frameworks, which govern the behaviour of economic agents. This is in the sense that individuals are naturally drawn to being opportunist and in order to avoid any form of losses in their relationship with other individuals, then there is a need for these frameworks.

The La Porta *et al* (1999) theory of institutional development centres on the factors that leads to the formation and persistence of the development of institutional frameworks in the society. La Porta *et al* classified these institutional developments into economic, political and cultural institutional theories. The economic development paradigm implies that institutions are mostly formed by economic actors by considering the social benefits of such creation in relation to the perceived transaction costs that are associated with such creations. The political formation paradigm informs that institutions are created by those in political powers in such a way that the institutions protects their interest of remaining in power to extract economic rents. Lastly, the cultural institutional theory paradigm hinges on the redistribution of societal resources much more than economic efficiency (Osabuohien, 2011).

The NIA was championed by the influential work of Wysocki (2011), where the author highlighted the main theses of this theory as a syntheses of elements to suggest the frameworks for analysing the determinants and outcomes of both accounting institutions

and non-accounting institutions based on the following structures: (A) institutional structures (B) levels of institutional analysis (micro and macro) (C) exogeneity and endogeneity of institutions (D) interdependencies and complementarities of the frameworks of institutions (E) efficiency and inefficiency of the institution.

The concept of institutions was propagated in this theory. The main definition of institutions is that it includes the mechanisms and frameworks that facilitate efficient exchange and interactions between economic agents in an economic system (Williamson, 2000; North 1990). In North (1990) definition, the fragment of the comprehensive definition of the concept of institution includes those humanly devised constraints that shapes human interactions and provides the rule of the game in the society where the actions of the players are clearly defined by the governing rules. In this definition, institutions are classified as rules and these rules are put in place to regulate the actions of individuals that operate in a system where these rules are applicable. It is important to note that these rules (both legal, political and social rules) are established on the basis for the production (both efficient and inefficient) exchange and distribution in the economy (Wysocki, 2011).

Institutions can be broadly classified into the formal and informal frameworks that guide the economic and social interactions of players in the society. The informal institutions include those rules and regulations that are not clearly and out-rightly documented for reference, but are implicitly and tacitly recognized as a guiding framework for human behaviour. It also consist of informal measures such as sanctions, taboos, customs, and traditions as well as formal rules such as constitutions, laws, and property rights (North, 1991). On the other hand, formal institutions include those humanly formulated structure that are codified and crafted to create peaceful economic interactions and reduce uncertainty in exchange of values (Williamson, 2000).

Accounting frameworks are kinds of institution (Wysocki, 2011). This is due to the fact that the underlining reduction of transaction cost by the presence of institutional framework is a veritable platform for understanding the role of accounting frameworks. This

is because there is the need for clear information symmetry between the parties involved in an economic transaction: such clarity include the verification of properties of what is being exchanged and enforcing the terms of the exchange. In relating this to accounting, accounting framework is an institutional mechanism that helps to lower transaction costs, reduce information costs and asymmetry, lowers coordination costs and improve the enforcement of property rights (Wysocki, 2011). North (1990) even noted that the enforceability of accounting and auditing methods for use in debt collection and the enforcement of contract is an essential feature in the facilitation of economic developments.

To broadly explain the accounting frameworks that can be classified as an institutional framework, it is important to state that these frameworks transcends accounting rules and frameworks such as IFRS. It include other frameworks like the corporate governance mechanism, the legal framework and the existence and enforcement of laws governing investor protection and disclosure standards (Wysocki, 2011).

The main criticism of this research is the challenge of identifying and documenting which institutions are important for the influence of accounting frameworks on the broader macroeconomic context. Wysocki (2011) noted that while many theories exist for the possible role of institutions in influencing economic outcomes, it is ultimately an empirical issue to confirm the real world effects of institutions on economic activity. This is because different institutional choices can lead to clear differential economic outcomes. More so, research efforts needs to be careful in applying these different institutions to accounting frameworks. It is evident that when due care is not applied in the application of these institutions, there will be difficulty in identifying the actual institutional framework that will result to a particular economic outcome from the adoption of accounting frameworks.

Also, the method applicable in the examination of institution has been scrutinized. One of the prominent method is the usage of good instrumental variable for institution. This approach is called the quasi-experiments. One of the major limitations of this method is

that there are competing channels through which institutions affect economic outcomes and it will not be easy to identify appropriate instrument to account for this. There are likely to be complementarities between a country's institutions: this implies that multiple institutional elements endogenously arise to fit and work with each other (Wysocki, 2011). Therefore, it is difficult to attribute observed differences in accounting frameworks and economic outcomes across countries to certain institutional frameworks.

A third criticism of this approach is that the proxy for institutions are problematic. Most country-level studies rely on proxy indicators of the business environment like the strength of the legal system operational in the country (La Porta *et al.* 1997, 1998), regulatory framework and the governance structure that is prevalent in the country (Kaufmann *et al.* 2005). However, Wysocki (2011) noted that some of these measures of institutions exhibit little or no variation over time.

New Trade Theory

The fourth theory is the New Trade Theory (NTT), which is an improvement of the classical trade theories that comprise of the Mercantilist theory, the Absolute Advantage theory, the Comparative Advantage theory and the Herscker-Ohlin theory of trade theory of factor endowment. The New Trade theory advanced on the classical theories by relaxing three main assumptions that was not considered in the classical trade theories. These assumptions are:

1. Product differentiation
2. Increasing returns to scale
3. Imperfect competition.

The concept of product differentiation was propagated by the NTT and it appreciates the diversities that exist between firms in the same sector. This diversity results to product differentiation, which was not emphasized in the classical trade theory. The classical trade theories emphasis was on homogenous products or two products that forms the basis for trade.

The emphasis on product differentiation was championed by the work of Krugman (၁၇; 1981), among others. The authors stress that the changes in the distribution of income among industrialized countries. Their theory predicts a model that explains the mechanism for accounting for the observed expansion of trade relative to the income of countries. Therefore, as the distribution of national income becomes more equal across countries, then trade volumes should also be on the increase. This increase in the national income brings about a demand for differentiated products in the national economy. Therefore, if the demand for differentiated products will be superior to the homogeneous products; this brings about the need for intra-industry trade; and, in the situation where industrialized countries are net exporters of the differentiated products, then intra-industry trade among industrialized countries would increase relative to trade with less developed countries.

As firms produce different products due to the rising demand that corroborates with the rising income level, the situation arises when countries begin to specialize to increase the production of the similar but differentiated products. As the economy opens up to international trade the demand faced by each firm increases to meet the rising world demand for that product. Quantities produced are therefore larger and the concept of economies of scale come to be. The concept connotes that the average cost declines as the size of the firm that produces the specialized products increases. As a result, prices are of the products are reduced as trade generates an additional gain from economies of scale.

The gains from trade, in terms of economies of scale, is associated with the idea that an extra unit of quantity produced will reduce the average cost of producing the product in the long-run. The reason for this reduction is the concept of specialization that occurs when firms operating on a larger scale can match inputs more closely to tasks or the advancement that comes with technological reasons. This decline in average costs leads to lower prices of the products.

The monopolistic competition arises from the gains linked to trade. As the economics of scale of countries increases, firms begin to gain market power. This creates an oligopolistic form of market structure, where the few big firms are involved in the production of differentiated products. By this, the firms can begin to inform the prices and the forces of demand and supply are no more responsible for determining the prices of the products. This creates an imperfect market structure. This is market force where the prices of a product are fixed by oligopolistic suppliers and not the forces of demand and supply.

A major contributor to the NTT is Paul Krugman whose works (e.g. Krugman, 1981; Krugman, 1983) revolve around the central issue of economies of scale and specialisation. The economies of scale of a firm are mostly internal to the firm, where the firm's average cost reduces with the volume of production. The consideration of the internal economies of scale is premixed on the high fixed cost that a firm engages in in order to begin its production. In the long-run, this fixed cost of production is higher than the foreseen profit the firm can generate. However, to reduce this burden, more outputs will be required to spread the fixed cost. In such a situation, Krugman emphasises that the market cannot be perfectly competitive (which is against the classical trade theories' assumption of a perfectly competitive market). Krugman developed a theoretical model to explain this based on the monopolistic competition model. Since this model is a shift from the classical trade theories, then the term New Trade Theory was coined to aggregate further empirical works that sprang up from the assumption of imperfect competitive market, scale economy, among others.

2.2.2 THEORY APPLICABLE TO THIS STUDY 'NETWORK ECONOMIC THEORY (NET) OF IFRS ADOPTION'

Empirical studies on the macroeconomic consequences of IFRS adoption have faced the challenges of identifying a suitable theoretical framework to underpin their studies. For instance, Gordon, Loeb and Zhu (2012), who studied the impact of IFRS adoption on

foreign capital flow around the world, concluded that among their main limitation is that they could not underpin their studies to any theoretical background.

Due to this challenge, we followed the approach of Ramanna and Sletten (2009) by underpinning our study on the economic theory of network. The economic theory of network is a popular theory in technology literature that explains the process and speed of technological and innovation diffusion in a particular locality (see Ramanna and Sletten, 2010). Ramanna and Sletten (2009) noted that the theory predicts that in addition to network benefits (synchronization value), a product with network effects can be adopted due to its autarky value. Ramanna and Sletten (2010) elaborated on the network economic theory by explaining that there are three autarky values that new adopters look out for. They include the demand for the new product, the features of the new product and the number of the users of the new product.

In the context of this study, the theory explains that the adoption of IFRS can be appealing to a country if other countries have adopted the standard (Ramanna and Sletten, 2009). This theory predicts that IFRS will be adopted by countries due to its direct benefits. These direct benefits include the net economic benefit, which are those economic outcomes of countries as a result of their decision to adopt IFRS. It can be in the form of foreign capital flow and trade, which is facilitated by the reduction of information asymmetry and transaction and coordination cost attributed to IFRS adoption.

Consensus have been reached on the usefulness of the standard in the uniformity of financial reporting framework and the consequent reduction in cost of access to financial information around the world (Beneish *et al*, 2012; Marquez-Ramos, 2009). These developments will result to pecuniary benefits (in terms of cheaper global capital market participation) for foreign investors, particularly as capital flows and trade become more globalized. Therefore it is cheaper for capital market participants to become familiar with one set of global standards than with several local standards (Ramanna and Sletten, 2009).

The effect of this adoption is seen in the volume of foreign capital inflow and trade. This is the net economic benefit from the adoption of the standard. Ramanna and Sletten (2009) noted that since IFRS is considered a network dependent product, then a country's decision to adopt IFRS can be viewed through the lens of autarky and synchronization values. The direct value of IFRS to the adopting country is the autarky value of IFRS while the synchronization value is the value derived from adopting a body of accounting standards that is widely used by other countries. In this case, we are focusing on the autarky value, which includes FDI and trade.

To illustrate the network economic theory, we present a diagram in Figure 1.

Source: Researcher (2013)
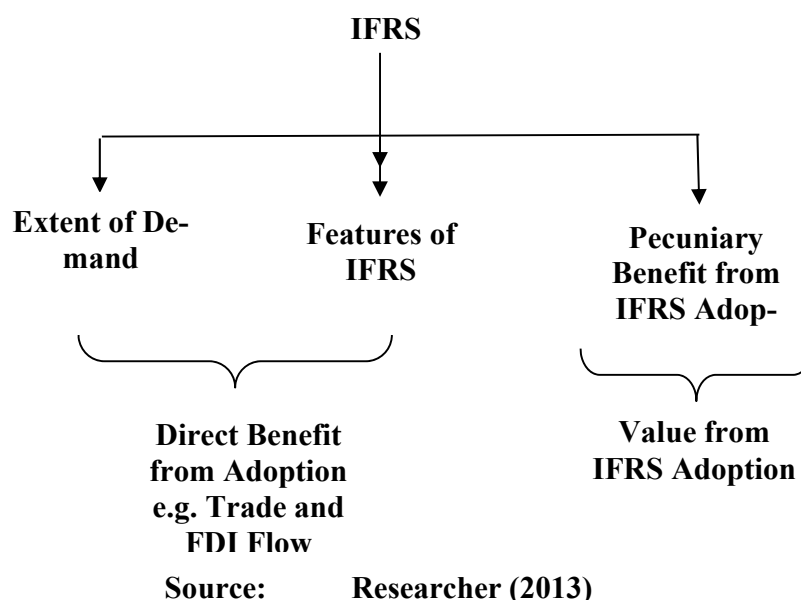
Figure 1   Network Economic Theory of IFRS Adoption

From the Figure, we illustrate that the role of direct benefits in adopting IFRS can be explained by idiosyncratic preference functions of countries that capture their demand for IFRS and its features; these include the reduction of information asymmetry and cost, lowering coordination cost and ensuring the security of property rights (Wysocki, 2011). This implies that foreign financial statement users that are already familiar with

IFRS standard, as a result of the global relevance of the standard, will incur lower barriers in analysing the financial statement of other adopting country. This in turn can result in accrued benefits to reporting entities.

The theory expects that IFRS adoption will improve the volume of foreign capital inflow and trade of those countries, due to the lowering of information costs to capital markets and reduction of information asymmetry that can be traceable to the adoption of the standard. These are the values from the adoption of the standard. The absent of international accounting standards such as IFRS will reduce the costs of becoming familiar with domestic accounting practices and this will likely improve the attractiveness of the investment destination country.

This theory is applicable to our work because it relates the role of IFRS adoption in improving the net economic outcomes of the adopting countries. In this case, we intend to expand on the role of IFRS adoption in enhancing the trade and FDI outcome of the adopting countries through the uniformity of financial reporting standard that will enhance foreign capital flow around the world.

Some studies have applied this theory to explain the relationship between IFRS and the pecuniary benefits of trade and FDI. They include Ramanna and Sletten (2008) who identified that the degree of IFRS harmonization in a country is an increasing function of the perceived value of its IFRS network, particularly when network benefits are defined to include the trade and FDI benefits. Their studies consistently argued that the network effect matters less to countries with larger GDPs and countries where foreign trade accounts for a smaller fraction of GDP. These suggest that professed advantage of IFRS harmonization decisions are weaker for countries with more international bargaining power.

Ramanna and Sletten (2010) examined the network effects in countries' adoption of IFRS. Their study developed and tested the hypothesis that perceived network benefits from the adoption of IFRS by countries can possibly explain the country's decision to

shift away from local accounting standards. That is, as more jurisdictions with economic ties to a given country adopt IFRS, perceived benefits from lowering transactions costs to foreign financial-statement users will outweigh the institutional differences that make IFRS adoption costly. Their result supports the fact that perceived network benefits increases the degree of IFRS harmonization among countries, which is dependent on the fact that larger countries and countries that are less dependent on foreign trade have a differentially lower response to these perceived benefits.

The Network Economic Theory relates to our study in some ways. First of all, the theory argues that there are pecuniary benefits derivable from the a globalised uniform accounting standard (IFRS) and such benefits include trade and FDI, which are caused by the reduction of information cost and asymmetry and by improving property right protection as well as reduction of coordination cost and transaction cost (Ramanna and Sletten, 2009; Ramanna and Sletten, 2010; Wysocki, 2011; Gordon, Loeb and Zhu, 2012). This implies that there are expected trade and FDI benefit from the adoption of the standard. In this light, we expect a positive relationship between IFRS adoption, trade and FDI.

Secondly, the theory explains why a country adopts IFRS; this is as a result of the trade and FDI benefits from the adoption. Considering that the numbers of African countries that are adopting IFRS are rising, we are interested in seeing if the adoption is transmitting to the Trade and FDI volumes of the countries. We perceive that this theory best explains the mechanism and other related studies, such as Ramanna and Sletten (2009 and 2010) have adopted similar theory.

2.2.3 REVIEW OF EMPIRICAL LITERATURE AND IDENTIFICATION OF GAPS

As earlier stated, given the reasons for IFRS adoption and the possible implication, debate on the relationship between trade, FDI and IFRS adoption is inconclusive. For instance, there are some studies that have noted that IFRS adoption improves the trade and foreign capital flow of the adopting countries (Ramos, 2008; Gordon, Loab and Zhu,

2012). And on the other hand, some other studies clearly emphasize that it is not necessarily IFRS that improves trade, but countries that trade more and depend on FDI are more likely to adopt IFRS (Ramanna and Sletten, 2009; Ramanna and Sletten, 2010). This debate is not even considered when zeroing in on IFRS adoption literatures that have focused on the African context. The African context is important considering that IFRS is a recent phenomenon in defining the accounting structure of countries within this region. More so, there are immense studies that have emphasised the inadequacy of African countries to apply and understand the sophistication of the new standards. At best, the conclusion in Afrocentric IFRS adoption literature have climaxed on considering the level of compliance by companies after the adoption of IFRS (Yahaya, and Khadijat, 2011); the implication of the adoption of IFRS in Nigeria (Iyoha and Faboyede, 2011; Madawaki, 2012); financial statement effect of IFRS adoption (Okpala, 2012); perception based analysis of mandatory adoption of IFRS in Nigeria (Adeyemo, 2013); the adoption of IFRS in relation to curriculum development (Onuoha, 2013); the effect of the adoption of IFRS on the stock market performance of African countries (Okoye and Ezejiofor, 2014).

Noting the inconclusiveness of the literature on the linkage between IFRS adoption, FDI and trade, and the incongruity of this debate in the African context, this study identifies this important gap and goes further investigating into the relevance of IFRS adoption on the volume of trade and FDI attractiveness of the adopting African country. The approach of this study is unique considering that the conclusions reached by non-African literature, on the FDI-Trade implication of IFRS adoption, made use of panel data that comprise of both developed and developing countries. The pitfall in this mixed sample is that, the combination of data of countries from different regions will result to an inefficient conclusion as a result of heterogeneity in the structures of the economic system (i.e. political, social and economic structures), thereby implying that conclusions reached in those studies may not be generally applicable. This has possibly accounted for the inconclusive debate on the impact of IFRS adoption on countries trade and FDI.

This study also observes that some of the non-African studies (e.g. Gordon, Loeb and Zhu, 2012) have considered a linear relationship between IFRS adoption, trade and FDI. This implies that they have considered the adoption of IFRS as having a direct impact on trade and FDI without being conditioned on any other intervening variable. However, in this study, the role of some intervening variables was suggested based on the intuition that IFRS adoption will only have an impact on trade and FDI when certain structures are in place to facilitate this process. A country's decision to adopt IFRS will signal to the international community that the business environment in the country is conducive for investment. This is especially for FDIs that will require the adoption of IFRS for easy control and supervision of their subsidiaries in host countries. However, for sustaining the FDI inflow and trade, institutional, professional and human capital infrastructure will be needed. For instance, a country that adopts IFRS and has stringent business regulations will not be able to attract FDI. Likewise, a country that adopts IFRS but have poor professional accounting bodies and low human capital (such as education) will not have the capacity to sustain the inflow of FDI. This was not considered in extant studies and in this study, there was an examination of the interaction term between the prevailing indigenous professional accounting infrastructure and IFRS adoption outcomes.

CHAPTER THREE

METHODOLOGY

3.1   INTRODUCTION

This chapter presents the research design, population of the study, sampling technique, sampling size, data gathering method, the sources of data, instrument of data collection, data analysis method and the instruments of data analysis.

3.2.   RESEARCH DESIGN

This study is an ex-post study. It uses quantitative research technique and quantitative data in reaching its inference. It is a quantitative research because empirical analysis was employed in answering our research questions. Forty eight (48) countries was selected as the sample. The selection of the countries is based on the availability of relevant data that shows the legal date of adopting IFRS and other relevant data that was included in the empirical model. The period of study is 2002- 2014. Some of the data for African countries are very scanty and accesses to these data are difficult. Some other studies have encountered similar challenges and they resorted to including only those countries with data as part of their sample (Asiedu, 2006).

The data for this study are sourced principally from some established databases, which includes the Price Water House Coppers web report on the state of IFRS adoption around the world. This website provides information on the actual date the countries made a declaration of their acceptance of IFRS to be used by listed companies as reporting standard. Furthermore, other data are sourced from the World Bank World Development Indicators 2012, which reports the macroeconomic variables that are sourced for as co-variates in the Trade/FDI equation. The choice of this data source is because the kind of objective poised out to be achieved in this study is such that these databases provides the relevant data to be suitable to achieve the underlining objectives.

After the data are gathered, some empirical techniques (to be discussed subsequently) were engaged such as descriptive and econometric statistics to empirically establish the relationship between the variables. The econometric analysis will involve the use of the Generalized Methods of Moments technique, among others, to control for possible en-dogeneity that usually arises in econometric models

3.2   POPULATION OF STUDY

The population for the non-survey research is all the countries in Africa. Currently, there are fifty seven (57) countries in Africa as identified by the United Nations Conference on Trade and Development. These countries are presented in Table 1 based on their divisions into the five sub-regions (Central, East, North, South and West Africa).

Table 1:   Population of the Study

Central Africa	East Africa	North Africa	South Africa	West Africa
Angola	British Indian Ocean Territory	Algeria	Botswana	Benin
Cameroon	Burundi	Egypt	Lesotho	Burkina Faso
Central African Republic	Comoros	Morocco	Namibia	Cape Verde
Chad	Djibouti	Libyan Arab	South Africa	Côte d'Ivoire
Congo	Eritrea	Sudan	Swaziland	Gambia
DR Congo	Ethiopia	Tunisia		Ghana
Equatorial Guinea	Kenya			Guinea
Gabon	Madagascar			Guinea-Bissau
Sao Tome and Principe	Malawi			Liberia
	Mauritius			Mali
	Mayotte			Mauritania
	Mozambique			Niger
	Rwanda			Nigeria
	Somalia			Sénégal
	Seychelles			Sierra Leone
	Uganda			Togo
	United Republic of Tanzania			
	Zambia			
	Zimbabwe			

Source: Classification was based on UNCTAD (2016).

The population of the study includes the countries that have adopted IFRS and those that have not adopted the standard. The combination of the two groups was necessary be-cause the broad research objective is to establish the impact of IFRS adoption on the trade and FDI inflow of African countries. Therefore, econometric estimations will be

conducted on the second group and the result will be used to validate our findings from the results of our econometric estimations using the first group.

3.3   SAMPLING TECHNIQUE AND SAMPLING SIZE

This is discussed in two sections. The first is the sample size, followed by the sampling technique.

The countries included in the sample are Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, DRC, Cote D'Ivoire, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe. From these countries, Botswana, Egypt, Ghana, Lesotho, Kenya, Malawi, Mauritius, Morocco, Mozambique, Namibia, Nigeria, South Africa, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. This sample represents about 84 percent of the total countries in the African region. This implies that the sample size is sufficient to draw inference and make generalisations about the African region.

It is worth observing the years that IFRS was adopted by some of the sample. Table 2 presents these statistics and from the table, many of the countries were adopting IFRS some years after the declaration of IFRS by the IASB in 2001. The earliest adopting country was morocco and Burundi, who legally adopted the standard in 2004. Many of the other countries began adopting from 2005 onward, which was only a year after the compulsory adoption by listed European countries. Some of the countries such as Eritrea and Nigeria adopted the standard in 2010, following the public declaration by the country for their decision to adopt the standard. Some other countries who adopted the standard beyond 2010, that would have been included in this sample was dropped because data would not be gotten for the other variables beyond this period, if chosen.

The sampling technique adopted by this study is a stratified random sampling technique. This is a form of sampling method that divides the population into strata and then sample selection will be performed from the strata. In this case, the strata include countries that have complete data for the period under study. In this case, all the countries in the African region have the opportunity of being selected; however, not all the country have the relevant data to inform their selection. Thus, the countries that were selected in the sample are now grouped into two: those that have adopted IFRS and those that have not. This is in order to make for easier comparison across the sample.

Table 2:   List of Countries and Year of Legal Adoption of IFRS

S/N	Country	Year of Legal Adoption	S/N	Country	Year of Legal Adoption
1	Angola	2009	14	Mauritius	2005
2	Algeria	2009	15	Morocco	2004
3	Benin	2008	16	Mozambique	2006
4	Botswana	2007	17	Namibia	2005
5	Burundi	2004	18	Nigeria	2010
6	Cameroon	2009	19	Rwanda	2008
7	Egypt	2006	20	Seychelles	2009
8	Eritrea	2010	21	Sierra Leone	2006
9	Ethiopia	2009	22	South Africa	2005
10	Gambia	2007	23	Swaziland	2009
11	Gabon	2009	24	Tanzania	2004
12	Ghana	2007	25	Uganda	2003
			26	Zambia	2005
13	Madagascar	2005	27	Zimbabwe	2009

Source: Compilation from Deloitte (2012)

3.4   DATA GATHERING METHOD

The data gathering method discusses the sources of data, the instruments of data collection and the actual field work. This section is discussed in two themes-sources of primary data and sources of secondary data.

3.4.1 Sources of Secondary Data

This study makes use of secondary data. The data is sourced from the PriceWaterHouse-Coppers web report on the extent of IFRS adoption around the world. From this web report, this study gathers the dates of adoption of IFRS, which is then used to compute the periods of adoption of IFRS. The main dependent variables (Trade and FDI) is sourced from the World Bank-World Development Indicators.

This study controls for other covariates, which can affect the extent of trade and FDI inflow into a country. The inclusion of these covariates is aimed at avoiding errors of variable omission. The covariates of interest are depicted in the analytical framework as described in figure 2.

The analytical framework was developed from an extensive literature review on the determinants of trade and FDI. Six covariates were identified and they include the human capital, cost of trade, institutions (government effectiveness, rule of law, control of corruption and regulatory quality), market size, infrastructures and natural resources. Data will also be gathered for these covariates from the World Bank dataset.

The first covariate is the indigenous institutions, which cannot be overemphasized. This is based on the fact that institutions include principles and standards regulating the interactions of economic agents. Likewise, it enhances transparency and the extent to which information flow can be symmetric between different economic agents. The quality of institutions will determine the extent to which trade and FDI can be facilitated by IFRS adoption. Studies, such as Fosu (2011), have argued that the terms of trade of many African countries are dwindling as a result of poor institutional framework. This is despite their adoption of IFRS. Asiedu (2006) also reverberated the fact that institutions matter especially in attracting FDI into a country. Anecdote evidence suggests that FDI will flow into a country that has well established institutional framework in order to protect their investment. This implies that a country with poor investment climate in the

form of war and political instability, poor contract enforcement, will attract less FDI and will perform poorly in trade irrespective of their willingness to adopt IFRS.

The second covariate is the level of human capital development in the country. This has been identified in literature as a major influence of trade and FDI. Asiedu (2006) and Asiedu and Lien (2011) have consistently re-echoed this by noting that the volume of Africa's trade and FDI inflow will be determined by the development of her human capital. Logically, trade requires production and FDI require developed labour force: therefore, for a country to effectively make progress in trade and FDI inflow, it will be expected that they focus on the development of their human capital despite their desire to adopt IFRS.

Other covariates as illustrated in the Figure include the cost of trade, which has also been identified as a major determinant of a country's performance in international trade. This was emphasized in extant literature as it is noted that the transportation cost of trading has a great impact on the volume of trade. The author noted that the prominent explanation for the rise in international trade is as a result of decline in the international transportation cost.

Market size includes the income of the country in one form and population of the country in another form. The market size will attract FDI and will facilitate international trade because countries will want to have a trade partner whose demand for their products will be high as a result of the potential market. Likewise, FDI will be attracted to flow into countries with large market size so that their manufactured products can easily be sold and their profit recouped. Asiedu (2006) included this variable in her model of estimating the relationship between FDI, natural resources, market size, government policy, institutions and political instability. She also established that natural resources are attractors of FDI into a country. This has severally being reverberated in the literature: FDI inflow into Africa are resource seeking (see Asiedu, 2006). This implies that the extent to which FDI flows into African countries will be determined by the availability of resources.

Finally, infrastructure is a major determinant of trade and FDI. This is because infrastructural development is both a trade facilitator and FDI attractor. For example, countries with poor road and electricity will increase the cost of trade because of the cost of transportation and the cost of powering storage facilities will be higher. Likewise, FDI will not be able to efficiently function when there are poor infrastructures because they require infrastructure such as power to function. Asiedu (2006) earlier used dataset for African countries to identify infrastructure as a major factor to yield Africa access to the global economy, in terms of trade.

From the analytical framework, we identified that IFRS adoption will not just affect trade and FDI in isolation, without the combined influence of accounting infrastructure. This is because the extent of accounting infrastructure in the country is capable of explaining the sustainability of the influence of IFRS adoption on trade and FDI. As we earlier noted, when a country adopts IFRS, the availability of accounting infrastructure that would aid the use and implementation of the standard in the country, will determine the extent to which sustainable capital inflow will be achieved. Based on this, we identified three main accounting infrastructures- the indigenous accounting institution, the development of the professional accountancy body and the human capital in the country.

The development of the professional accounting bodies will aid the sustainability and the provision of qualified manpower that can be hired in the industry, to aid the preparation of financial report based on IFRS. We note that, despite the adoption of IFRS, if professional accounting bodies are not producing able personnel to be hired, the outcome from FDI and trade will be dismal. This is very important considering that FDI require professionals to prepare the financial reports of their subsidiaries to aid ease of monitoring.
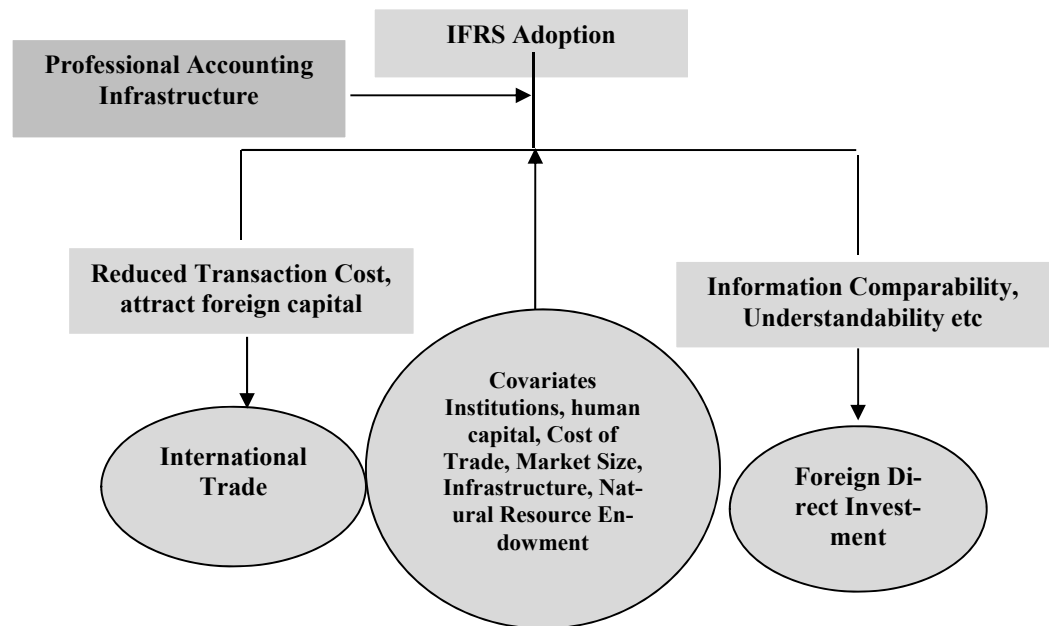
Figure 2:   The Linkage between IFRS Adoption, Trade and FDI

In summary, the Figure illustrates that IFRS will influence FDI and trade in relation to other covariates. However, the available accounting infrastructure can moderate the extent to which IFRS can affect trade and FDI. The sources of data are presented in Table 3.

3.4.2   Econometric Model Specification

The econometric models developed for this study is intended to achieve the objectives of this study. It was an extension of the work of Ramanna and Sletten (2009) and Ramanna and Sletten (2010) who studied the decision to adopt IFRS around the world. The former focus was on the reasons for countries adoption of IFRS using 102 non-European Union countries, while the latter focuses on influence of network effect on countries adoption decision using 92 countries.

The model development began by stating our model in its implicit form:

$$Y_{it} = \beta_{0i} + \beta_1 X_{it} + \beta_2 C_{it} + \mu_{it} \qquad\qquad (3.1)$$

Where *Y* is our dependent variable, *X* is the explanatory variable and C are the sets of covariates/control variables as described in our analytical framework. Taking this further, we describe the explicit form of our model as:

$$Y^k_{it} = \beta_{0i} + \beta_1 IFRS_{it} + \beta_2 HCap_{it} + \beta_3 Cost_{it} + \beta_4 Inst_{it} + \beta_5 Mkt^n_{it} + \beta_6 Infra_{it} + \beta_7 Nat_{it} +$$
$$\beta_8 Prof\_Acct_{it} + \beta_9 Prof\_Acct*IFRS_{it} + \mu_{it} \qquad (3.2)$$

Y^k is the measure of trade and foreign investment. The subscript 'k' include the measures and they are: FDI- foreign capital inflow. The net Foreign Direct Investment inflow-FDI as a percentage of the Gross Domestic Product-GDP was used to capture *FDI*; Foreign Portfolio Investment-*FPI,* which is measured as the portfolio equity net inflows as a ratio of the GDP of the respective countries; the third variable-*Trade,* is measured as the ratio of total export to GDP of the country.

$IFRS_{it}$ implies the date of legal adoption of the IFRS standard by a country. The date of legal adoption of IFRS is measured as the number of years a country has been an adopter of IFRS-partial or full adoption *(Yradpt).* The apriori expectation is such that we expect a positive relationship between IFRS adoption, trade and foreign direct investment.

HCap   is the extent of human capital in the country *i* at time *t.* It is measured as Adult Literacy and Tertiary Gross Enrolment Rate. These measures take into account the literacy of the adult citizens in a country and they consider the level of development of the productive population of the country. We expect that human capital in the country should have a positive impact on foreign direct investment and trade. For instance, when human capital values increase, it is expected that the trade and foreign direct investment will naturally increase in the respective countries.

Cost   Cost is the cost of trade proxied as the exchange rate. This is very relevant for measuring the cost of trade because the exchange rate of a country is a tangible pointer to the cost of exporting or importing a product into a country. The apriori expectation here is that the cost of trade is expected to have a negative impact on trade. For instance, when trade cost increases, for instance, the cost of importing goods or exporting same, trade will definitely be hurt.

Inst   indigenous governance and institutions with in the country; the study concentrates on formal institutions which include: political institutions. Political institution of country i in time t identified from extant literature (such as kauffman *et al*, 2005) was used to indicate the quality of political institution in the country. These measures are political stability (Pol_Stab); Control of Corruption (Pol_Cop); Government Effectiveness (Pol_Gov) and Regulatory Quality (Pol_Qua). These indicators are standardized on a scale of -2.5 (poor) to +2.5 (better). However, for better estimation and interpretation of result, + 3.5 was added to the original values, thus rescaling them from 1 to 6. This is similar to the original values as the higher the value, the better the quality of political institution within the country. Similar technique was applied by Osabuohien (2011). The apriori expectation is that as the quality of institutions improves, the foreign direct investment and trade will also be improved. This is because institutions create lasting economic and political structures that enhances investment and business operations within a country. This relationship is expected to be positive.

Mkt^n This is an indicator for the market size of the country, with superscript n connoting two measures. They include the economic size of the country and population size. The economic size of the country was measured using the GDP per capita of the country while the population size was captured using the total population of the country in millions. We expect a positive relationship between market

size, trade and foreign direct investment. This is because with larger market sizes, more trade and foreign investments are expected within the country.

Infra   This is the value for infrastructure in the country. We captured this variable using the total electricity production per kilowatt in the country. This measure was deemed suitable owing to the fact that power is a major facilitator of production for trade and FDI attraction. It is expected that infrastructural development will improve foreign direct investment inflow and trade flow to respective countries.

Nat   This is the indicator for natural resources in the country. To measure this variable, precaution has to be observed so as to avoid a myopic view. This study takes into consideration the fact that foreign investment into a country will be attracted where there is the presence of natural resources as well as human capital to be engaged in the exploitation of these resources. Many proxies have been used in extant literature to capture this variable such as natural resource as the share of one or more of primary products, export including agricultural raw materials, food, fuel, ores and metal to GDP. However, these measures are not measures of resource abundance, but rather measures of dependence on natural resources. However, this study measures the natural resource endowment in a country using the measure of *natural resource export per worker*. This measure is relevant to this study because there is no direct count on natural resources of countries and the assumption that countries especially African countries' natural resource extraction is exported[2] and not consumed locally, further buttress the argument. Therefore, since African countries thrive more on primary product from agriculture and other form of economic value derivable from land, we deem this measure very appropriate. A positive relationship is expected here. Natural resource enhances the trade flow and foreign investment flows to countries.

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[2]This is evident based on the fact that African countries do not process their natural resource and they therefore export it.

Prof_Acct: this is the measure for the development of professional accounting body. This was captured using three variables. They include the length of years that the professional accounting body has been in existence. We began to count from the day the professional accounting body was established. We also include the number of accounting bodies in the country. This measure will sufficiently illustrate the depth of the accounting profession in the country. This implies that a country with more professional accounting bodies will have more professional depth than countries with fewer professional accounting bodies. The third variable in this category is a dummy variable to capture countries with accounting standard setting bodies as 1 and those without these bodies as 0. The apriori expectation for this variable is not clear. We either expect a positive or negative relationship. However, the econometric estimation is expected to clearly direct the signs of the result.

$_{it}$is identifier for country i and time t while β_{0i} is the constant term, that measures the variation In the dependent variable as a result of the interactions between the explanatory variables. μ_{it} is the error term which is expected to capture the combined effect of omitted variables in the model.

The last variables in the model (*Prof_Acct*IFRS*) is the interactive variables, which is expected to aid us in understanding the extent to which accounting infrastructural development can enhance the effect of IFRS adoption on trade and FDI. Based on apriori, if the variable is +, then it implies that the particular accounting infrastructure can enhance the effect of IFRS adoption on trade and FDI and – otherwise.

Table 3:   **Sources of Secondary Data**

S/N	Variables	Source
	Dependent Variable	
1	*FDI*	World Development Indicators-WDI (2012)
2	*FPI*	World Development Indicators-WDI (2012)
3	*Trade*	World Development Indicators (2012)
4	*IFRS Adoption*	Deloitte database on the rate of IFRS (IASplus.com) and PWC document on IFRS adoption
5	*Adult Literacy*	World Development Indicators (2010)
6	*Tertiary Gross Enrolment Rate*	Human Development Report (2010)
7	*Tariff Rate*	World Integrated Trade Solutions
8	*Political Institutions*	World Governance Indicators (2012)
9	*GDP Per Capita*	World Development Indicators (2012)
10	*Population*	World Development Indicators (2012)
11	*Total Electricity Production*	World Development Indicators (2012)
12	*Natural Resource Export Per Worker*	World Development Indicators (2012)
14	*Accounting Infrastructure*	Various websites of professional accounting bodies in the sampled countries

3.5   Estimation Technique

To begin the estimation, this study takes into consideration clarity of analysis so as to avoid ambiguity and misinterpretation of results. Therefore, we will begin by estimating the correlation analysis in order to establish the association existing between the variables in their bivariate form. From the correlation analysis, we will also be able to understand if multicollinearity exists between any of the explanatory variables. This will determine whether we are to include all of the variables in the same model. In the case of multicollinearity, a stepwise regression will be performed in order to avoid spurious estimates.

Three estimation techniques was applied in order to ensure a robust estimates. The ordinary least square regression estimation technique was applied as the baseline estimator; while the generalised least square technique is the second test and this one controls for either the fixed country effect or the random effect depending on the choice from the

Hausman test; and then corroborated with the inclusion of the third estimation technique-Generalized Method of Moments estimation technique.

Pooled Ordinary Least Square (POLS Technique)

The POLS regression estimations concerns itself with the study of the effect of one or more variables (called the explanatory variables) on another variable(s) - the explained variable, with a view to estimating the predictive coefficient of the explanatory variables. The regression analysis does not necessarily imply causation. In other words, a statistical relationship, despite strong and suggestive, does not explain the causation of the variable.

The regression analysis thrives on seven fundamental assumptions. Gujarati and Porter (2009) argued that these assumptions must be fulfilled for the regression analysis to produce its best linear unbiased estimates (BLUE). These assumptions include:

The first assumption is that the parameters of the regression model is linear in nature. By linearity, it implies that the model follow a linear stochastic trend; in actual sense, there is a straight line relationship between the variables. Secondly, the explanatory variables have fixed values that are independent of the error terms. Thirdly, there is a zero mean value of the disturbances to the regression model. In other words, there is no specification bias, where the regression model contains variables that are not supposed to be included in the model or are wrongly included in the model. This therefore causes a wrong specification and the extent of disturbances increases as well. Fourthly, the model assumes homoscedasticity or constant variance of the error term. This implies that the error term remains the same irrespective of the explanatory variable that is included in the model. Fifthly, the regression analysis assumes no autocorrelation between the disturbances/error terms. The sixth and seventh assumption is that the number of observation is expected to be greater than the number of parameters to be estimated and the values of the variables that are included in the model must not be constant.

Having known these assumptions, the OLS regression presents a reliable starting point to examine the relationship between the variables. In essence, since this analysis presents the explanatory power of the variables in the model, then it can easily be seen as to the strength of association that comes with the model.

Generalised Least Square

The estimation process began by considering the baseline regression that controls for the fixed country effect. This technique estimates the Ordinary Least Square-OLS regression with country-fixed effects and heteroscedasticity-corrected standard errors. This technique is immeasurably relevant since it controls for the country's unobserved heterogeneities that are likely to occur due to time-invariant country characteristics (Gujarati and Porter, 2009). Some of these characteristics include the level of institutional set-ups in the sampled countries; the country's accounting heritage; and the legal system etc.

For instance, consider a country in the sample, with an Anglo-Saxon financial reporting heritage, and another with the Continental European framework, despite the adoption of IFRS, these factors are likely going to inform the procedure through which the financial reporting standards affects investment in such country. Since these heterogeneities are likely to inform the relationship between the adoption of IFRS and foreign investment, then it is essential to apply a technique that adequately controls for this in its estimation process. A preliminary Hausman test was conducted to validate our choice for the country-fixed effect technique.

Therefore, the fixed effect model is presented as:

$$Y^k_{it} = \beta_{0i} + \beta_1 IFRS_{it} + \beta_2 HCap_{it} + \beta_3 Cost_{it} + \beta_4 Inst_{it} + \beta_5 Mkt^n_{it} + \beta_6 Infra_{it} + \beta_7 Nat_{it} + \beta_8 Prof\_Acct_{it} + \beta_9 Prof\_Acct*IFRS_{it} + C_i + T_t + \mu_{it} \quad (3.3)$$

Where the identifiers 'C_i' and 'T_t' represents the country's and time fixed effects, μ_{it} is the error term, α is a constant and β and are parameters.

The second form of the generalised least square is the random effect estimation technique. This technique considers the unique time constant attributes that are the results of random variation and do not correlate with the individual regressors.This model is adequate, if inferences are to be drawn about the whole population, not only the examined sample. However, to choose between the fixed effect and the random effect, the Hausman test will be conducted and the probability value of the test statistics will determine which of the approach best soothes the analysis of this study.

The Generalized Method of Moments

After this, we will estimate the Generalized Method of Moments. The rationale for this, especially focusing on the GMM technique, is because most economic relationships such as the focus of this study may be orthogonal in nature. This implies that their values may not be entirely determined in the model and can be influenced by other variables represented in the error term. Thus, the problem of autocorrelation can arise. A failure to account for this relationship can lead to dynamic misspecification and endogeneity problems. For example, the contemporaneous explanatory variable in the various models of the study may not be absolutely endogenous as some factors outside the models can influence them, which may be correlated with the error term of the models. Arrelano and Bond (1991) developed a GMM in first difference equation so as to correct the endogenous variables by the lagged dependent variable. For example, consider the following equation:

$$Y_{it} = \beta_1 Y_{it-1} + \beta_2 X_{it} + \lambda_{it=} \ddot{\varphi}_i + v_{it} \qquad (3.11)$$

Where Y_{it} is the dependent variable and Y_{it-1} is the lag dependent variable and X_{it} is the exogenous variable that possibly includes the lagged value and $\lambda_{it}$is the error term for the country effect $\ddot{\varphi}_i$. The GMM difference transforms this equation by the first difference:

$$Y_{it} - Y_{it-1} = \beta_1 [Y_{it-1} - Y_{it-2}] + \beta_2 [X_{it} - Y_{it-1}] + [\lambda_{it} - \lambda_{it-1}] \qquad (3.12)$$

The first difference was performed to eliminate the time invariant unobserved country specific effect $\ddot{\varphi}_{i,}$. This makes the GMM technique efficient for this kind of estimation. The GMM has several advantages amongst which is that it is more efficient and consistent since it uses more moment restrictions and if any of the explanatory variables are endogenous, appropriate instruments are found for using predetermined and exogenous variable within the system (Leyaro and Morrissey, 2010). These internal instruments help in solving the problem of endogenous explanatory variables.

However, the internal instrument may not be good instruments of current differences if the series is close to a random walk (when the time series are persistence) and the number of time series observation is small and in the case of this study, T = 7. To avoid this problem Arellano and Bond (1991) propose the system GMM that is derived from the estimation of a system of two equations (the differenced equation and the levels equation). The suitably lagged levels of Y_{it} and X_{it} are used as the instrumental variables in the differenced equation. However, ΔY_{it} and ΔX_{it} are used as the instrumental variable in the level equation provided those explanatory variables are strictly exogenous.

To establish the validity of the instruments, the standard Sargan tests of over-identifying restrictions and for system GMM the standard Hansen test is used. Furthermore, the AR (1) and the AR (2) values is also estimated to test the null hypothesis of no autocorrelation of first order and second order (Arellano and Bond, 1991). The former under the null hypothesis is asymptotically distributed as a chi-square with degrees of freedom equal to the number of instruments less than the number of parameters. Hence, if the model is correctly specified, then the variables in the instrument set are expected to be uncorrelated with the idiosyncratic component of the error term in the model (Leyaro and Morrissey, 2010). Leyaro and Morrissey also noted that the *AR(2)* test is asymptotically distributed as a standard normal under the null of no second order serial correlation as it aims at providing a check on the specification of the model as well as the legitimacy of the variables used as instruments. This is a very important check compared to the *AR(1)*. This implies that in a system GMM, there could be the presence of the first

order autocorrelation, but the system is not permitted to exhibit a second order autocorrelation.

To validate these, the probability value of the Sargan test, *AR(2)* and *AR(1)* are used. The assumption is such that the probability value of the Sargan test and the *AR(2)* is greater than 0.05 while that of *AR(1)* is less than 0.05. Once these criteria are attained, then the validity of the instrument used in the system GMM is established as well as there is no problem of over identifying of the instrument in the system.

3.5.1 Argument for the Use of SGMM Technique as the Main Tool for Testing our Hypothesis

The main arguments for the use of the SGMM technique include the following: the SGMM approach addresses the issues of endogeneity with an application of methods of moments that exploits all the orthogonality conditions between the lagged dependent variables and the error term. Also, issues of endogeneity are efficiently addressed by using internal instruments and the System GMM technique (Gujarati and Porter, 2009). This technique includes reasonable stationarity restrictions on its initial condition process; includes additional moment conditions unlike other dynamic estimation tools like the Difference GMM - DGMM; and it is robust to heteroscedasticity and distributional assumptions (Bandyopadhyay et. al., 2014, Oluwatobi *et al*, 2014).

The only problem with this technique is the validity of the internal instruments included in the estimation process. In essence, the assurance that the internal instruments are not over-identified. To validate this, the test for autocorrelation [AR (1) and AR (2)] and Sargan test for instrument over-identification will be applied. The rule of thumb in the application of this test is that it is expected that the probability value of the AR (1) test should be ≤ 0.05 and that of the AR (2) be ≥ 0.05. Likewise, the probability value for the Sargan test should be such that the test is ≥ 0.05. Once these rules are satisfied, then it is evident that the internal instruments applied are reliable and not over-identified.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 INTRODUCTION

In this chapter, the estimated results was discussed with the interpretations of the results. To begin, the basic overview of trade and FDI in Africa, in relation to IFRS adoption was presented. Following this is the basic descriptive statistics and the bivariate analysis (correlation analysis). Most of the descriptive statistics were presented in Tables and graphs.

4.2 STYLIZED FACTS: FOREIGN INVESTMENT AND TRADE IN AFRICA

The general descriptive overview of the trend of foreign investment and trade was presented first in order to understand have an overview of the trend of the relevant variables before analysing the specific sample period for the study. This general description was presented in Figure 3.

From Figure 3, the volume of FDI net inflow to Africa has consistently remained on the increase. This is following the sluggish rise in the 1970s, when the FDI net inflow was about 8.2 million US$. At the same period, the world net FDI inflow was about 210.4 million US$: this was over 260 percent more than the flow to African countries. In the 1980s, the net inflow to African increased by 35 percent from its value in the 1970s, with a value of 12.6 million US$. In the 1990s, this value rose by 71.8 percent from its value in the 1980s.

The 2000s opened up a period of sporadic increase in the volume of FDI flow. Considering the overall value, the FDI flow in the period increased by about 81 percent compared to its values in the 1990s. The new millennium witnessed an increase in global integration especially with the rise of information communication technology that made

global capital flow easier compared to the earlier periods. For instance, the introduction of the wireless transfers and integration of the financial systems among countries, the transfer of global capital was made easier and this cannot be separated from the avalanche increase in the global capital flow.

In this period (2000s), the global capital flow witnessed a major shock tagged the global financial crisis. This crisis affected global capital as countries began to repatriate their investment in order to aid national business cycle shock. The global capital flow from the period 2000-2007 was about 125 million US$ and during the crisis (2007-2010), the global capital flow reduced to about 109 million US$. This drop was about 15 percent from its value prior to the global financial crisis.
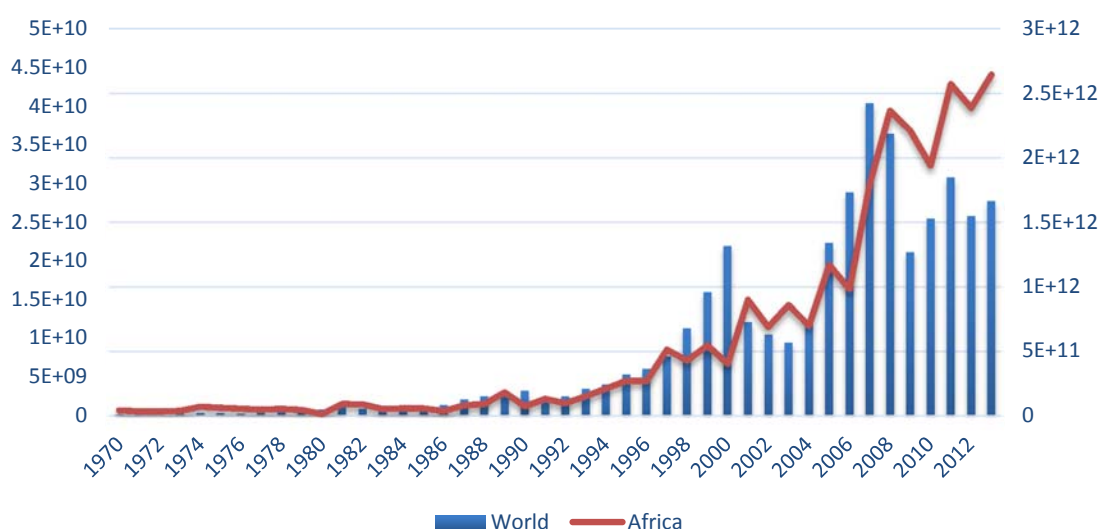
Source: World Development Indicators (2014)

Figure 3   FDI Net Inflows to Africa (1970-2013)

Figure 4 presents the FDI flow to/from Africa. Focusing on the FDI inflows into African compared to the outflow from Africa, it is observed that there is a marked increase in the inflow compared to the outflow. This increase is about six-fold over the past decade. The flows increased from about 6.3 billion US$ in 2000 to 35 billion US$ in 2012. While this increase is still just 2.5 percent of the total global flow of FDI, it reveals that an

unprecedented size of investment capital in most African countries is still much larger than remittances or official aid to the continent.

As displayed in Figures 3 and 4, the period of financial crisis witnessed a reduction in the inflow to Africa. However, compared to the rest of the world, the inflows to Africa have been less volatile than the worldwide inflows. In the pre-crisis, the inflow of FDI to the world was about 60% and similarly, the African FDI flow was also about 64 per-cent. However, during the crisis, the FDI flow reduced by about 89 percent for the world and for Africa, it reduced by about 15 percent. This confirms the less volatile situation of the FDI flow to African countries.
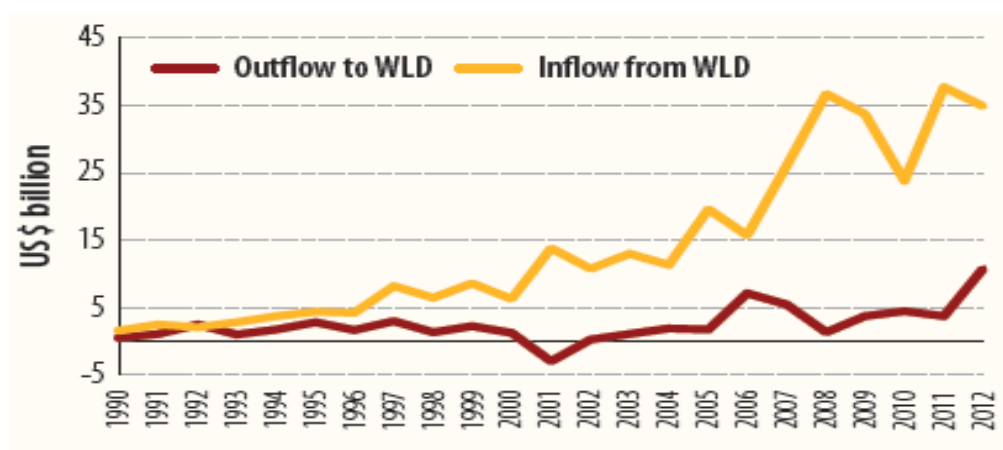
Source: World Development Indicators (2014)
Figure 4: FDI Flow to/from Africa

The FDI inflows to Africa has risen mainly driven by international and regional market-seeking investments as well as infrastructure investment. More so, due to the expecta-tions for sustained economic and population growth in Africa, the region is attracting more of market-seeking FDI into her consumer-oriented industries.

Figure 5 presents the statistics from the World Investment Report on the volume of FDI flow to Africa by top FDI recipient countries. The FDI flow to the Northern African region declined by 7 percent (amounting to 15.5 billion US$) in 2013 from the value in 2012. This decline is most likely traceable to the global insecurity crisis attributable to

the Arab nations. For instance, the FDI flows to Egypt dropped by 19 per cent in 2013, from its value in 2012.

In the Western African region, the flow of FDI also declined by 14 per cent; the figure reveals the situation of Nigeria whose decline in FDI inflow can also be associated with the rising media propaganda of the rising rate of terrorism in the country. Most investors will likely be unwilling to invest their fund in countries with unsafe investment climate (Asiedu and Lien, 2011). In the Eastern African region, FDI flow surged by 15 per cent, and the reason for this increase was attributed to the fact that investment in this region was driven by rising flows of foreign investment to Kenya and Ethiopia who are developing a favourable business hub in industrial production and transport services. Likewise, Ethiopia's industrial strategy is able to attract Asian capital investors into the country and this has improved the development of the manufacturing base in such country.

In Southern Africa, the situation is not different in the sense that FDI flows to countries in this region has almost doubled to 13 billion US$ and this is mainly due to record-high flows into South Africa and Mozambique (they are currently among the top attractors of FDI). In both countries, the quality of infrastructural provision has increased and this was the main attraction of most FDI into these countries.

In the African region, there is a rising rate of Intra-African investments flow. The main drivers of these flows are the South Africa, Kenyan and Nigerian investors who are having to set up their plants in other African countries. For instance, the South African telecommunication investors in the MTN service providers have increased the flow of investment into other African countries by setting up their stations in these countries. More so, Dangote, a Nigerian investor is setting up factories in other African countries like Ethiopia. Between 2009 and 2013, the share of announced cross-border *Greenfield*-investment projects that originates from within Africa rose to 18 per cent of the total, from less than 10 per cent in 2003-2008.
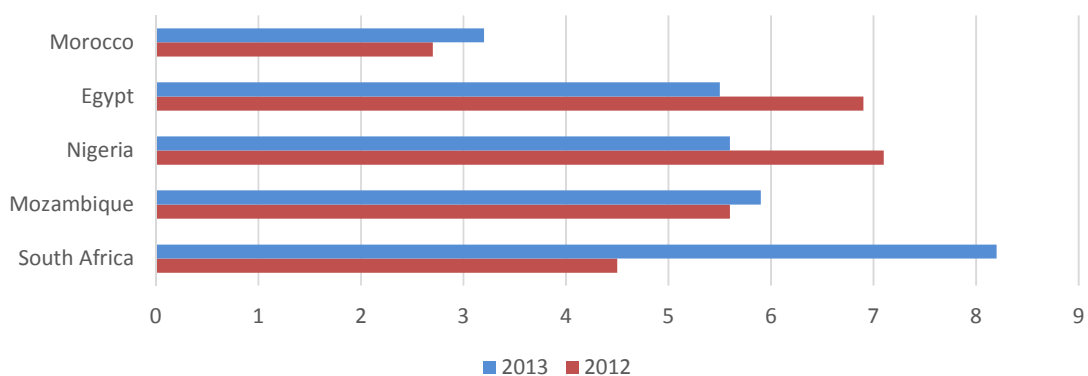
Figure 5: Africa's Top Five (5) Recipients of FDI Inflows (billions of dollars)

In the African sub-region, intra-African projects are concentrated mostly in the manu-facturing and service sector (See Figure 6A). When talking about intra-regional invest-ment, it also includes the contribution and building-up of the regional value chains of production: which implies improving the processing and value of products from this region. The growth of intra-group FDI is not representative across the sub-regions in Africa. It is only in two regional economic cooperation (REC) initiatives does intra-group FDI make up a significant part of intra-African investments and these two RECs are the East African Community (EAC), with about half, and the South African Devel-opment Community (SADC) with more than 90 per cent (see Figure 6B). Of course, these developments is traceable to investors flow from Nigeria like the banking sector in Nigeria that is currently spreading faster in Africa.
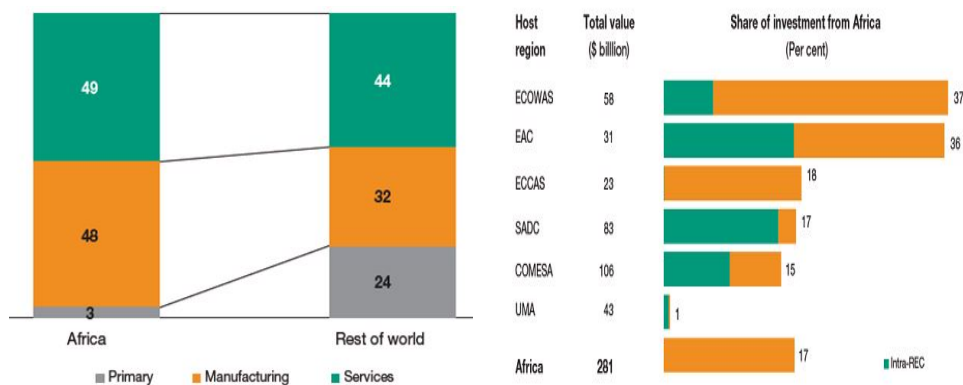
Figure 6A: Sectorial Distribution of Announced Value of FDI Greenfield Projects in Africa by Source (cumulative 2009 – 2013 per cent**)**

Figure 6B: Announced value of FDI Greenfield projects in manufacturing and services in RECs, cumulative 2009 – 2013 *(billions of dollars and per cent)*

Portfolio Investment and FDI in Africa

Portfolio investment are those investment that is made by a foreign investor who is not involved in the direct control and management of an organization that is located in another country. This is entirely different from a foreign direct investment that allows a foreign investor to exercise a certain form of degree of managerial control in the organization. Mostly, this form of investors are concerned with securities and investment in share/stocks in the organization abroad.

Figure 7 presents the trend of portfolio investment and FDI for Africa for the period 1975-2013. From the trend, portfolio equity investment has not experienced a consistent upward trend like the foreign direct investment. For instance, despite its somewhat slow rising, in 2000, there was a downward trend: basically, this can be traced to the millennium bug that created a pessimistic prediction of the financial/stock market and probably, there was a decrease in the flow of equity capital.

After this period, the portfolio investment regained an upward trend and consistently maintained this trend up until 2007/2008 when the global financial crisis emanated. In

this period, there was an abrupt reduction in the volume of portfolio investment to Africa. After 2009, the volume picked up but was increasingly volatile; creating a downward trend from 2010 onward. This is unlike the foreign direct investment, which maintained a consistent and an increasing trend despite the global financial crisis that was supposed to affect the trend of the global investment.
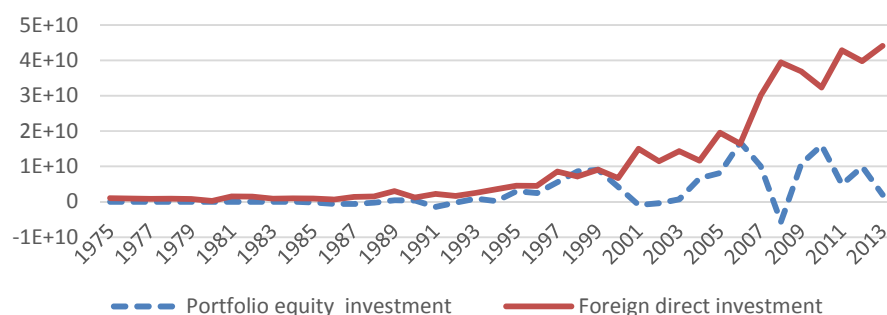
Source: World Development Indicators (2014)
Figure 7: Portfolio Investment vs FDI in Africa (1975-2013)

Irrespective of the trend exhibited by African countries with regards to foreign direct investment and portfolio equity investment, African countries have not being able to attract much of foreign investment (in terms of direct and equity investment) when compared to countries from other regions of the world. Figure 8 presents this stylized facts and compared to the other regions of the world, African countries were at the lower echelon of the league of regions.

Across the regions of the world, the Europe and Central Asia (ECA) and the East Asia Pacific (EAP) countries are the leading regions, in terms of attracting foreign direct investment and equity investment. Countries in the ECA were attracting foreign direct investment and equity investment that were about 24 and 20 times more than the volume of these investments that flow into African countries. Similarly, the EAP countries attracted these forms of investments that were about 13 and 17 times more than the volume that flow into African countries. With regards to the other regions of the world, the foreign direct investment and equity investment for countries in the Latin America and

Caribbean (LAC) region was about five and two times more than that of African countries, respectively. While for the Middle East and North Africa (MENA) and South Asian (SA) countries, the statistics reveal that they were about two (for MENA) and one time more in the volume of foreign investment inflow than that of Africa and about one time more for the foreign portfolio investment inflow than that of Africa, respectively.
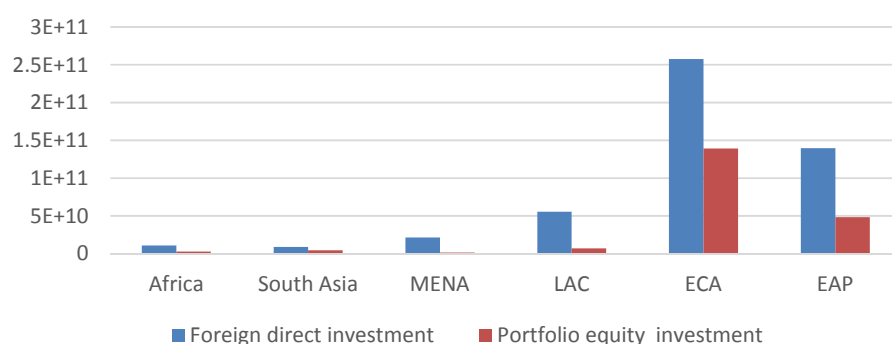
Figure 8: Portfolio Investment vs FDI across Regions of the World (1975-2013)

This trend reveals that African countries have performed relatively low in attracting foreign investment flow compared to the other regions of the world. In relation to trade, the trend of Africa's trade has consistently remained on the increase but at a steady rate (see Figure 9). In 1975, Africa's trade to GDP was only 55 percent and the trade value remained at that percentage axis all through until 2000s, when the trade percentage to GDP rose to 65 percent. After this period, the value of trade to GDP peaked at 75 percent in 2008 after which it began to drop to 66 percent in 2013. This trend was higher than the trade to GDP percentage of the world: the trend for the world was some folds lower than that of Africa. In essence, this does not imply that Africa's trade volume was more compared to the world average, but the value displayed in the figure only represents the trade value that were scaled by the GDP of the countries. In principle, the value portrays the percentage of the GDP of the country that is composed of trade.
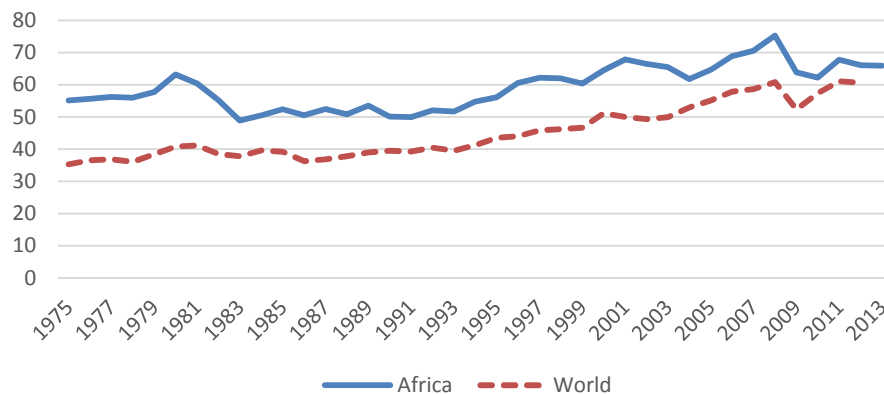
Figure 9: Africa's Trade as a % of GDP (1975-2013)

Compared to countries in other regions of the world, the value of the trade as a percentage of GDP was higher in Africa compared to countries in South Asia (SA), Latin America and the Caribbean (LAC) and those in East Asia and the Pacific (EAP). Considering the average percentage of trade to GDP for the period 1975-2013, the trade percentage was 59 percent for Africa, while that of SA, LAC and EAP was 28, 39 and 48 percent respectively. The value of trade to GDP for Middle East and North African countries was 75 percent; while that of Europe and Central Asia (ECA) was 62 percent (see Figure 10).
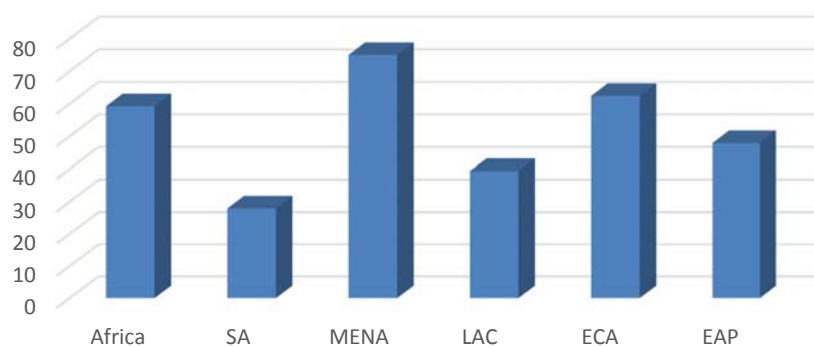
Note: MENA-Middle East and North Africa; LAC-Latin America and the Caribbean; ECA-Europe and Central Asia; EAP-East Asia and the Pacific
Figure 10: Africa vs World's Trade as a % of GDP (1975-2013)

The trade volume of most African countries consist of the export of primary product. Primary product include those goods that have little value addition, in terms of the processing and transformation of such products to a finished state. The disaggregated composition of the trade volume of African countries is presented in Figure 11. The statistics for manufacturing export and mineral/fuel export clearly illustrates that African countries are lagging behind in their manufacturing sector development. Countries in this region export mostly primary products that comprise of fuel and mineral, agricultural products and food export; and these countries performed relatively low in the development of their manufacturing capacity for enhanced manufacturing export. For instance, the trend reveals that while the mineral and fuel export was as high as between 64 percent and 81 percent of the total merchandise export, the manufacturing export was only between 9 percent and 29 percent for the entire period.

Source: Generated from World Development Indicators (2014)

Figure 11: Decomposed Export for Africa (1975-2011)

Comparing this trend with countries in other regions, Table 4reveals that African countries dependent on Agricultural and raw material export is incomparable. Actually, the reserves of countries in this region is heavily dependent on foreign exchange from raw material trade. The manufacturing sector in these countries are just budding and may not

be as competitive in the global market. In the East Asia and Pacific community, the manufacturing sector accounted for over 50 percent of the entire merchandise export for the period 1961-2011. The primary product export accounts for only a marginal proportion of the merchandise export. This trend is also common for countries in the Europe and Central Asian community where products from the manufacturing sector remains the main export basket of countries in this region. Also, focusing on the world export performance, averagely, their bulk of export is in the manufacturing sector and not the primary/agricultural production for export. The world is driving towards value addition but sadly, African countries are seriously lagging behind in this regime.

Table 4: Decomposed Export across Regions of the World (1961-2011)

	Africa		East Asia and Pacific		Europe and Central Asia		World	
	Primary Product	Manufactures Product	Primary Product	Manufactures Product	Primary Product	Manufactures exports	Primary Product	Manufactures Product
1961-70	---	---	41.06	58.16	28.74	70.40	40.21	58.83
1971-80	80.33	13.79	35.66	63.36	24.70	73.65	36.62	61.96
1981-90	71.18	8.90	26.48	68.53	23.68	74.62	31.44	65.91
1991-00	71.35	25.69	15.25	83.40	20.05	76.91	24.00	73.53
2001-10	71.41	28.03	14.46	83.51	21.45	73.55	25.10	71.11
2011	74.35	25.16	19.57	78.00	25.45	71.06	25.45	71.06

Note: Values are presented in percentages of merchandise export.
Source: World Development Indicators (2014)

4.3 Descriptive Overview of Foreign Investment and Trade in Selected Sample

In this section, descriptive analysis was performed for the specific sample and the time period for the study was also observed. In this section, we present the specific description of the variables of interest as it pertains to our sample data. Consideration was given to the trend analysis of the volume of trade, FDI and FPI across the sampled countries that have adopted IFRS and those that have not. The main aim and objective of this exercise is to underscore, based on a pictorial means, the distinction that exist between the trade, FDI and FPIs of those countries that have adopted IFRS and those that have not.

Beginning with Figure 12, the graphical representation of the distinction between the trade volumes of the sampled countries across their IFRS adoption status was presented.

Clearly, the distinction between the trade volumes of the two groups of countries was not conspicuously clear. Countries that have adopted the IFRS had a trade to GDP percentage of 76 percent, while countries that have adopted the IFRS standard were merely 2 percent more. In essence, countries that have adopted the IFRS standard had 78 percent of their GDP accounted for by trading; on the other hand, countries that have not adopted the IFRS had 76 percent of their GDP consisting of trade activities. Consequently, there is no clear distinction in the volume of the trade of countries in the two categories. At least, it can be inferred that the trade trend was not entirely different across the IFRS adoption status of countries.
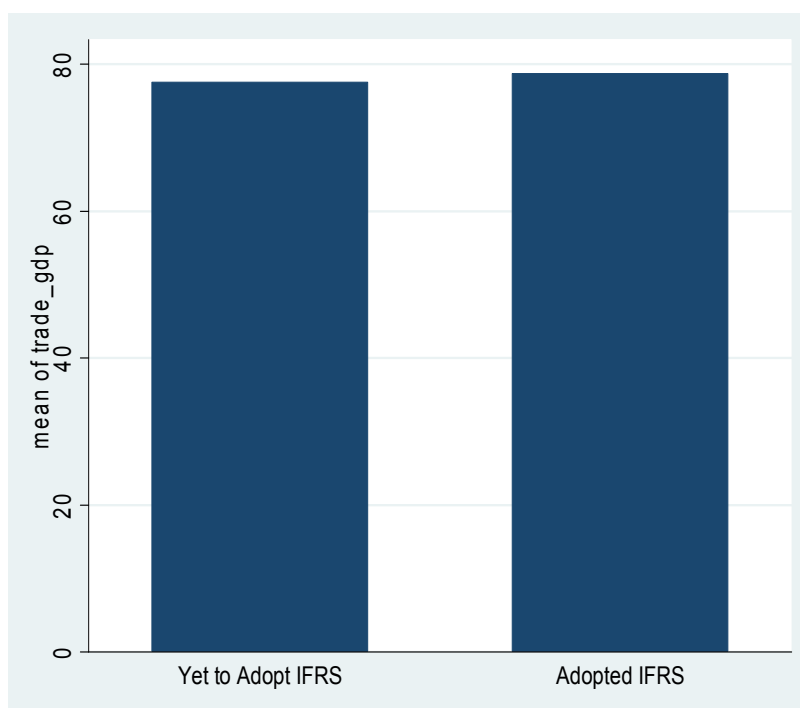
Figure 12: Trade as a % of GDP across IFRS Adoption Status of Sampled Countries

Similarly, the graphical presentation was made for the volume of FDI across the sampled countries based on their IFRS adoption status. Volume of FDI flow was defined as the percentage of FDI to GDP of the country. From Figure 13, the variance between the percentages of FDI flow to GDP of the IFRS adopting country was obvious. This is unlike the trend of the trade volume as presented in Figure 12. The countries that have

adopted IFRS had a mean value of FDI to GDP percentage of slightly above 5 percent. This is unlike those countries that have not adopted IFRS, and with an average of 4.4 percent FDI to GDP ratio. Although, this trend shows a divergence between the IFRS adopting country and those that have not adopted the standard; however, we cannot draw a cause and effect relationship using this trend. It can only be inferred that countries that have adopted IFRS have a higher FDI flow compared to those countries that have not adopted the standard.
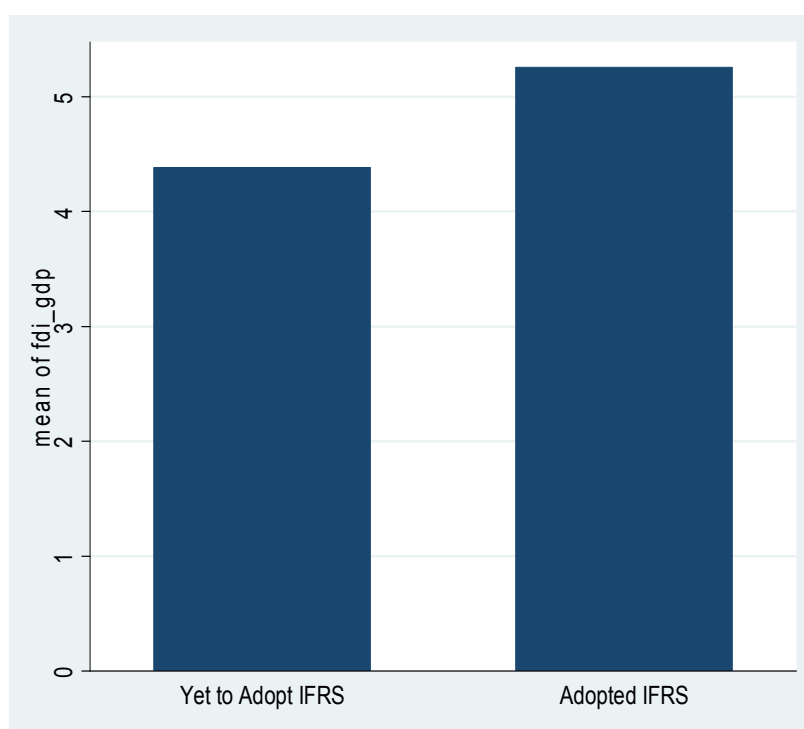
Figure 13: FDI as a % of GDP across IFRS Adoption Status of Sampled Countries

On the contrary, there was a marked difference between the flow of foreign portfolio investment across the two categories of countries (i.e. countries that have adopted IFRS and those that have not). As displayed in Figure 14, the foreign portfolio investment flow was many fold more in the countries that have adopted IFRS unlike those countries that have not adopted the standard. As evident, countries that have adopted IFRS were able to experience a foreign portfolio flow of about 1.3 percent of GDP. However, coun-

tries that have not adopted IFRS were able to attract a minute 0.01 percent foreign portfolio flow, when compared to the GDP of such country. This marginal trend of foreign portfolio investment can likely be caused by the poor capital development of most African countries, which are not able to attract so much portfolio investors. This is why some studies advocated for the adoption of IFRS as a possible policy switch that can enhance the flow of foreign portfolio investors into African countries. More so, since portfolio investors are mostly equity investment inclined, and the relevance of information symmetry cannot be neglected, then the adoption of IFRS will be a veritable tool to increase the flow of these forms of investors.
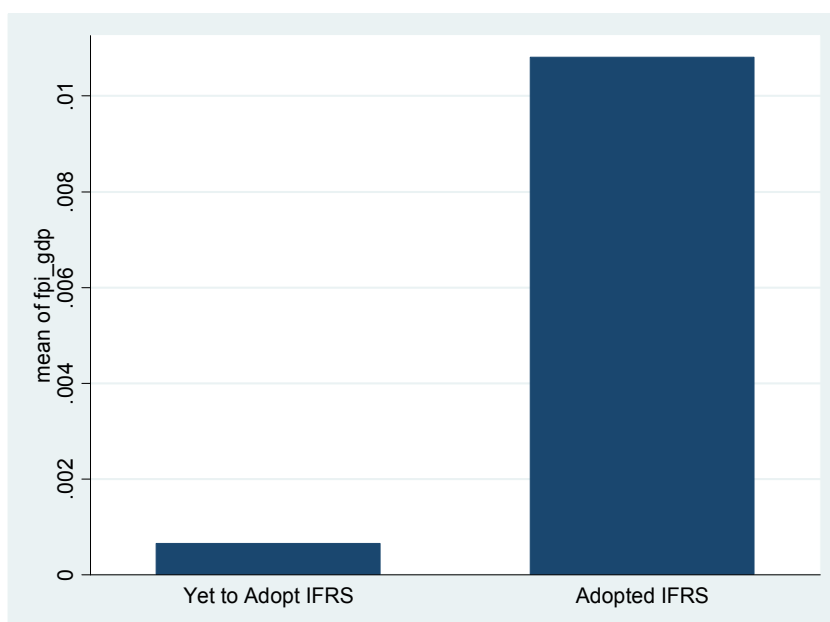
Figure 14: FPI as a % of GDP across IFRS Adoption Status of Sampled Countries

As a summary of this subsection, we conclude that the trend of the trade volume between countries that have adopted IFRS and those that have not, was not as obvious. However, when moving on to the FDI flow to countries, the difference between the volumes of FDI flow to the two categories of countries was somewhat more obvious than the trend for trade volume: when considering the foreign portfolio investment flow, the trend became more visible. Countries that have adopted IFRS were able to attract more foreign portfolio investors; although, the average volume of flow was just 1.3 percent.

4.4   Comparing the Trend Prior and After IFRS Adoption of Countries

The aim of this statistics is to compare the trade, Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) flow of the IFRS adopting countries prior to and after the adoption of the IFRS standard. The main aim of this statistics is to observe if the IFRS adopting country has been able to improve the inflow of these three indicators after the adoption of the IFRS standard. The statistics to corroborate this was presented in Table 5, where the column "prior to" and "after" imply the averages of the indicators prior and after the adoption of the IFRS. Caution was taken to ensure that the countries that were included in this Table represents the countries that have adopted IFRS since 2001.

From the sample, on the average, only about 35 percent of the countries did not experience an improvement in their trade volume after the adoption of the IFRS. Other countries had an improvement on the volume of their trade after they decided to adopt the IFRS. Some of the countries that did not experience an improvement in the volume of their trade flow include Angola, Benin Republic, Cameroon, Chad, Gabon, Ghana, Mozambique, Nigeria, Sudan, Swaziland and Zambia.

To further investigate the peculiarity of these countries, it cannot be denied that some of the countries are highly trading on primary products and the competitiveness of these forms of trade in the global economy is slim. The adoption of IFRS is expected to attract foreign capital into the economy, which is supposed to enhance the industrial intensity of such a country. However, the trading of primary product may not benefit immensely from the adoption of the IFRS standard since industrialisation involves value addition. More so, since some of these countries' economy are highly funded by the trading of these primary products, the incentive to refocus on value addition is not a major priority of the political leadership of these countries.

Table 5: Mean Statistics of Main Explained Variables of IFRS adopting Countries "Prior to" and "After" the Adoption of IFRS

Country	Year of SEC Declaration of IFRS Adoption	Mean Trade (Prior to)	Mean Trade (After)	Mean FDI (Prior to)	Mean FDI (After)	Mean FPI (Prior to)	Mean FPI (After)
Algeria	2007	64.9459	70.7300	1.2474	1.5846	0.0000	0.0000
Angola	2009	129.7112	105.9878	9.3143	-0.4754	0.0000	0.0000
Benin	2008	50.1862	41.1509	1.0196	1.0806	0.0002	0.0004
Botswana	2007	88.5054	93.5219	5.2603	1.0806	0.0017	-0.0003
Burundi	2004	23.3381	45.3039	0.4478	0.0596	0.0000	0.0000
Cameroon	2009	43.9908	41.9221	1.7175	1.8094	-0.0002	0.0000
Chad	2003	95.3364	84.7440	17.6092	13.4311	0.0000	0.0000
Cote D'Ivoire	2010	86.8517	92.4768	2.0116	1.5703	0.0003	-0.0030
Egypt	2006	49.5499	55.8344	0.8743	5.1866	0.0000	0.0000
Gabon	2009	91.6004	88.1160	1.7520	2.2817	0.0000	0.0000
Gambia	2007	62.7973	69.0615	7.3136	7.1258	0.0000	0.0071
Ghana	2007	94.7645	79.4720	1.7794	7.2336	0.0002	0.0002
Kenya	2002	55.9468	56.4375	0.8729	0.5768	0.0000	0.0002
Lesotho	2001	NA	174.5761	NA	5.0678	0.0000	0.0000
Liberia	2008	110.7135	122.8579	20.9059	36.4338	0.0000	0.0000
Madagascar	2005	58.8081	74.8969	0.9589	8.7595	0.0000	-0.0002
Malawi	2001	NA	70.6847	NA	2.5750	0.0006	0.1775
Mauritius	2005	118.5178	120.7223	0.3492	2.9083	-0.0001	0.0011
Morocco	2004	61.3078	76.8831	1.7397	2.5681	0.0000	0.0000
Mozambique	2006	72.5806	71.6716	5.5824	8.3491	0.0028	0.0005
Namibia	2005	90.1684	104.4194	1.1381	7.0479	0.0052	0.0112
Nigeria	2010	63.9400	46.6085	3.4660	3.1347	0.0000	0.0032
Rwanda	2009	35.4614	41.3184	0.8015	1.5611	0.0000	0.0011
Sierra Leone	2006	42.9333	54.0187	2.4453	7.9580	0.0057	0.0172
South Africa	2005	56.1956	61.5418	2.0635	1.6848	0.0003	0.0001
Sudan	2011	37.9885	29.8914	8.9829	4.1601	0.0017	-0.0004
Swaziland	2009	171.3078	125.9377	2.0428	2.6246	0.0004	0.0002
Tanzania	2004	39.0283	62.7469	3.5119	5.0012	0.0000	0.0020
Uganda	2004	36.0645	50.7635	2.9244	5.4902	0.0000	0.0006
Zambia	2005	65.6777	64.4252	6.7883	6.9580	0.0006	0.0007
Zimbabwe	2009	79.2195	95.0451	0.7090	3.0962	0.0000	0.0000

Countries like Burundi, Liberia, Morocco, Namibia, Sierra Leone, Tanzania, Uganda and Zimbabwe had a high improvement of their trade volume after the adoption of the IFRS. A common trend that runs between these countries is that they are fragile states and for them to be able to have an improved trade volume after the adoption of IFRS, calls for utmost attention. Possibly, since these countries are either politically or economically fragile, the reconstruction process will not pay so much attention on the extraction and trade of primary product. Possibly, the political leadership of these countries will be putting in effort to improve their industrialisation capacity, which will make the

adoption of IFRS a considerable strategy to achieve such objective. In essence, the attractiveness of foreign investors into these countries will be as a result of the external economies of scale that is created by the government to enhance the social and economic conduciveness of their country to foreign investors. Hence, the adoption of IFRS will be a complementary tool in achieving such feats.

The average of foreign investment flow was considered "prior to" and "after" the adoption of IFRS by the sampled countries. The statistics were presented in the 5th and 6th columns in Table 5 respectively. From the Table, only 32 percent did not experience an improvement in the flow of FDI after the adoption of IFRS. These countries include Angola, Botswana, Burundi, Chad, Cote D'Ivoire, Gambia, Kenya, Nigeria, South Africa and Sudan. This trend is contrary to our expectations as consensus in extant literature suggest that the adoption if IFRS is supposed to enhance the volume of FDI flow to the country (e.g. Wysocki, 2011; Gordon, Loeb and Zhu, 2012). However, since this is only a descriptive statistics of the comparison of the averages of each of these countries between the two periods, we are not able to draw inference as to the cause and effect of the adoption of IFRS on trade and foreign investment.

Countries that had an improved flow of foreign investment after the adoption of IFRS include Algeria, Benin, Cameroon, Egypt, Gabon, Ghana, Liberia, Madagascar, Mauritius, Morocco, Mozambique, Namibia, Rwanda, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. The number of countries that have experienced an improvement in the flow of foreign investment was more than those that did not. In essence, some form of association is likely to exist between the adoption of IFRS and foreign investment. This will only be verified in our empirical analysis, where statistical and econometric tool will be used to test this trend.

Moving unto the foreign portfolio investment trend prior to and after the adoption of IFRS, and presented in the 7th and 8th column of Table 5, it is observed that only 22.58 percent of the countries did not experience and improvement in the flow of foreign port-

folio investment. The countries within this category are Botswana, Cote D'Ivoire, Madagascar, Mozambique, South Africa, Sudan and Swaziland. More countries experienced an improvement in the flow of these forms of investors. Although, the volume of these forms of investors is minute and this cannot be separated from the extent of development of the capital market within the African region. Since these forms of foreign investors are those that deal on equity shares/investment, then the strength of the capital market within these countries are paramount to the behaviour of this form of investors.

4.5   Summary Statistics of Variables included in the Empirical Model

The summary statistics of the variables that were included in the model was presented in Table 6. The summary statistics presented include the mean, standard deviation, minimum and maximum values of the variables. Focusing on the main explained variables (i.e. foreign direct investment-FDI; foreign portfolio investment-FPI; and trade volume), on the average, the foreign investment flow into the entire sampled countries was less than 5 percent of the entire GDP of the countries. Some countries performed way above this average, with an FDI to GDP percentage of 91 percent and some other countries had a negative net FDI flow of -5.131. This imply that in the period of study, such a country witnessed more outflow of FDI compared to the inflow.

Considering foreign portfolio investment of the sampled countries as presented in Table 6, it is observed that the mean of the foreign portfolio investment was about 0.5 percent of the GDP of the sampled countries. Some countries had a negative foreign portfolio investment flow of about 2.5 percent; implying that the foreign portfolio outflow was more than the inflow into the country. The maximum value of the foreign direct investment flow was only 8.05 percent for Sierra Leone, implying that the country was able to attract a foreign portfolio investment flow that is 8.05 percent of the GDP of that country.

Table 6:   **Summary Statistics of Variable**

S/N	Variables	Mean	Std. Dev	Minimum	Maximum
1	FDI	4.693	7.944	-5.131	91.007
2	FPI	0.005	0.050	-0.025	0.805
3	Trade	78.004	39.838	20.964	351.106
4	IFRS Adoption (Dummy Variable)	0.361	0.481	0.000	1.000
5	IFRS Adoption (Count Variable)	1.580	2.644	0.000	12.000
6	Adult Literacy	60.568	20.959	14.376	94.514
8	Official Exchange Rate	410.288	607.768	0.055	4349.162
9	Political Stability	2.969	0.848	0.799	4.689
10	Control of Corruption	2.881	0.540	1.820	4.755
11	Government Effectiveness	2.767	0.587	1.715	4.266
12	Regulatory Quality	2.826	0.603	1.238	4.347
13	GDP Per Capita	1844.355	2936.704	108.015	23463.760
14	Population	19200000	26200000	534592	169000000
15	Total Electricity Production	767.065	1100.179	26.305	4872.476
16	Natural Resource Export	0.000	0.000	0.000	0.000
17	Presence of Accounting Association	0.833	0.373	0.000	1.000
18	Membership of IFAC	0.458	0.499	0.000	1.000

Evidently, the sampled countries' GDP is driven by trade. This is in the sense that 78 percent of their entire GDP is being accounted for by trade in goods. Some countries had over a hundred percent of their entire GDP consisting of trade. Countries like Equatorial Guinea was able to have a trade to GDP percentage of 351.106 percent, while the trade to GDP percentage of Burundi was only 20.96 percent. The variance between the countries in this region is high: therefore, using the GDP as denominator equalises the country based on their economic size. The implication of this is that, despite the variance across countries within this region, it is still possible to use the countries as a good analytical sample. The incidence of outliers will be reduced since the values of trade has been denominated by the GDP of the country.

We further considered the descriptive statistics of the IFRS variables. Two main indicators were used and they are the dummy variable representing IFRS and the count variable, which measures the number of years since the country has earlier adopted IFRS. The mean value of the IFRS dummy shows that about 36 percent of the countries within the sample has adopted the IFRS. The standard deviation is 0.481; at least the mean value of the IFRS adoption variable of the sampled countries were not too distant from the mean. This gives some degree of confidence on the possibility of clustering that will

be suitable for our analysis. On the other hand, the IFRS adoption variable, which is a count variable and shows the number of years that the country has since adopted IFRS, reveals that on the average, countries within our sample have since adopted IFRS for about one and the half years. This is close to two years when approximated.

On the average, the adult literacy of the sampled countries, that is the percentage of adult that are able to read and right, is only 60.67 percent. This rate is high when considering that the study is biased towards Africa. This implies that on the average, about 60 percent of the adults in the sampled countries are able to read and right. Some countries (like Equatorial Guinea) have a higher percentage, reaching as high as about 94.5 percent. This is unlike countries like Niger, who has an adult literacy rate of about 14.38 percent. The standard deviation of this variable is low, implying that there was no much deviation from the mean.

The average official exchange rate, GDP per capita and population of the sampled countries were 410.288 USD to a local currency, 1844.36 USD per person and 19.2 million people in the sampled countries, respectively. In terms of natural resource endowment, the natural resource export in the sampled countries were very marginal. This suggest that despite the extent of endowment of these countries, when compared to the population or the labour force, the output of the resources are very insignificant. This does not imply that these countries are not endowed, but the output from the extent of endowment is not significant compared to the population.

Considering the governance variables (political stability, control of corruption, government effectiveness and regulatory quality) as displayed in Table 6, reveals that on the average, the sampled countries are lagging behind in diverse respect. Since the measures were ranked from 1 (poor governance indicator) to 6 (better governance indicator), the average political stability reveal that the sampled countries were barely on the average point, with an index of 2.969. Some countries were politically instable with an average score of 0.799; some others had better score of 4.689, which imply that this country is relatively stable.

The average score for the control of corruption, government effectiveness and regulatory quality was 2.881, 2.767 and 2.826 respectively. This also implies that the sampled countries were barely around the average point for these indicators. Without doubt, these countries were battling with issues relating to corruption, government ineffectiveness and poor regulatory quality. This assertion was reached because of the scores of the indicators, which were tending towards the negative axis.

The last set of control variables are the presence of accounting association and membership of IFAC. On the average, 83 percent of the sampled countries have a professional accounting association. The countries that do not have these associations include Algeria, Angola, Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, and Mozambique. Also, not all the sampled countries are members of the International Federation of Accountants (IFAC): only about 45.8 percent of the sampled countries were members of the IFAC. The countries that were not members of IFAC include Algeria, Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Congo, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Guinea Bissau, Libya, Mali, Mauritania, Mauritius, Mozambique, Niger, Rwanda, Sudan and Togo.

4.6   Test of Association between Variables of Interest

In this section, the test of associations between the variables of interest was conducted. First, the scatter plot that displays the bivariate association between the variables were plotted to show the trend association between the variables. At the first instance, the association between IFRS adoption and the foreign direct investment flow to the countries were presented in Figure 15. From the Figure, it is evidenced that the rate of increase of the flow of foreign investment into the IFRS adopting county as a result of the adoption of IFRS did not follow an upward symmetry. Put differently, the countries' foreign direct investment flow were clustered towards the early stages of the adoption of IFRS and there was no clear evidence that the flow of foreign investors increased at specific rates to the increase in the number of years that the countries have adopted IFRS.

Only some few countries were able to attract FDI at latter stages of the period of adoption of IFRS: even at that, the rate of FDI flow into these countries was still at marginal.
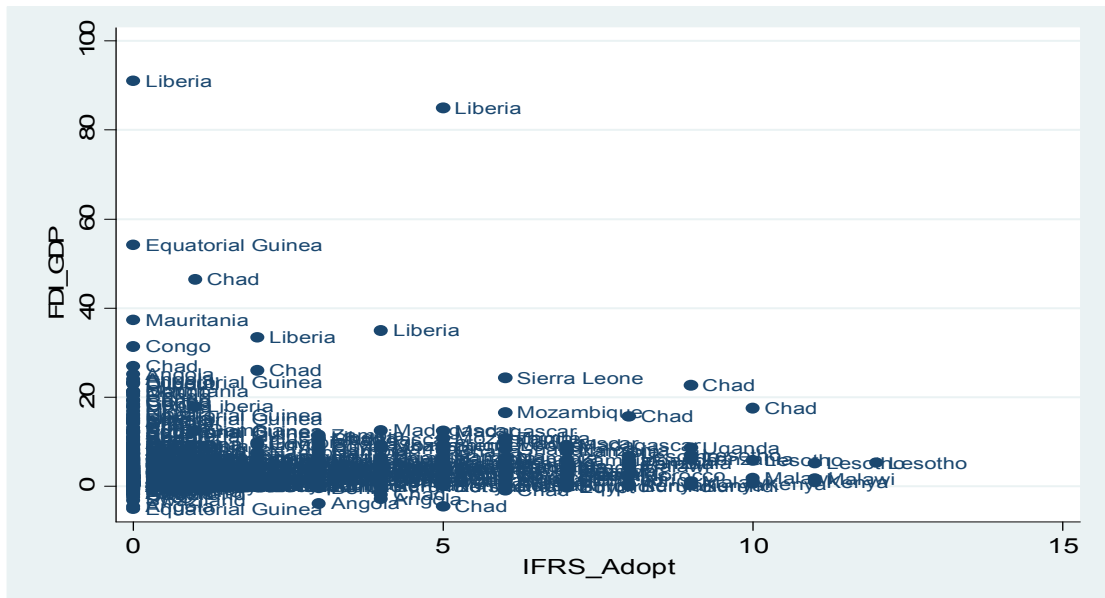
Figure 15: **Association between FDI Flow and IFRS Adoption (Using IFRS Adoption Count Variable**

Further consideration was given to the association between IFRS adoption and foreign portfolio investment flow in order to ascertain the extent to which a country's adoption of IFRS is able to relate with the flow of these forms of investors. Figure 16 presents this association and similar occurrence with the pattern in Figure 15 was observed. From the Figure, the number of countries that attracts portfolio investors were more at the early years of IFRS adoption; unlike the latter years in the x axis of the graph, where the number of countries were not as much as the earlier period. Consequently, it can be inferred that the countries attractiveness to foreign portfolio investors was not clearly symmetric in its association with IFRS adoption.
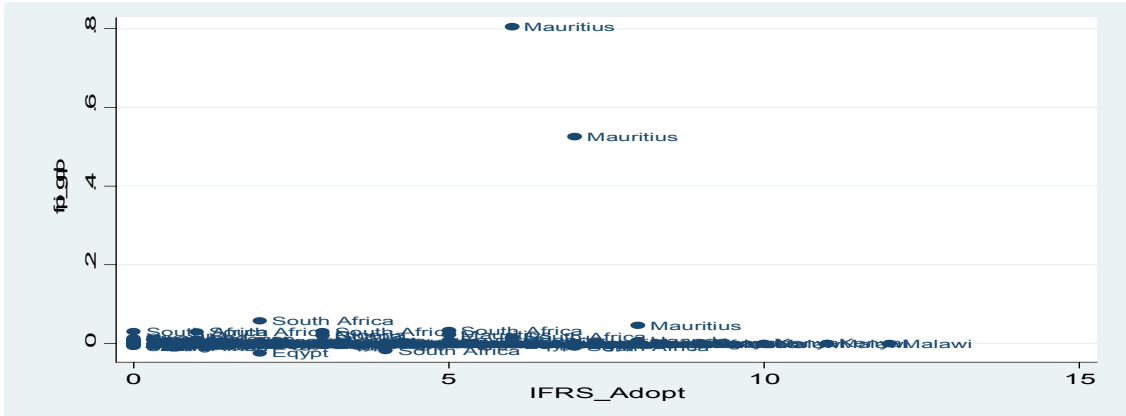
Figure 16: **Association between FPI Flow and IFRS Adoption (Using IFRS Adoption Count Variable**

For the association between IFRS adoption and trade, we noticed that obviously, more countries accounted for more trade to GDP at early stages of the adoption of IFRS. This visibly illustrates that countries at early stages of IFRS adoption, there were more countries, within that axis, that had more trade to GDP ratio. As the years of IFRs adoption increases, the volume of trade to GDP ratio reduces with the number of countries.
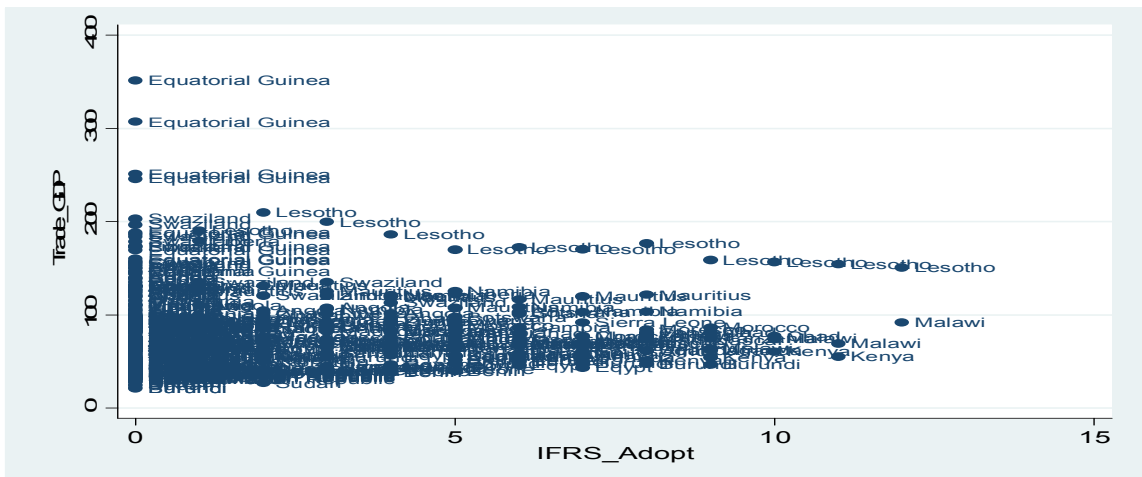
Figure 17: **Association between Trade Flow and IFRS Adoption (Using IFRS Adoption Count Variable**

The trends in Figures 15-17 suggest that there was no strong association between the adoption of IFRS, trade, foreign direct investment and foreign portfolio investment. Since the relationship being tested is in its bivariate form, it will not be appropriate to draw inferences pertaining to the direction and significance of the causal effect of the adoption of IFRS. This will be further tested in the advanced analysis, where the variables will be plugged into an econometric model and then tested using the appropriate statistical techniques.

Test for Multicollinearity

The correlation analysis was presented in Table 7, where the variables included in the model were tested for bivariate associations. In this type of analysis, the main interest is to observe the direction in which the variables move with one another. From this analysis, two main distinct end is expected: to test the presence of multicollinearity among the variables and to predict the possible effect of the variables on one another, using the direction and coefficient of association.

The presence of multicollinearity involves the existence of a perfect or exact linear relationship among some or all explanatory variables of a regression model (Gujarati, and Porter, 2009). As an example, for the k-variable regression involving explanatory variables $X_1, X_2, ..., X_n$, and $X_1=1$, an exact linear relationship between the explanatory variables will exist when:

$$\beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_n X_n = 0$$

From the Table, there were no obvious case of multicollinearity except for few occurrences: that is the relationship between adult literacy *(A_Lit)*, GDP per capita (*GDP_PC*) and total electricity production *(Elect)*. From the Table, the extent of association between the variables was as high as 0.59 (for adult literacy and GDP per capita) and 0.67 (for adult literacy and electricity production). Likewise, the relationship between the measures of governance/institutions (i.e. *Pol_Stab*- Political Stability; *Corr*- Control of

Corruption; *G_Effect*- Government Effectiveness; *Reg_Qua*- Regulatory Quality) also shows a high correlation.

To deal with the problems of multicollinearity, in the regression analysis, there are two options that can be applied: first, since these variables are the explanatory variables, one of the multicollinearity variables can be dropped for the other; implying that one can be used in the analysis while the other variable is dropped off the model. The second approach is to plug in the variables one at a time in the regression model. This imply that one of the variables is used at a time in the regression model in order to prevent the occurrence of including the variables together in the regression model.

In this study, the first approach will be applied for the first set of multicollinearity variables due to the fact that these variables are not of utmost importance in defining the behaviour of our model. This is unlike the second group of multicollinearity variables, which includes the governance structure. Because these variables are of utmost importance in defining the institutional framework in the country, the step-wise approach in the regression analysis is applied. The reason being that all the multicollinearity variables are important in understanding the main relationship that exist between IFRS adoption, trade and FDI. In essence, when analysing the data, the variables will be included one at a time in order to ensure that the variables were all utilised in the analysis.

Table 7: Pairwise Correlation Analysis

Identi-fier	FDI	FPI	Trade	IFRS1	IFRS2	A_Lit	O_Exch	Pol_Stab	Corr	G_Effect	Reg_Qua	GDP_PC	Pop	Elect	N_Res	A_Land	A_Assoc	IFAC
FDI	1.00																	
FPI	-0.01	1.00																
Trade	0.29	0.10	1.00															
IFRS1	0.05	0.13	0.05	1.00														
IFRS2	0.05	0.10	0.01	0.80	1.00													
A_Lit	-0.12	0.19	0.34	0.32	0.35	1.00												
O_Exch	0.02	-0.05	-0.19	0.12	0.11	-0.21	1.00											
Pol_Stab	-0.05	0.07	0.26	0.10	0.14	0.11	-0.12	1.00										
Corr	-0.12	0.16	0.03	0.17	0.21	0.22	-0.19	**0.61**	1.00									
G_Effect	-0.13	0.17	-0.00	0.22	0.27	0.43	-0.23	**0.56**	**0.84**	1.00								
Reg_Qua	-0.12	0.18	-0.01	0.25	0.30	0.35	-0.07	**0.56**	**0.75**	0.87	1.00							
GDP_PC	0.00	0.23	0.38	0.03	0.04	**0.59**	-0.18	0.37	0.08	0.15	0.15	1.00						
Pop	-0.07	-0.04	-0.30	0.05	0.07	0.03	-0.08	-0.42	-0.14	0.05	0.01	-0.11	1.00					
Elect	-0.13	0.31	0.07	0.12	0.13	**0.67**	-0.33	0.42	0.37	0.43	0.36	0.70	-0.08	1.00				
N_Res	0.03	-0.04	0.13	-0.13	-0.12	0.16	0.03	0.11	-0.14	-0.11	-0.05	0.42	-0.14	0.07	1.00			
A_Land	-0.06	0.00	0.23	-0.14	-0.15	0.03	-0.07	0.30	0.07	-0.10	-0.01	0.16	-0.42	0.18	0.39	1.00		
A_Assoc	-0.12	0.03	-0.16	0.07	0.07	0.02	0.08	0.11	0.27	0.30	0.25	-0.15	0.13	0.10	0.03	-0.11	1.000	
IFAC	-0.01	-0.08	0.05	0.32	0.35	0.37	0.10	0.09	0.28	0.38	0.33	-0.08	0.23	0.13	-0.22	-0.18	0.411	1.000

Note:IFRS1-IFRS Adoption (Dummy Variable); IFRS2-IFRS Adoption (Count Variable); A_Lit- Adult Literacy; O_Exch- Official Exchange Rate; Pol_Stab-Polticial Stability; Corr- Control of Corruption; G_Effect- Government Effectiveness; Reg_Qua- Regulatory Quality; GDP PC-GDP Per Capita; Pop-Population; Elect- Total Electricity Production; N_Res- Natural Resource Export Per Worker; A_Land- Arable Land Hectares Per Person; A_Assoc- Presence of Accounting Association; IFAC- Membership of IFAC

4.7   Regression Analysis

In this section, the regression analysis was performed to test the hypothesis that were proposed in this study. It is important to reiterate that the three distinct estimation techniques were applied in the regression analysis. They are the ordinary least square regression that considers the fixed effect structure of the sample, to check the baseline underlining relationships between the variables; the feasible generalised least square, which was applied to control for possible heteroscedasticity and the SGMM technique, which controls for possible reverse causality and endogeneity issues.

More so, the regression analysis will be performed in piecemeal. This implies that since the explained variables are three, the separate analysis will be performed considering the uniqueness of their individuality. This is essential for the consideration of the behaviours of the individual variables and how they relate with the variables of interest. The regression result was analysed in such a way that the three explained variables (trade, FDI and FPI) were considered separately in different regressions. After this estimations, then the interactive variable will be included to explain the indirect effect of the adoption of IFRS on the three explained variables, considering the level of accounting development in the adopting country.

Regression Analysis: **Trade Flow as Explained Variable**

The first set of regression analysis that was considered is the regression analysis for the model when considering trade as a percentage of GDP as the main explained variable. The three estimation techniques (i.e. the ordinary least square regression-OLS, the random effect-RE and the systems GMM) were involved in this analysis for robustness and sensitivity purposes. The result from the estimations were presented in Table 8a, with different columns signifying the different estimation techniques.

The Table was presented in a step-wise form. The reason being that the multicollinearity variables that pertain to the governance/institutional variables (political stability, control of corruption, government effectiveness and regulatory quality) were highly correlated. Therefore, in order to prevent any form of 'spuriousity' in the estimations, there is the need to avoid the inclusion of the entire variables in a single model. Therefore, this explains the

reasons for the inclusion of the variables one at a time. More so, the variables exchange rate, population, and the measure of natural resources were all presented in their logarithmic form. By presenting them in their logarithmic form, we are interested in the elasticity of the variables, measured in changes and not interested in their signs.

To begin the analysis, it is important to consider the preliminary examinations of the goodness of fit of the overall model and the strength of the explanatory power of the independent variables. The R^2 was first examined and from the Table 8a, the combined explanatory strength of the variables imply that the entire variables can explain, at most, about 65 percent of the changes caused in the trade flow to African countries. This explanatory strength is statistically significant, considering that the *F Statistics* of the estimations were significant at the 1 percent level of significance (see all the columns apart from those that pertains to the SGMM).

The last preliminary analysis, is to consider the post-estimation outcomes of the regressions, to enable a judgement as to the validity of the predictive capacity of the models. This was performed by considering the Breusch Pagan test for the OLS results that were presented in columns 1, 4, 7 and 10 in Table 8a. This test examines whether the residuals of the regression model are homogenous in nature. As an underlining assumption, for the OLS model to be fit for prediction, the variance of the residuals arenot expected to be constant. The test reveals that the variance of the residuals from the OLS does not follow a constant form. This is because the probability statistics rejects the null hypothesis that the variance of the residuals is constant. The second test is the Hausman Test that considers the choice between the fixed effect and random effect model. The probability of the Hausman test shows that the random effect model is most preferable. Lastly, the probability value of the*AR(2)*confirms the p-value of the Arellano-Bond test for second-order serial correlation in differences [*AR (2)*] and this value settles the fact that there were no serial correlation in the residuals. The implication of this is that the results are useful for inferences as the internal instruments were not proliferated.

As a baseline, the covariates were examined to underscore their predictive ability to explain the trade volume of the sampled countries. In all the columns, representing the different estimation techniques, adult literacy, the exchange rate, population and the presence of

natural resource were the main explainer of the volume of trade flow in the sampled countries. The variables (adult literacy, exchange rate and population) were negatively explaining the behaviour of trade flow. This imply that an increase in the rate of adult literacy will reduce the volume of trade flow. Since this variable is not in its log-linear form, then the implication of this result is that countries with more adult population will tend to be adversely affected, in terms of trade. The magnitude of effect range from 21 percent to about 35 percent and significant at varying levels. A possible explanation for this is that most of the sampled countries[3] trade in primary product, which demands minimal literacy, therefore, in situation where the adults, who are supposed to be employed in the primary sectors are becoming literate, then there will be a form of labour migration from the primary sector to other sectors. The effect of this is that the output from the primary sector will be reduced by the number of migrant, which will then affect the overall trade volume of such country. Perhaps, this explains why the variable was consistently negative in all the columns (except for the last column).

The signs and significant values of the exchange rate follow theoretical explanations that an exchange rate appreciation reduces trade while a devaluation increases trade. This trend is peculiar to African countries, who are mostly import oriented. The implication being that when the foreign exchange value of the local currency to US dollar increases, the value of trade reduces and vice versa, the value of trade increases.

The variable – population also shows a negative relationship with the value of trade to GDP. At least, it can be said from Table 8a that when the number of the population increases in the country, the trade volume reduces by volumes above 0.10. This seems to support the notion that the population growth adversely reduces the trade volume of the country. The behaviour of the variable – natural resources suggest that countries with more natural resource tend to behave better with regards to trade volume.

Considering the level of accounting development in the country, measured using the period of existence of the professional accounting body in the country and the country being a member of the International Federation of Accountants (IFAC), there are interesting results

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[3]Most of the sampled countries trade in agricultural products and mineral components like crude oil, gold, diamond, coal etc.

to be considered. The signs and level of significance were varying across the columns and dependent on the model being considered. From the columns 1-8 in Table 8a, the variables representing accounting infrastructure in the country were not significant. However, when considering the columns 9-11, the variable – IFAC membership – became significant. This suggest that being a member of IFAC may take the positive and significant signs in relating with the trade variable, but depended on the model and estimation technique being considered. The model where the variable was significant was such that controlled for the extent of regulatory quality within the country. As earlier suggested, this is the only institutional measure that clearly reflects the importance of accounting related phenomenon on the macro-economic outcome of the country. This is not surprising since accounting infrastructure and regulation is a form of regulatory strategy that confines countries to behave in a particular manner. This therefore implies that this variable must be an important institutional infrastructure to be considered when discussing the relationship between an accounting concept and the macro-economy of a country.

The sign and significant values of the main variable of interest – IFRS adoption, shows a positive effect, which is significant at the varying levels of significance. At least, it can be confirmed from the Table that an increase in the number of years that a country has adopted IFRS, will result to an improvement in the trade volume. The main explanation that underlines this relationship is that a country with an improved financial reporting infrastructure will invariably result to sectorial/industrial development that will enhance trade flow with other countries.

Since African countries trade more of primary product, there is the need to situate this relationship when considering the production of primary products like unprocessed agricultural output and other forms of minerals. In understanding this relationship, it is important to state that the adoption of IFRS enhances public accountability of companies (both small, medium and large), irrespective of the sector that the company is located in.

Following the definition that public accountability is a state, where an entity meets the following conditions: firstly, the entity has a high degree of outside interest from non-management investors or other kinds of stakeholders. These forms of stakeholders primarily depends on external financial reporting as their means of obtaining financial information

about the entity; secondly, the entity, because of its nature of operation, has an essential public service responsibility. Therefore, since the adoption of IFRS is expected to enhance the extent of public responsibility of the firm, then the firm will likely have a higher access to capital and the resultant effect is an increase in the output of the firm. This will have a ripple effect on the trade volume of such a country.

Interestingly, the signs and level of significance of the IFRS variable was consistent across the three estimation techniques. This suggest a robust behaviour and despite the peculiarity of each of the techniques, the variable was still consistent. We expected that addressing the reverse causality and endogeneity issues that sometimes reoccurs with panel data analysis will have an effect on the relationship. However, the result from the Table 8a negates this expectation. In the sense of it, the IFRS variable was only consistent in the last column for SGMM, when the variable "regulatory quality" was included in the model. The implication of this is that when controlling for endogeneity and reverse causality in the panel regression model, there is the need to consider the adoption of IFRS in line with the regulatory quality of the country. This institutional measure has the capacity to reveal the significant effect of IFRS on trade, while other institutional measures were not able to do so. At least, the other variables were able to reveal the signs of the adoption of IFRS on trade, but they were not able to inform the extent of significance of this relationship. Therefore, the variable – regulatory quality is a policy variable that must be considered when dealing with advanced analysis in an IFRS trade model.

As a further check, the IFRS variable was included in the model as a dummy variable. The whole essence is to check if the signs of the relationship will remain consistent as it is in Table 8a. The result of this check was displayed in Table 4.5b, where similar estimations were performed as it is in Table 8a. From the Table, similar sign was observed for the IFRS variable (see columns 1-12, in Table 8a). From the Table, IFRS, measured as a dummy variable, still maintained a positive relationship with the explained variable – trade to GDP ratio. This variable was not significant in any of the columns. Possibly, the dummy component of this variable clearly distorts the trend relationship that is likely to be in existence in the model.

It can be concluded that for African countries, the IFRS variable will display an efficient relationship with trade volume when considering the trend component of the variable. However, when taking the variable as a dummy, it is no longer capable of showing the exact relationship that exist within the model. This is especially when considering the significance of the relationship. The other variables in the model still showed consistent behaviour as they were in Table 8a. Therefore, since the use of IFRS dummy was not translating to an improved significant values of the IFRS variable and does not reflect the trend relationships that are likely to occur amongst the variables, it is no longer useful for further analysis. More importantly, the inclusion or exclusion does not distort the behaviour of the other variables, making it redundant and hence not useful in other analysis.

Table 8a: Regression Analysis (Explained Variable-Trade Flow; Using IFRS as Count Variable)

	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption (count)	1.790**	1.790**	0.883	1.708***	1.708***	1.281	1.605***	1.605***	1.066	1.615***	1.615***	1.823***
	(0.048)	(0.041)	(0.184)	(0.060)	(0.053)	(0.322)	(0.075)	(0.068)	(0.404)	(0.062)	(0.055)	(0.102)
Adult Literacy	-0.348**	-0.348**	-0.307***	-0.306***	-0.306***	-0.297***	-0.283***	-0.283***	-0.214	-0.262***	-0.262***	-0.061
	(0.040)	(0.034)	(0.056)	(0.066)	(0.059)	(0.069)	(0.096)	(0.088)	(0.355)	(0.100)	(0.096)	(0.711)
Exchange Rate	-4.766*	-4.766*	-3.206*	-4.583*	-4.583*	-4.106*	-4.692*	-4.692*	-4.016*	-4.800*	-4.800*	-4.057*
	(0.000)	(0.000)	(0.005)	(0.000)	(0.000)	(0.003)	(0.000)	(0.000)	(0.002)	(0.000)	(0.000)	(0.000)
Population	-18.701*	-18.701*	-5.701	-16.834*	-16.834*	-10.666*	-16.584*	-16.584*	-10.390**	-17.356*	-17.356*	-15.894*
	(0.000)	(0.000)	(0.150)	(0.000)	(0.000)	(0.005)	(0.000)	(0.000)	(0.023)	(0.000)	(0.000)	(0.001)
Natural Resource	2.782*	2.782*	1.802**	2.722*	2.722*	1.822***	2.703*	2.703*	1.761***	2.652*	2.652*	2.075***
	(0.005)	(0.003)	(0.015)	(0.009)	(0.006)	(0.101)	(0.009)	(0.006)	(0.090)	(0.000)	(0.004)	(0.063)
Accounting Infrastructure	-5.596	-5.596	-12.119	-4.930	-4.930	-8.404	-5.398	-5.398	-7.797	-5.737	-5.737	-2.146
	(0.580)	(0.557)	(0.291)	(0.629)	(0.627)	(0.359)	(0.598)	(0.596)	(0.383)	(0.557)	(0.553)	(0.824)
IFAC Membership	10.102	10.102	10.115	9.518	9.518	10.043	10.513	10.513	10.618***	12.446***	12.446***	10.703
	(0.143)	(0.136)	(0.175)	(0.173)	(0.165)	(0.170)	(0.148)	(0.141)	(0.091)	(0.070)	(0.064)	(0.163)
Political Stability	-4.984	-4.984	3.659	---	---	---	---	---	---	---	---	---
	(0.274)	(0.268)	(0.361)									
Control of Corruption	---	---	---	-3.227	-3.227	-7.348	---	---	---	---	---	---
				(0.583)	(0.580)	(0.363)						
Government Effectiveness	---	---	---	---	---	---	-4.591	-4.591	-6.461	---	---	---
							(0.479)	(0.475)	(0.516)			
Regulatory Quality	---	---	---	---	---	---	---	---	---	-12.383**	-12.383**	-22.071*
										(0.049)	(0.043)	(0.010)
Trade_GDP (-1)	---	---	0.357**	---	---	0.305***	---	---	0.309**	---	---	0.219***
			(0.019)			(0.059)			(0.049)			(0.100)
Constant	430.671	430.671	160.816	390.334	390.334	281.613	389.455	389.455	268.863	425.371	425.371	403.404
	(0.000)	(0.000)	(0.041)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.006)	(0.000)	(0.000)	(0.000)
R Squared	0.656	0.656	---	0.648	0.648	---	0.650	0.650	---	0.677	0.677	---
	10.230	81.830		9.900	79.230		9.980	79.800		11.240	89.960	
F-Stat/Wald Statistics	(0.000)	(0.000)	---	(0.000)	(0.000)	---	(0.000)	(0.000)	---	(0.000)	(0.000)	---
Breusch Pagan	(0.206)	---	---	(0.125)	---	---	(0.074)	---	---	(0.026)	---	---
		3.500			2.990			2.150			2.540	
Hausman Test	---	(0.744)	---	---	(0.810)	---	---	(0.906)	---	---	(0.864)	---
AR(2)	---	---	(0.834)	---	---	(0.641)	---	---	(0.877)	---	---	(0.936)
Sargan	---	---	(0.001)	---	---	(0.001)	---	---	(0.001)	---	---	(0.001)
Number of Countries	---	---	46	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	27	---	---	27	---	---	27	---	---	27
Instrument ratio	---	---	1.70	---	---	1.70	---	---	1.70	---	---	1.70

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form.

Table 8b: Regression Analysis (Explained Variable-Trade Flow; Using IFRS as a dummy Variable)

	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	1.079 (0.839)	4.432 (0.344)	1.309 (0.726)	0.550 (0.918)	5.121 (0.264)	1.623 (0.664)	0.043 (0.993)	4.050 (0.351)	0.724 (0.841)	0.848 (0.866)	4.855 (0.269)	4.837 (0.225)
Adult Literacy	-0.249 (0.167)	-0.198 (0.404)	-0.238 (0.134)	-0.213 (0.224)	-0.205 (0.365)	-0.211 (0.180)	-0.182 (0.306)	-0.165 (0.443)	-0.137 (0.451)	-0.175 (0.299)	-0.188 (0.368)	-0.012 (0.947)
Exchange Rate	-4.408* (0.000)	-3.693** (0.027)	-2.906* (0.005)	-4.243* (0.000)	-3.967** (0.018)	-3.683* (0.003)	-4.523* (0.000)	-4.702* (0.004)	-3.747* (0.001)	-4.569* (0.000)	-4.395* (0.004)	-3.496 (0.000)
Population	-17.763* (0.000)	-16.589* (0.000)	-3.664 (0.347)	-16.195* (0.000)	-17.071* (0.000)	-9.493* (0.004)	-16.142* (0.000)	-17.204* (0.000)	-9.659** (0.013)	-16.964* (0.000)	-17.666* (0.000)	-13.533 (0.000)
Natural resource	2.482** (0.015)	1.911** (0.047)	1.653** (0.026)	2.446** (0.023)	1.725*** (0.079)	1.773** (0.016)	2.326** (0.027)	1.429 (0.145)	1.680** (0.033)	2.341** (0.017)	1.744*** (0.063)	0.001 (1.887)
Accounting Infrastructure	-6.332 (0.550)	-9.563 (0.531)	-11.683 (0.310)	-5.709 (0.592)	-10.603 (0.490)	-5.445 (0.601)	-6.596 (0.535)	-13.507 (0.359)	-4.986 (0.634)	-6.710 (0.509)	-11.415 (0.415)	0.080 (0.994)
IFAC Member	12.084*** (0.093)	12.994 (0.183)	10.634 (0.159)	11.545 (0.111)	14.178 (0.151)	9.033 (0.222)	13.104** (0.018)	18.432*** (0.060)	9.906 (0.204)	14.639 (0.040)	17.246*** (0.060)	8.311 (0.240)
Political Stability	-3.971 (0.409)	-0.989 (0.863)	5.633 (0.168)	---	---	---	---	---	---	---	---	---
Control of Corruption	---	---	---	-2.277 (0.713)	-4.612 (0.469)	-5.274 (0.335)	---	---	---	---	---	---
Government Effectiveness	---	---	---	---	---	---	-5.640 (0.402)	-13.993*** (0.093)	-6.117 (0.480)	---	---	---
Regulatory Quality	---	---	---	---	---	---	---	---	---	-12.771*** (0.059)	-15.338*** (0.056)	-17.314** (0.050)
Trade_GDP (-1)	---	---	0.357 (0.019)	---	---	0.296 (0.050)	---	---	0.300*** (0.052)	---	---	0.264*** (0.080)
Constant	406.871* (0.000)	373.392* (0.000)	160.816* (0.000)	372.315* (0.000)	394.075* (0.000)	248.345* (0.000)	381.234* (0.000)	426.072* (0.000)	249.458* (0.000)	321.649* (0.000)	437.227* (0.000)	340.583* (0.000)
R Squared	0.623	0.605	---	0.648	0.602	---	0.623	0.595	---	0.649	0.637	---
F-Stat/Wald Statistics	8.870 (0.000)	35.530 (0.000)	---	8.690 (0.000)	35.730 (0.000)	---	8.870 (0.000)	41.880 (0.000)	---	9.950 (0.000)	45.810 (0.000)	---
Breusch Pagan	0.056	---	---	0.0389	---	---	---	---	---	0.0049	---	---
Hausman Test	---	7.160 (0.306)	---	---	6.180 (0.403)	---	---	4.410 (0.622)	---	---	6.730 (0.346)	---
AR(2)	---	---	0.849	---	---	0.641	---	---	0.832	---	---	0.589
Sargan	---	---	0.001	---	---	0.001	---	---	0.001	---	---	0.001
Number of Countries	---	---	46	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	27	---	---	27	---	---	27	---	---	27
Instrument ratio	---	---	1.70	---	---	1.70	---	---	1.70	---	---	1.70

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form.

Regression Analysis: **Foreign Direct Investment as Explained Variable**

Considering the explained variable – foreign direct investment (FDI) – Table 9 presents the relationship that exist between this variable – FDI – the main explanatory variable (IFRS), the covariates. The three estimation techniques were also applied in testing this relationship and these techniques were all presented in different columns in the Table, depending on the combinations of the institutional variable.

As a preliminary check, considerations was given to the post estimation checks for the different analysis. This is to enable us properly consider the suitability and reliability of the results. As earlier done, for the OLS regression, the R^2 and the test for homogeneity of the residuals was checked. The R^2 of the entire model reveals that the entire model (inclusive of the main explanatory variable and the covariates), were able to explain above 20 percent of the behaviour of the FDI variable. This explanatory power is low, but considering a variable like FDI that is very volatile and affected by many other factors, an above 20 percent explanatory power is substantial and can be relied upon for policy consideration. The test for homogeneity of the residuals of the regression model shows that the residuals follow a homogenous pattern. At least, the null hypothesis of a constant variance of the residuals is rejected at the varying levels of significance.

Columns 2, 5, 6, 8, 11 and 12 of Table 9, respectively displays the Hausman, the AR (2) and Sargan test for instrument proliferation for the SGMM technique. From the Table, the Hausman test reveals that the Random Effect (RE) estimation technique is preferable to the Fixed Effect (FE) test. The statistics of the Hausman test shows that the null hypothesis of difference in coefficients not being systemic should be rejected: this imply that the RE should be selected over the FE test. Of course, its advantages is tied to the fact that it is able to analyse the unique, time constant attributes that are the results of random variation and do not correlate with the individual regressors.This model is adequate, if we want to draw inferences about the whole population, not only the examined sample. The AR (2) test reveals that there is no problem of autocorrelation among the internal instruments used in the SGMM estimation technique. This suggest that the result from the SGMM test can be relied upon.

Focusing on the main explanatory variable – IFRS – the result from the Table 9 further reveals that the IFRS variable, has a positive impact on the flow of FDI to a host country. In essence, as a country adopts the IFRS, there is a positive effect on the volume of FDI that will likely flow into such a country. This result is mostly significant in the RE and SGMM estimation techniques. Probably, this is because the RE and SGMM estimation techniques are more advanced and controls for other factors compared to the OLS estimation technique that just analyses the linear relationship between variables. Since the RE estimation technique considers some time invariant factors and the SGMM controls for reverse causality and endogeneity issues, which are likely going to plague an FDI analysis, then its likely that estimation techniques that control for these factors will reveal a better outcome for an FDI model.

From the result, it can be said that irrespective of the technique applied in understanding the relationship between FDI and IFRS adoption, it can be said that a country's adoption of the IFRS will most likely result to about 20 percent increase in the flow of FDI into the IFRS adopting country.

Putting this result in the wider scientific context, the adoption of IFRS is linked with the reduction in the cost of accessing financial information and the reduction of information asymmetry between preparers and users of financial information (Ramos, 2008). Since IFRS can foster the transparency in the financial reporting process of a country, then the assurance of multinational inflow into the IFRS adopting country is high: this is because multinational organisations require transparent and comparable accounting standards as a tool for minimising the cost of translating financial information for better understanding. As a result, multinationals will be induced to increase investments in countries that have such comparable standards.

Gordon, Loeb and Zhu (2012) concluded that there is a positive impact of FDI flow from a country's adoption of IFRS. This conclusion was reached using a sample of 124 countries (1996-2009) and the analysis was based on the OLS estimation technique. Similar result was reached by Ramos (2008) using a European Union generated data. The main argument from the study is that IFRS adoption reduces the risk of investing abroad, especially with

regards to transparency and control of subsidiaries. Chen, Ding and Xu (2014) found similar result for countries in the Organization for Economic Cooperation and Development (OECD).

The lagged value of the FDI variables was first considered before discussing the other explanatory variables. From the Table 9, the variable maintained a positive sign in all the columns it appeared in. Its significance was verified only in column 9. Since it maintained a consistent positive sign in the entire models, it can be said that the FDI flow to African countries follow an agglomeration pattern. This imply that the value of FDI flow in a current year will most likely inform the value of future FDI flow into such a country. Mijiyawa (2011) carefully expounded on this effect in his study of the drivers of foreign investment into Africa and concluded that the current volume of foreign investment is most likely going to be an attractive tool for other foreign investors. The positive sign from the Table consistently verified this fact, but the significance level proved murky: in some columns, the variable was insignificant, while in another column, it became significant at 1 percent.

Just as it was in Table 8, most of the other covariates in Table 9, like the adult literacy, official exchange rate and the population of the country, still maintained a consistent sign and the significance levels was not so different from the earlier presented. Attention is drawn to the variable – exchange rate – which was not able to maintain a significant effect on FDI as it was in the first model that had trade to GDP ratio as its explained variable. This in itself is not a major issue because trade volume will most likely be affected by the exchange rate policy of the country compared to FDI: meaning that the insignificant effect of this variable on FDI may not really be an issue unlike if it were insignificant in the trade flow model in Table 8.

The signs and significant values of the accounting infrastructure variables and measures of institutional development in Table 9 maintained similar sign and significant value as in Table 8. The effect of these variables will be further explored in subsequent discussions and their intervening roles in the IFRS adoption, trade and FDI nexus will be expounded.

Table 9: Regression Analysis (Explained Variable-Foreign Direct Investment; Using IFRS as a Count Variable)

	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	0.105	0.241***	1.064	0.112	0.265***	0.175***	0.072	0.254***	0.055	0.099	0.258***	0.234**
	(0.556)	(0.082)	(0.186)	(0.527)	(0.051)	(0.089)	(0.670)	(0.060)	(0.741)	(0.570)	(0.057)	(0.024)
Adult Literacy	-0.022	-0.052	0.171***	-0.021	-0.061	0.001	-0.007	-0.058	-0.021	-0.017	-0.061	0.039
	(0.512)	(0.226)	(0.077)	(0.517)	(0.146)	(0.962)	(0.837)	(0.149)	(0.581)	(0.607)	(0.136)	(0.154)
Exchange Rate	-0.271	-0.314	0.968	-0.314	-0.347	-0.154	-0.481**	-0.459	0.080	-0.316	-0.332	-0.044
	(0,204)	(0.309)	(0.113)	(0.152)	(0.273)	(0.246)	(0.026)	(0.147)	(0.672)	(0.117)	(0.279)	(0.696)
Population	-0.790	-0.790	7.734	-0.866***	-1.059***	0.029	-0.936**	-1.222**	1.450***	-0.879***	-1.051***	-0.321
	(0.217)	(0.312)	(0.116)	(0.086)	(0.100)	(0.942)	(0.039)	(0.046)	(0.068)	(0.064)	(0.090)	(0.470)
Natural resource	-0.188	0.042	0.232	-0.220	0.069	-0.052	-0.303	0.008	-0.083	-0.213	0.060	0.010
	(0.324)	(0.797)	(0.270)	(0.273)	(0.680)	(0.663)	(0.111)	(0.964)	(0.641)	(0.261)	(0.717)	(0.927)
Accounting Infrastructure	-4.474**	-3.689	30.819***	-4.584**	-3.727	0.902	-5.123**	-4.199	-0.436	-4.615**	-3.720	2.317
	(0.032)	(0.188)	(0.070)	(0.028)	(0.196)	(0.588)	(0.011)	(0.137)	(0.843)	(0.025)	(0.185)	(0.156)
IFAC Member	3.233**	3.376***	-7.096	3.350**	3.451***	0.552	4.206*	4.072**	0.021	3.595**	3.330***	-0.044
	(0.022)	(0.059)	(0.141)	(0.018)	(0.061)	(0.635)	(0.003)	(0.030)	(0.989)	(0.012)	(0.067)	(0.967)
Political Stability	-3.971	0.666	5.481	---	---	---	---	---	---	---	---	---
	(0.964)	(0.495)	(0.231)									
Control of Corruption	---	---	---	-0.572	0.372	-1.894**	---	---	---	---	---	---
				(0.624)	(0.730)	(0.025)						
Government Effectiveness	---	---	---	---	---	---	-2.632**	-1.151	1.445	---	---	---
							(0.037)	(0.455)	(0.461)			
Regulatory Quality	---	---	---	---	---	---	---	---	---	-1.263	0.836	-3.045*
										(0.320)	(0.585)	(0.009)
FDI (-1)	---	---	1.064	---	---	0.142	---	---	0.486*	---	---	0.190
			(0.186)			(0.366)			(0.006)			(0.189)
Constant	21.474	20.341	-186.095	24.530**	26.394***	6.932	31.956*	34.196**	-26.649	26.598**	24.818***	13.007
	(0.131)	(0.230)	(0.111)	(0.034)	(0.063)	(0.456)	(0.002)	(0.011)	(0.143)	(0.012)	(0.070)	(0.189)
R Squared	0.251	0.217	---	0.256	0.213	---	0.324	0.258	---	0.2685	0.199	---
F-Stat/Wald Statistics	1.800	14.780		1.840	14.230		2.580	14.910		1.970	14.560	
	(0.100)	(0.064)	---	(0.095)	(0.076)	---	(0.021)	(0.061)	---	(0.073)	(0.068)	---
Breusch Pagan	0.0921	---	---	0.1417	---	---	0.1345	---	---	0.0555	---	---
Hausman Test	---	5.690 (0.459)	---	---	---	---	---	7.380 (0.287)	---	---	6.240 (0.397)	---
AR(2)	---	---	0.350	---	---	0.448	---	---	0.408	---	---	0.172
Sargan	---	---	1.000	---	---	0.062	---	---	0.424	---	---	0.027
Number of Countries	---	---	46	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	27	---	---	27	---	---	27	---	---	27
Instrument ratio	---	---	1.70	---	---	1.70	---	---	1.70	---	---	1.70

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form

Regression Analysis: **Portfolio Investment as Explained Variable**

In the nest analysis, the robust relationship between IFRS adoption and portfolio invest-
ment was examined, taking note of the other covariates. As usual, the OLS, random effect
and SGMM estimation techniques were applied in testing this relationship and the estima-
tion results were presented in Table 10.

Following the paradigm, the preliminary analysis of the regression results were presented
in the lower section of the Table and the result were as follows: the OLS regression analy-
sis, presented in columns 1, 4, 6 and 9, reveals that the entire model were able to explain
above 50 percent of the variation of the foreign portfolio investment. This fraction is high
and imply that the model is capable of explaining the behaviour of the foreign portfolio
investment, at least to a large extent. The OLS result presented in the Table was unable to
fulfil the homoscedasticity rule of regression analysis. In essence, the Breusch Pagan test
reveals that the result did not fulfil the criterion of homoscedasticity. Since this is not the
main analysis of interest, then we are not paying much attention to this inadequacy of the
model.

The Random Effect (RE) model reveals that the entire model was able to explain above 50
percent of the behaviour of the foreign portfolio investment. This magnitude of explanatory
strength is also sufficient to predict the foreign portfolio flow into our sampled countries.
The Hausman test also suggest that the RE test is better and more efficient in predicting
the relationships that exist between the variables.

The main estimation technique is the SGMM test, which controls for reverse causality and
endogeneity problems, suggest an interesting outlook for modelling the relationship. First,
the AR (2) test reveals that the model is of good fit and the internal instruments were not
serially correlated. Also, the instrument ration reveals that the internal instruments used in
the analysis were not proliferated.

From the Table, the IFRS adoption variable consistently had a negative effect on the vol-
ume of foreign portfolio investment in all the columns. The significant values were not
easily verified as in some columns, the IFRS variable was insignificant while in the other

columns, the variable was significant. Since the significant values were not easily verifiable, we focused our attention on the consistency of the signs. Albeit, the signs can reveal, to some extent, the behaviour of the IFRS variable, irrespective of the extent to which the variable is able to affect foreign portfolio investment.

The IFRS variable was negative in all the columns of Table 10. This suggest that as countries in Africa adopt IFRS, there tend to be a negative effect on the volume of portfolio investors that flow into the country. This result is contrary to the findings of Beneish *et al* (2012), who emphasised that the effect of IFRS adoption on the debt and equity market of EU countries is positive: implying that IFRS adoption has positively influenced foreign debt movement and has a marginal positive impact on equity investment. Since their result suggest marginal influence of IFRS adoption on equity investors and the result from this study suggest a negative effect, it can be argued that IFRS adoption does not necessarily promote equity investors in countries.

This argument is premixed on the fact that most portfolio investors depend on the risk involved in investment and not necessarily the financial information translation in making their investment decision. Also, most of these investors may not necessarily be involved in the monitoring of the financial statement of companies they invest in, but will most likely be studying the trend of the stock market before making investment decisions. The stock market is based on speculations that comes from the information flow that spans beyond the micro entity called the firm. For instance, the recent global financial crisis witnessed stock market crash of some countries (which simply means that the portfolio investors were gradually selling up their stock for liquidity) and the values of shares were dropping symmetrically. The ubiquitous occurrence of this trend was not as a result of the firm's financial statement translation, but as a result of some other shocks that emanated from the macro economy at large.

This argument does not imply that the IFRS may not have a significant effect on the portfolio investors, but that the effect may not necessarily be as strong and positive as it has on trade and foreign investors. Atleast, the behaviour of the variable in the Table 10 further

exaggerates this facts. The behaviour of the other covariates in relation to portfolio investment was also presented in the Table.

The variables that have consistently behaved in similar fashion across the Tables (Tables 8a and b, and 9) include adult literacy, exchange rate and population. In the earlier mentioned Tables, these variables had a negative impact on the respective explained variables (i.e. Trade and Foreign Direct Investment) presented in Tables 8a and b, and 9. In Table 10, the variables behaved differently with regards to their influence on foreign portfolio investment. At least, the positive signs, displayed by the variables suggest that an increase in the extent of adult literacy, exchange rate and population will inform an increase in the volume of foreign portfolio investment.

The significant value of the adult literacy, especially in the columns with OLS and RE estimations, reveal that when neglecting the consideration of endogeneity and reverse causality, the impact of the variable was positive in informing foreign portfolio investment. In essence, the more literate the adult population in the country, the more the foreign portfolio investors flow into the country. Perhaps, this behaviour can be traced to the demand of portfolio investors for professionals and literate population to be able to work with them for investment and advisory purposes. Therefore, the more these category of the population in a country, the belter the portfolio investor's requirement for highly educated adult workforce will be sorted out. This finding is not applicable when computing estimation techniques that considers reverse causality and issues regarding to endogeneity.

The variable-population, was also displaying a positive impact on foreign portfolio investment. The exchange rate was not consistent in its impact on foreign portfolio investment. The impact of accounting infrastructure on foreign portfolio investment was positive and significant in most of the columns. As earlier discussed for adult literacy, the accounting infrastructure (a measure of the strength of the professional association) is able to provide professional personnel. On the contrary, the IFAC variable (which measures the country's IFAC membership) was negatively informing foreign portfolio investment. All the measures of institution had a positive impact on the volume of foreign portfolio investment.

Table 10: Regression Analysis (Explained Variable-Foreign Portfolio Investment; Using IFRS as a Count Variable)

	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	-0.003	-0.001***	-0.001	-0.002	-0.005***	-0.001*	0.007	-0.004	-0.001*	-0.006	-0.004	-0.001*
	(0.468)	(0.060)	(0.134)	(0.963)	(0.098)	(0.008)	(0.842)	(0.185)	(0.021)	(0.876)	(0.142)	(0.001)
Adult Literacy	0.002*	0.002*	-0.004	0.002**	0.002**	0.002	0.001**	0.001*	-0.001	0.002**	0.002*	-0.002
	(0.000)	(0.010)	(0.839)	(0.016)	(0.038)	(0.171)	(0.048)	(0.008)	(0.132)	(0.017)	(0.033)	(0.148)
Exchange Rate	0.009	0.111	-0.001	0.008	0.001	0.001***	0.002	0.002	0.001*	-0.002	-0.001	0.002
	(0.825)	(0.309)	(0.813)	(0.862)	(0.981)	(0.060)	(0.673)	(0.726)	(0.000)	(0.674)	(0.809)	(0.637)
Population	0.007*	0.006*	0.009*	0.004*	0.003**	0.009*	0.004*	0.003**	0.012*	0.004*	0.003**	0.011*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.023)	(0.000)	(0.002)	(0.018)	(0.000)	(0.000)	(0.014)	(0.000)
Natural resource	-0.001	-0.002	-0.004	0.002	0.006	0.001	0.001	0.001	0.001*	-0.008	-0.004	0.002
	(0.733)	(0.647)	(0.408)	(0.663)	(0.976)	(0.114)	(0.797)	(0.688)	(0.001)	(0.827)	(0.913)	(0.587)
Accounting Infrastructure	0.009**	0.008***		0.007	0.006		0.007***	0.007		0.006	0.006	
	(0.038)	(0.089)	---	(0.128)	(0.238)	---	(0.100)	(0.146)	---	(0.124)	(0.198)	---
IFAC Member	-0.006**	-0.005***	0.008	-0.005*	-0.004	-0.007***	-0.007**	-0.006***	-0.011*	-0.008*	-0.006***	-0.003
	(0.034)	(0.091)	(0.344)	(0.003)	(0.275)	(0.071)	(0.016)	(0.070)	(0.005)	(0.010)	(0.076)	(0.534)
Political Stability	0.007*	0.006*	0.009*									
	(0.000)	(0.001)	(0.002)	---	---	---	---	---	---	---	---	---
Control of Corruption				0.008*	0.005**	0.015*						
	---	---	---	(0.000)	(0.015)	(0.000)	---	---	---	---	---	---
Government Effectiveness							0.009*	0.009*	0.024*			
	---	---	---	---	---	---	(0.001)	(0.001)	(0.000)	---	---	---
Regulatory Quality										0.011*	0.008	0.034
	---	---	---	---	---	---	---	---	---	(0.000)	(0.005)	(0.000)
FPI (-1)			0.105			0.068			0.067			0.002
	---	---	(0.763)	---	---	(0.755)	---	---	(0.688)	---	---	(0.993)
Constant	-0.152*	-0.129*	-186.095	-0.099*	-0.077*	-0.204*	-0.096*	-0.084*	-0.271*	-0.104*	-0.085	-0.278
	(0.000)	(0.000)	(0.111)	(0.000)	(0.006)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.002)	(0.000)
R Squared	0.531	0.509	---	0.464	0.419	---	0.500	0.4645	---	0.53	0.5011	---
	5.240	21.690		4.010	14.070		4.620	19.850		5.210	17.410	
F-Stat/Wald Statistics	(0.000)	(0.006)	---	(0.002)	(0.080)	---	(0.000)	(0.011)	---	(0.000)	(0.021)	---
Breusch Pagan	0.000	---	---	0.000	---	---	0.000	---	---	0.000		---
		10.290			6.410			9.190			15.180	
Hausman Test	---	(0.113)	---	---	(0.379)	---	---	(0.197)	---	---	(0.189)	---
AR(2)	---	---	0.518	---	---	0.533	---	---	0.463	---	---	0.342
Number of Countries	---	---	46	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	28	---	---	28	---	---	28	---	---	28
Instrument ratio	---	---	1.64	---	---	1.64	---	---	1.64	---	---	1.64

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form

Considering the Interaction between IFRS adoption and Accounting Infrastructure

The interaction variable was considered, where the variable IFRS adoption was multiplied with the measures of accounting infrastructure (particularly how long the accounting body in the country has been in existence and being an IFAC member). The main aim of this exercise is to find out the indirect effect caused by accounting infrastructure in defining the relationship between IFRS adoption and the explained variables. Put differently, the effect of accounting infrastructure in explaining the relationship between IFRS adoption and trade, FDI and FPI, was examined. In essence, if there is a positive relationship, it is assumed that IFRS will be beneficial to trade, FDI and FPI when the accounting infrastructure within the country is properly developed. A negative relationship will imply that accounting infrastructure has a substitutive effect on IFRS adoption in explaining trade, FDI and FPI.

The first analysis under this subsection is the consideration of the effect of the interaction variable on our first explained variable "trade as a percentage of GDP". The coefficient of this variable is presented in Table 11as "Accounting Infrastructure × IFRS Adoption". This multiplicative term stems from multiplying the number of years the professional accounting body in a country has been in existence with the IFRS adoption variable. It is only the indirect effect that was considered in this analysis. Since in the other Tables, the direct effect has already been considered and it is established that IFRS adoption has a positive effect on trade and FDI. The indirect effect only considers the intervening role of accounting infrastructure in the effect of IFRS adoption on the explained variables.

Some of the variables like IFRS adoption, accounting association and IFAC membership were excluded from the analysis, marked by the sign "---". The reason being that, as earlier discussed, these variables will show the direct effect of the variables on the explained variable "trade as a percentage of GDP". Since the indirect effect is being examined, then including them in the models estimated will bring about high collinearity between the variables and the interactive terms. The danger in this is that the real indirect effect of the interactive variable on the explained variable will not be visible due to interferences from

the other explanatory variables (IFRS adoption, accounting association and IFAC membership). Similar approach will be applied for the other models that contains FDI and FPI as the explained variable.

From the Table, the interactive variable signifying the indirect effect of accounting infrastructure on the relationship between IFRS adoption and trade, reveals that a country that has adopted IFRS will benefit from trade outcomes, when the accounting infrastructure in the country is developed. The positive effect of this variable (Accounting Infrastructure × IFRS Adoption) across the columns and the different estimation approaches, suggest that consistently, a country that adopts IFRS should also endeavour to develop its accounting infrastructure in order to benefit from the adoption of IFRS.

In essence, accounting infrastructure can play a complimenting role to IFRS adoption in forming trade flow into the adopting country. When countries adopt IFRS, then there should be striving towards the development of their accounting infrastructure: this include the increase in the number of professional accountants of the recognised professional association within the country. The positive sign connote that when a country adopts the IFRS, an increase in the number of professional accountants in the country (synonymous with an increase in the number of years of existence of the accounting body), then the outcome effect on trade will definitely be on the positive.

Comparing the row that presents the coefficients of the IFRS adoption variable in Table 8a and the row that presents the coefficients of the interactive term (Accounting Infrastructure × IFRS Adoption) in Table 11, some interesting findings can be observed. From the Table 8a, the IFRS adoption variable had a significant impact of between 1.605 and 1.823 across the columns: when considering the interactive variable, when accounting infrastructure is brought to fore, the coefficient of the influence of IFRS adoption on trade increased drastically across the columns. For instance, in the first two columns of the both Tables, the influence of IFRS adoption on trade increased from 1.790 to 2.126 and 2.220 when considering the development of accounting infrastructure. Simply put, a country will benefit much more from trade when adopting IFRS as well as experiences a development of the domestic accounting infrastructure.

Wysocki (2011) presents a simple analogy that elaborates on the complimentary relationship that exist between accounting infrastructure and IFRS adoption in informing trade flow between countries. The author noted that the transaction cost existing between economic agents can be drastically reduced: this is because trade between and within firms and other contracting parties will be costly if it is difficult to efficiently verify the properties of what is being exchanged (such as the goods, capital and labour) and as well, the difficulty will extend if there are problems in enforcing the terms of exchange. This becomes even imperative noting that accounting standards and guidelines are mechanisms that , if in place, can help lower transaction cost, reduce information asymmetry and cost of accessing such information, lower cost of coordinating the information and even improve the enforceability of property rights.

Furthermore, viewing accounting from an institutional perspective highlights its emergence from an endogenously arranged instrument within an economic system, such that its form, efficiency and the quality of the existent system is influenced by man-made factors that enhance the supply of and demand for financial information, among others (Wysocki, 2011). This can be viewed from the existence of a professional accounting body within the country that can enhance the rate of supply of professionals that can bring about quality financial reporting system. This explains the reason for the sporadic increase in the rate of influence of the adoption of IFRS on trade, when considering the intervening role of accounting infrastructure.

Table 11: Regression Analysis (Explained Variable-Trade as % of GDP and Including the Interactive Variable)

	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	---	---	---	---	---	---	---	---	---	---	---	---
	-0.262*	-0.199	-0.146	-0.241	-0.189	-0.138	-0.235	-0.146	-0.117	-0.185	-0.147	0.060
Adult Literacy	(0.000)	(0.295)	(0.198)	(0.117)	(0.306)	(0.218)	(0.150)	(0.442)	(0.458)	(0.232)	(0.416)	(0.656)
	-4.990*	-4.742*	-3.148*	-4.820*	-4.970*	-3.914*	-4.781*	-5.297*	-3.491*	-5.106*	-5.388*	-3.860*
exchange rate	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
	-17.096*	-15.743*	-7.123**	-15.848*	-15.815*	-10.764*	-15.634*	-15.434*	-9.223*	-16.125*	-15.974*	-14.886*
Population	(0.000)	(0.000)	(0.043)	(0.000)	(0.000)	(0.0000)	(0.000)	(0.000)	(0.006)	(0.000)	(0.000)	(0.000)
	3.056*	2.263*	2.153*	3.031*	2.115**	2.070*	3.070*	2.030**	2.113*	2.955*	2.108**	2.128*
Natural resource	(0.001)	(0.009)	(0.002)	(0.002)	(0.018)	(0.003)	(0.002)	(0.024)	(0.005)	(0.001)	(0.013)	(0.001)
Accounting Infrastructure	---	---	---	---	---	---	---	---	---	---	---	---
IFAC Membership	---	---	---	---	---	---	---	---	---	---	---	---
Accounting Infrastructure×IFRS Adoption	2.126*	2.220*	0.891	2.089**	2.263*	1.215***	2.054**	2.148*	1.053***	2.087**	2.271*	1.749*
	(0.019)	(0.004)	(0.171)	(0.022)	(0.003)	(0.054)	(0.023)	(0.005)	(0.090)	(0.018)	(0.002)	(0.007)
	-3.294	-0.993	2.059	---	---	---	---	---	---	---	---	---
Political Stability	(0.456)	(0.842)	(0.556)	---	---	---	---	---	---	---	---	---
	---	---	---	-1.690	-3.352	-6.642	---	---	---	---	---	---
Control of Corruption	---	---	---	(0.767)	(0.551)	(0.191)	---	---	---	---	---	---
	---	---	---	---	---	---	-1.203	-6.654	-1.925	---	---	---
Government Effectiveness	---	---	---	---	---	---	(0.843)	(0.363)	(0.799)	---	---	---
	---	---	---	---	---	---	---	---	---	-9.032	-11.544***	-18.720*
Regulatory Quality	---	---	---	---	---	---	---	---	---	(0.132)	(0.100)	(0.010)
	---	---	0.319**	---	---	0.279**	---	---	0.299**	---	---	0.227***
Trade as % of GDP (-1)	---	---	(0.025)	---	---	(0.043)	---	---	(0.033)	---	---	(0.098)
	395.031*	360.160*	178.417**	367.096*	368.865*	272.083*	361.545*	371.525*	227.389*	392.748*	396.322*	372.856*
Constant	(0.000)	(0.000)	(0.017)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.003)	(0.000)	(0.000)	(0.000)
R_Squared	0.641	0.6304	---	0.637	0.628	---	0.6371	0.6218	---	0.6546	0.6445	---
	13.410	49.910		13.190	49.960		13.160	51.630		14.210	56.160	
F-Stat/Wald Statistics	(0.000)	(0.000)	---	(0.000)	(0.000)	---	(0.000)	(0.000)	---	(0.000)	(0.000)	---
Breusch Pagan	0.258	---	---	---	---	---	0.231	---	---	0.097	---	---
		3.120			3.130			2.690			2.620	
Hausman Test	---	(0.794)	---	---	(0.793)	---	---	(0.847)	---	---	(0.854)	---
AR(2)	---	---	0.756	---	---	0.426	---	---	0.730	---	---	0.950
Number of Countries	---	---	46	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	33	---	---	33	---	---	33	---	---	33
Instrument Ratio	---	---	1.394	---	---	1.394	---	---	1.394	---	---	1.394

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form

Following status quo, the preliminary analysis to check the substance of the estimations was examined. These preliminary analysis include the test of heteroscedasticity, the Hausman test and the AR (2) and instrument ration, to ensure that the regression estimates are not spurious and can be relied upon for inference sake. The probability value of the F-statistics and the Wald test was also examined. Speaking of the probability value of the Wald statistics for the OLS and RE test, the results from Table 12shows that the OLS and RE tests will likely be misleading because the statistics were not significant in any of the columns. Consistently, it can be said that the estimates in the Table does not efficiently describe the relationship between the variables based on the fact that the F-Statistics and the Wald statistics were not significant in all the columns.

As a fallout, the SGMM technique will be relied on for understanding the behaviour of the interactive variable in the model presented in Table 12. The AR (2) preliminary test for the SGMM estimation technique reveals that the internal instrument generated to efficiently estimate the SGMM technique was not proliferated and the results from this analysis can be relied upon. For instance, the rule of thumb is that the probability value of the AR(2) test should be above 0.05 significant level and the instrument ratio should be above "1.000" (Roodman, 2007). Therefore, since all the indices satisfy the criterions for establishing the efficiency of the results from the SGMM estimations, then the analysis in this section will only be considering the estimates that was presented in Table 12.

From the Table, the interaction variable (i.e. multiplicative between IFRS adoption and accounting infrastructure) reveals that there exist a positive relationship between the adoption of IFRS and foreign direct investment flow, when considering the extent of the development of the accounting infrastructure in the given country. The SGMM results in all the columns of Table 12, shows that the indirect influence of accounting infrastructure on the relationship between IFRS adoption and the flow of foreign direct investment into the adopting country, ranges from 29 percent to 31.4 percent. Putting this in context, the implication of this result is that a country will have between 29 to 31 percent expectation of an improved flow of foreign direct investment after adopting the IFRS, only if the level of accounting infrastructure is developed within the country.

The development of the accounting infrastructure within a country's economic system is a form of institutional setting to enforce and drive property right protection and ensure development of regulations that protect security of capital and investment (Wysocki, 2011), then accounting infrastructure is an important sub-set of the information environment of a country. Noting this, some findings that examines international differences in the cost of equity capital across countries, concludes that countries having more expansive disclosure requirement, better security regulations and stricter enforcement mechanisms are generally prone to lower cost of capital. The tendency of this attracting an increased presence of foreign investment is enormous because foreign investors are driven by maximising their profit and minimising their cost. Perhaps, when countries adopt IFRS and their accounting infrastructure is developed, the cost of information access and coordination reduces due to available regulations to guide the preparation (IFRS) and as well, available institutional setting (in the light of existence of professional accounting bodies) to regulate and provide the resources for the preparation of the financial statement.

Some other studies for which inference was drawn in understanding the intervening role of accounting infrastructure in the relationship between the adoption of IFRS and FDI include Chen *et al* (2014), who find that both country-level investor protection and higher disclosure and systems that enhance corporate governance ratings contribute to a lower cost of equity capital for firms in the Asian economic system. Focusing on emerging countries, Chen *et al* (2014) also noted that strengthening country's corporate governance, among others, is a veritable strategy for reducing the cost of equity capital than does only the expansion of disclosure by firms. In essence, the adoption of the IFRS may not be sufficient in enhancing corporate governance that can attract foreign capital: this implies that there should be a co-existence of accounting infrastructure that can play a supportive role to the adoption of IFRS in furthering the inflow of foreign investment into the IFRS adopting country.

The other explanatory variables follow consistent signs across the different columns in Table 12.Theirlevels of significance was not verifiable across the columns. In essence, some of the variables were significant in some columns and in other columns, these significant values were no longer in existence.

Table 12: Regression Analysis (Explained Variable-FDI as % of GDP and Including the Interactive Variable)

	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	---	---	---	---	---	---	---	---	---	---	---	---
	0.010	-0.016	-0.223**	0.008	-0.027	-0.286**	0.021	-0.029	-0.207**	0.012	-0.033	-0.194***
Adult Literacy	(0.747)	(0.683)	(0.016)	(0.803)	(0.494)	(0.046)	(0.527)	(0.471)	(0.018)	(0.729)	(0.399)	(0.064)
	-0.334	-0.484	0.178	-0.372***	-0.517***	1.900	-0.509**	-0.596***	1.211	-0.400***	-0.491	1.416
Exchange Rate	(0.135)	(0.188)	(0.939)	(0.100)	(0.100)	(0.173)	(0.032)	(0.070)	(0.367)	(0.062)	(0.114)	(0.431)
	-0.247	-0.124	0.271	-0.440	-0.505	2.427	-0.488	-0.653	-0.317	-0.477	-0.554	0.000
Population	(0.697)	(0.868)	(0.948)	(0.382)	(0.424)	(0.576)	(0.295)	(0.282)	(0.952)	(0.317)	(0.358)	(0.999)
	-0.051	0.074	0.461*	-0.056	0.118	0.428*	-0.112	0.092	0.500*	-0.068	0.111	0.516*
Natural Resource	(0.786)	(0.653)	(0.000)	(0.776)	(0.481)	(0.003)	(0.559)	(0.594)	(0.000)	(0.720)	(0.501)	(0.000)
Accounting Infrastructure	---	---	---	---	---	---	---	---	---	---	---	---
IFAC Membership	---	---	---	---	---	---	---	---	---	---	---	---
Accounting Infrastructure	0.090	0.231***	0.308**	0.098	0.249***	0.302**	0.093	0.270***	0.314**	0.101	0.250***	0.290**
× IFRS Adoption	(0.630)	(0.100)	(0.013)	(0.601)	(0.078)	(0.014)	(0.612)	(0.056)	(0.041)	(0.589)	(0.074)	(0.030)
Political Stability	0.446	1.130	1.008									
	(0.636)	(0.248)	(0.451)									
Control of Corruption	---	---	---	0.061	0.879	-1.899	---	---	---	---	---	---
				(0.960)	(0.415)	(0.269)						
Government Effectiveness	---	---	---	---	---	---	-1.410	0.092	-0.420	---	---	---
							(0.271)	(0.952)	(0.858)			
Regulatory Quality	---	---	---	---	---	---	---	---	---	-0.478	1.678	0.565
										(0.713)	(0.277)	(0.778)
FDI (-1)	---	---	-0.030	---	---	-0.023	---	---	-0.034	---	---	-0.026
			(0.893)			(0.895)			(0.871)			(0.905)
Constant	7.094	5.084	0.073	11.833	13.010	0.094	16.990***	18.320	0.123	14.052	11.574	0.104
	(0.606)	(0.750)	(0.907)	(0.288)	(0.319)	(0.850)	(0.080)	(0.140)	(0.826)	(0.164)	(0.361)	(0.840)
R_Squared	0.123	0.1084	---	1.010	0.100		0.1423	0.099	---	0.1213	0.0802	---
F-Stat/Wald Statistics	1.050	9.630		0.431	8.870		1.240	8.070		1.040	0.361	
	(0.405)	(0.140)	---	(0.621)	(0.188)		(0.302)	(0.233)	---	(0.415)	(0.149)	---
Breusch Pagan	0.480	---	---	0.6207	---		0.928		---	0.732		---
		4.450			8.450			5.640			9.460	
Hausman Test	---	(0.616)	---	---	(0.207)		---	(0.464)	---	---	(0.149)	---
AR(2)	---	---	0.157	---	---	0.128	---	---	0.166	---	---	0.123
Number of Countries	---	---	46	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	18	---	---	18	---	---	18	---	---	18
Instrument ratio	---	---	2.56	---	---	2.56	---	---	2.56	---	---	2.56

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form

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Table 13 presents the regressions analysis when considering foreign portfolio investment as the main explained variable. The preliminary analysis suggest that the OLS suffers from the problem of heteroscedasticity, which imply that the estimates from the OLS result may not be reliable. The probability value of the Breusch Pagan test clearly shows this fact as the null hypothesis of constant variance is rejected at 1 percent level of significance. This leaves us with the option of depending on the RE and SGMM for the result interpretations.

Focusing on the interactive variable of interest – that is the multiplicative between the IFRS adoption variable and the indicator of accounting infrastructure – the RE technique was not sufficient in explaining the behaviour of this variable. From the Table 4.10, the random effect estimation technique only reveals one column where the variable was significant. However, in all the column where this variable was significant, it displayed a consistent negative sign and thus suggest that when a country adopts IFRS, the impact on foreign portfolio investment will be negative if the accounting infrastructure in the country is developed. Put differently, IFRS adoption and accounting infrastructure are substitutive in affecting the flow of foreign portfolio investment into the adopting country. This result was valid for the SGMM estimation technique's column in the Table 4.7. The AR (2) test and the instrument ratio validates the efficiency of the results that were presented in the SGMM estimations.

This result is not too surprising as in the earlier Tables when foreign portfolio investment was presented as the main explained variable (see Table4.7), the IFRS adoption variable presents a negative impact on the level of foreign portfolio investment flow to the country. Probably, this impact could not be covered up with the level of the development of accounting infrastructure. Thus suggesting that irrespective of the development of the accounting profession within the IFRS adopting country, the impact of the adoption of IFRS still remains negative for the foreign portfolio investment.

Focusing on the other explanatory variables, they follow similar sign and somewhat significant values as displayed in the previous Tables. The inclusion of the interaction variable was not sufficient in changing the behaviours of the other variables, atleast to a large extent.

Table 13: Regression Analysis (Explained Variable-FPI as % of GDP and Including the Interactive Variable)

	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	---	---	---	---	---	---	---	---	---	---	---	---
	0.001*	0.001*	0.012	0.021*	0.003***	0.005	0.002	0.001	0.006*	0.001*	0.005*	0.004*
Adult Literacy	(0.003)	(0.006)	(0.929)	(0.005)	(0.059)	(0.774)	(0.211)	(0.219)	(0.000)	(0.000)	(0.000)	(0.000)
	0.001	0.001	-0.011**	0.000	0.000	0.001***	0.001	0.023	0.001*	0.002	0.004	0.003
Exchange Rate	(0.754)	(0.792)	(0.023)	(0.727)	(0.810)	(0.074)	(0.650)	(0.529)	(0.003)	(0.874)	(0.911)	(0.515)
	0.006*	0.005*	0.006	0.004*	0.003**	0.009*	0.003*	0.002**	0.012*	0.003*	0.002**	0.011*
Population	(0.000)	(0.000)	(0.765)	(0.000)	(0.036)	(0.000)	(0.007)	(0.048)	(0.000)	(0.000)	(0.043)	(0.000)
	-0.001	0.000	-0.001*	0.001	0.003	0.001*	0.008	0.005	0.001*	0.004	0.009	0.007
Natural Resource	(0.183)	(0.260)	(0.001)	(0.725)	(0.724)	(0.007)	(0.498)	(0.783)	(0.002)	(0.281)	(0.480)	(0.596)
Accounting Infrastructure	---	---	---	---	---	---	---	---	---	---	---	---
IFAC Membership	---	---	---	---	---	---	---	---	---	---	---	---
Accounting Infrastructure × IFRS Adoption	-0.002	-0.001***	0.001	0.007	0.009	-0.001*	-0.443	0.006	-0.001*	0.004	0.004	-0.001*
	(0.606)	(0.082)	(0.583)	(0.887)	(0.121)	(0.001)	(0.991)	(0.186)	(0.005)	(0.754)	(0.133)	(0.000)
	0.006*	0.005*	0.014*	---	---	---	---	---	---	---	---	---
Political Stability	(0.000)	(0.010)	(0.000)	---	---	---	---	---	---	---	---	---
	---	---	---	0.007*	0.005**	0.016*	---	---	---	---	---	---
Control of Corruption	---	---	---	(0.005)	(0.027)	(0.000)	---	---	---	---	---	---
	---	---	---	---	---	---	0.007*	0.007*	0.022*	---	---	---
Government Effectiveness	---	---	---	---	---	---	(0.005)	(0.006)	(0.000)	---	---	---
	---	---	---	---	---	---	---	---	---	0.009*	0.006*	0.036*
Regulatory Quality	---	---	---	---	---	---	---	---	---	(0.002)	(0.002)	(0.000)
	---	---	-0.584**	---	---	0.188	---	---	0.340**	---	---	-0.068
FDI (-1)	---	---	(0.031)	---	---	(0.288)	---	---	(0.020)	---	---	(0.783)
	-0.129*	-0.100*	0.001	-0.089*	-0.066**	-0.203*	-0.081*	-0.066*	-0.256*	-0.087*	-0.066*	-0.286*
Constant	(0.000)	(0.002)	(0.571)	(0.001)	(0.013)	(0.000)	(0.001)	(0.007)	(0.000)	(0.001)	(0.001)	(0.000)
R_Squared	0.449	0.4206	---	0.408	0.371	---	0.4121	0.3779	---	0.4347	0.4043	---
	5.300	15.160		4.490	12.450		4.560	15.600		5.000	13.070	
F-Stat/Wald Statistics	(0.004)	(0.019)	---	(0.002)	(0.053)	---	(0.001)	(0.016)	---	(0.001)	(0.042)	---
Breusch Pagan	0.000	---	---	0.000	---	---	0.000	---	---	0.000	---	---
	---	5.970	---	---	0.000	---	---	5.570	---	---	7.770	---
Hausman Test	---	(0.427)	---	---	(0.999)	---	---	(0.473)	---	---	(0.256)	---
AR(2)	---	---	0.120	---	---	0.493	---	---	0.466	---	---	0.299
Number of Countries	---	---	46	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	14	---	---	27	---	---	27	---	---	27
Instrument ratio	---	---	3.27	---	---	3.27	---	---	3.27	---	---	3.27

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form

Robustness Check

To further check the consistency of the result and to ascertain that the IFRS adoption variable remains consistent in its signs and levels of significance, the regression model was re-estimated using other covariates, apart from those included in the baseline. The per capita GDP of the country, and the level of infrastructural development. Earlier, in the pairwise correlation, these variables were observed to be having a high multicollinearity with adult literacy. This informed the reason for dropping these two variables and using only adult literacy in the earlier estimations. Therefore, in this section, we intend to closely examine the behaviour of the IFRS adoption variable and the interactive term to find out if the signs and the level of significance remained the same when these two dropped variables are included in the econometric estimations.

Table 14 presents the regression analysis when considering the IFRS adoption variable in relation to the inclusion of the two other covariates – real GDP per capita and the measure of infrastructure. Considering the preliminary analysis beneath the different estimation techniques (i.e. the OLS, RE and SGMM), it is obvious that the OLS regression may not be entirely relied on due to issues regarding homoscedasticity of the variance of the error term. The probability values of the Breusch Pagan test confirms this conclusion. The RE test provides a better estimation technique as it is able to account for time invariant factors that are peculiar across the samples. In essence, some measure of confidence can be placed on this estimation technique. The SGMM technique would have been the best option at this point; however, the issue of instrument proliferation may not have been entirely dealt with.

Despite some of these shortcomings, the IFRS adoption variable still attributes a consistent behaviour across the columns in Table 14. The signs and level of significance reveals that when it comes to trade, the adoption of IFRS has the potential to significantly improve the volume of trade flow into the adopting country. Similar behaviour was seen for the FDI and FPI model in columns 3-6 (for FDI model) and columns 7-9 (for FPI model), respectively. This connote that albeit, other covariates were included in the econometric model to examine the consistency of the IFRS adoption variable, and it was not able to change the behaviour nor the significance of this variable. The implication of this is that the IFRS

adoption variable maintains a positive and significant effect on trade, FDI and FPI, irrespective of the inclusion or exclusion of some of the covariates.

Table 14: Robustness Check (Considering other Covariates)

	Trade (other covariates)			FDI			FPI		
	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	0.162	1.984*	2.118***	0.207***	0.308**	0.600*	0.002**	0.002**	0.006*
	(0.774)	(0.000)	(0.073)	(0.076)	(0.023)	(0.007)	(0.014)	(0.013)	(0.010)
GDP Per Capita	18.366*	-12.431*	-12.712	0.885*	0.155	-1.068	-0.007**	-0.007**	-0.011
	(0.000)	(0.000)	(0.111)	(0.007)	(0.774)	(0.326)	(0.018)	(0.018)	(0.436)
Infrastructure	-1.051*	1.795***	0.807	-0.295*	-0.191	-0.327	0.004*	0.004*	0.008**
	(0.005)	(0.062)	(0.345)	(0.000)	(0.167)	(0.496)	(0.000)	(0.000)	(0.047)
Lag Explained Variable	---	---	0.001	---	---	-0.135*	---	---	-0.194*
			(0.996)			(0.005)			(0.002)
Constant	-43.781*	153.335*	0.446	-0.932	3.635	0.094	0.037***	0.037***	-0.001
	(0.000)	(0.000)	(0.287)	(0.657)	(0.293)	(0.482)	(0.064)	(0.063)	(0.752)
R_Squared	0.215	0.132	---	0.034	0.024	---	0.131	0.131	---
F-Stat/Wald Statistics	49.330	0.132		6.410	7.910		18.520	55.570	
	(0.000)	(0.000)	---	(0.000)	(0.048)	---	(0.000)	(0.000)	---
Breusch Pagan	0.000	---	---	0.000	---	---	0.000	---	---
Hausman Test	---	51.030	---	---	2.970	---	---	3.770	---
		(0.000)			(0.370)			(0.288)	
AR(2)	---	---	0.214	---	---	0.359	---	---	0.196
Number of Countries	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	59	---	---	59	---	---	59
Instrument ratio	---	---	0.780	---	---	0.780	---	---	0.780

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form

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The interactive variable was further considered in the regression models, where only the interactive variable (i.e. multiplicative between the IFRS adoption variable and accounting infrastructure) was included in a single model with the two covariates that were slated to be included in the regression analysis for robust checks. The results from this estimations were presented in Table 15.

As earlier noted, a positive behaviour of this variable will suggest that IFRS adoption has a complimentary effect on the adoption of IFRS in influencing trade, FDI and FPI. This suggest that a country will benefit from the adoption of IFRS – in terms of trade, FDI and FPI – if the accounting infrastructure within the country is developed. This was tested as a robust check, considering the other interactive variables (per capita GDP and measures of infrastructure): and as expected, the preliminary checks were also carried out to underscore the efficiency of the estimation techniques. The OLS technique suffers from the problem of homoscedasticity, which defeats the reliance on the results of this technique. This leaves us with the random effect and SGMM estimation techniques.

Just like the estimates in the previous section, the SGMM may likely be suffering from instrument proliferation and this may be troublesome in the data analysis process. Being this the case, the most important outcome from the Table is that the interactive variable (the multiplicative of IFRS adoption and accounting infrastructure), revealed a consistent sign and significant values across the columns. The importance of this behaviour is that the interactive variable still showed no different behaviour from its outlook in the previous Tables such as Tables 11-13. In these Tables, the interactive variable was positive and it significantly affected the other three explained variables.

This also suggest that despite the inclusion of other covariates in the model, the effect of the interactive variable on trade, foreign direct investment and foreign portfolio investment still remains the same. The significant values did not vary and it can be concluded that this variable maintained a consistent assertion that countries that have adopted IFRS will be able to efficiently improve their trade, FDI and FPI when their accounting infrastructure is also developed.

Table 15: Robustness Check– Including the Interactive Variables and Considering other Covariates

	Trade			FDI			FPI		
	OLS	RE	SGMM	OLS	RE	SGMM	OLS	RE	SGMM
IFRS Adoption	---	---	---	---	---	---	---	---	---
	18.371*	-11.805*	-11.878*	0.912*	0.146	-0.842	-0.007*	-0.007*	-0.011
GDP Per Capita	(0.000)	(0.000)	(0.009)	(0.005)	(0.783)	(0.410)	(0.002)	(0.002)	(0.440)
	-1.064*	1.809***	0.905	-0.298*	-0.196	-0.291	0.004*	0.004*	0.008**
Infrastructure	(0.004)	(0.059)	(0.305)	(0.000)	(0.156)	(0.543)	(0.000)	(0.000)	(0.049)
			0.001			-0.130*			-0.195*
Lag Explained Variable	---	---	(0.989)	---	---	(0.006)	---	---	(0.002)
	0.359	2.168*	2.208**	0.130	0.397*	0.638*	0.002*	0.002**	0.006*
Accounting Infrastructure × IFRS Adoption	(0.540)	(0.000)	(0.047)	(0.284)	(0.005)	(0.005)	(0.001)	(0.014)	(0.008)
	-44.036*	149.186*	0.449	-0.969	3.655	0.091	0.036*	0.036*	0.000
Constant	(0.000)	(0.000)	(0.283)	(0.645)	(0.283)	(0.498)	(0.007)	(0.008)	(0.805)
R_Squared	0.215	0.115	---	0.031	0.016	---	0.131	0.131	---
	49.450	13.350		5.720	10.600		18.520	55.550	
F-Stat/Wald Statistics	(0.000)	(0.000)	---	(0.000)	(0.014)	---	(0.000)	(0.000)	---
Breusch Pagan	0.000	---	---	0.000	---	---	0.000	---	---
		54.160			**5.870**			4.13	
Hausman Test	---	(0.000)	---	---	(0.000)	---	---	(0.248)	---
AR(2)	---	---	0.179	---	---	0.413	---	---	0.200
Number of Countries	---	---	46	---	---	46	---	---	46
Number of Instruments	---	---	59	---	---	59	---	---	59
Instrument ratio	---	---	0.780	---	---	0.780	---	---	0.780

Note: The values in parenthesis are the probability values of the coefficient. The subscripts *, ** and *** imply the significant values at 1, 5 and 10 percent. Exchange rate, population and the measure for natural resources were presented in their null form

To summarise the hypothesis that was put forward to be tested in this study, a summary was presented in Table 16, where the hypothesis and the decisions - based on the analyses - were presented. From the Table. The first testable hypothesis is that the adoption of IFRS has not significantly improved the volume of trade flow to the IFRS adopting country in Africa. Therefore, following the behaviour of this variable in the preceding Tables, the sign of the IFRS adoption variable suggest that, convincingly, a country that adopts IFRS will most likely improve their trade volume. This therefore imply that the null hypothesis will be rejected at varying levels of significance.

The second hypothesis depicts that the adoption of IFRS has not significantly affected the volume of FDI inflow into the IFRS adopting African. This hypothesis was not sustained as the coefficient and the significant values of the IFRS variable, in the previous Tables (Table 9), suggest that a country that has adopted IFRS will more likely be able to attract foreign direct investment into the country. This imply that the null hypothesis that the adoption of IFRS has not significantly affected the volume of FDI inflow to African countries will be rejected at varying levels of significance.

The third hypothesis is such that there is no significant effect of the adoption of IFRS on the volume of portfolio investment to African countries. This hypothesis is accepted as the IFRS adoption variable showed that there was a negative effect of the adoption of IFRS on the volume of foreign portfolio investment (see Table 10). the hypothesis pertaining to the interactive variables that the level of professional accounting infrastructure in African countries does not significantly enhance the impact of IFRS adoption on trade, FDI and FPI, was rejected at the varying levels of significance.

Table 16: Summary of Hypothesis Tested

Hypothesis	Description	Decision
H_{01}	The adoption of IFRS has not significantly improved the trade inflow of African countries.	Reject
H_{02}	The adoption of IFRS has not significantly affected the volume of FDI inflow to African countries.	Reject
H_{03}	There is no significant effect of the adoption of IFRS on the volume of portfolio investment to African countries.	Accept
H_{04}	The level of development of professional accounting infrastructure in African countries does not significantly enhance the impact of IFRS adoption on trade and FDI.	Reject

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1   INTRODUCTION

This chapter presents a summary of the entire work, a brief discussion of the theoretical and empirical findings of the research as well as concludes the work by presenting some recommendations for policy action. The limitations and suggestions for future research was also included in this section.

5.2   SUMMARY

This research was set out to examine the extent to which the adoption of IFRS has enhanced trade inflow of selected African countries, determine how the adoption of IFRS has enhanced the volume of FDI inflow to selected African countries and examine the extent to which the level of the accounting infrastructure of the selected African countries can enhance the influence of IFRS adoption on trade and FDI. Based on these objectives, literature that covers issues surrounding IFRS adoption, foreign investment and trade was examined and the main theoretical framework that underpins this study was the network theory of IFRS adoption. This theoretical underpinning was chosen as a result of its depth in explaining the reasons why countries, especially in developing region, adopt the IFRS. As a result, most of the countries adopted the standard owing to the fact that perceived benefit of adopting the standard and the cost of not adopting it are major influence of their decisions. The network arise as a result of trickle down perceptions and notions that inform their decisions to adopt the standard. The research method was mainly a quantitative form of research that controls for the dynamic component of the form of data that was included in the study. Both graphical and statistical approach was used in presenting the data. The hypothesis were interpreted based on the coefficient and statistical significance of the variables of interest.

5.3 FINDINGS

The findings discussed in this section are in accordance with the research objectives that have been stated in Chapter one. They include:

I.   The adoption of IFRS was found to have a positive impact on the trade flow of our sampled African countries. However, we found that the extent to which IFRS adoption matters on trade is minimal, especially in relation to the size of the coefficient.

II.   The study also found out that IFRS adoption has a stringer impact on the volume of foreign investment inflow, unlike trade flow. The impact was positive and significant in most of the estimated model. The size of the coefficient is higher than that of trade flow.

III. The accounting infrastructure was found to have a higher impact on foreign investment flow through IFRS adoption. This unlike its impact on trade. This implies that countries that adopt IFRS and with an improved accounting infrastructure will have a high impact on foreign investment flow, unlike trade flow.

5.4 CONCLUSIONS

From the analysis, it is eminent that IFRS adoption has a positive and significant effect on trade flow in selected African countries. At least, it is evident that an increase in the number of years that a country has adopted IFRS will result into an improvement in the trade volume. This can be explained as a country with an improved financial reporting infrastructure will invariably result to sectorial/industrial development that will enhance trade flow with other countries. The adoption of IFRS by African countries enhances public accountability of companies (both small, medium and large), irrespective of the sector that the company is located in. This finding supports literature on the stance that public accountability is a state, where an entity meets the conditions of having a high degree of outside interest from non-management investors or other kinds of stakeholders. Therefore, since the adoption of IFRS is expected to enhance the extent of public responsibility of the firm, then it is likely to have a higher effect on the chance of companies in the IFRS adopting country to have access to capital and the resultant effect is an increase in their output.

The result also reveals that the IFRS variable, has a positive and significant impact on the flow of FDI to the host African country. In essence, as a country adopts the IFRS, there is a positive effect on the volume of FDI that will likely flow into such a country. The adoption of IFRS is linked with the reduction in the cost of accessing financial information and the reduction of information asymmetry between preparers and users of financial information (Ramos, 2008). The assurance of multinational inflow into the IFRS adopting country is high because multinational organisations require transparent and comparable accounting standards as a tool for minimising the cost of translating financial information for better understanding. As a result, multinationals will be induced to increase investments in countries that have such comparable standards.

Considering another aspect of foreign investment – portfolio investment – the IFRS adoption variable consistently had a negative effect on the volume of foreign portfolio investment in all the columns. The significant values were verified except for some columns. This suggest that as countries in Africa adopt IFRS, there tend to be a negative effect on the volume of portfolio investors that flow into the country. It can therefore be argued that IFRS adoption does not necessarily promote equity investors in selected African countries. This argument is premixed on the fact that most portfolio investors depend on the risk involved in investment and not necessarily the financial information translation in making their investment decision. Also, most of these investors may not necessarily be involved in the monitoring of the financial statement of companies they invest in, but will most likely be studying the trend of the stock market before making investment decisions. It is also expedient to state that the stock market is based on speculations that comes from the information flow that spans beyond the micro entity called the firm. For instance, the recent global financial crisis witnessed stock market crash of some countries (which simply means that the portfolio investors were gradually selling up their stock for liquidity) and the values of shares were dropping symmetrically. The ubiquitous occurrence of this trend was not as a result of the firm's financial statement translation, but as a result of some other shocks that emanated from the macro economy at large.

Considering the interactive term, of our first explained variable "trade as a percentage of GDP" and "IFRS Adoption" variable suggest that a country that has adopted IFRS will

benefit from trade outcomes, when the accounting infrastructure in the country is developed. This suggest that consistently, a country that adopts IFRS should also endeavour to develop its accounting infrastructure in order to benefit from the adoption of IFRS. In essence, accounting infrastructure can play a complimenting role to IFRS adoption in forming trade flow into the adopting country. When countries adopt IFRS, then there should be striving towards the development of their accounting infrastructure such as the increase in the number of professional accountants of the recognised professional association within the country. The positive sign connote that when a country adopts the IFRS, an increase in the number of professional accountants in the country (synonymous with an increase in the number of years of existence of the accounting body), then the outcome effect on trade will definitely be on the positive.

The interaction variable (i.e. multiplicative between IFRS adoption and accounting infrastructure) reveals that there exist a positive relationship between the adoption of IFRS and foreign direct investment flow, when considering the extent of the development of the accounting infrastructure in the given country. The main explanation here is that foreign investors are driven by the reduction of the cost of information access and coordination reduces due to available regulations to guide the preparation (IFRS) of financial reports.

The underlining explanations for the reasons responsible for the complementary effect of accounting infrastructure on IFRS adoption in informing the extent of trade inflow and foreign investment flow is based on: the development of the accounting infrastructure within a country's economic system is a form of institutional setting to enforce and drive property right protection and ensure development of regulations that protect security of capital and investment (Wysocki, 2011), then accounting infrastructure is an important subset of the information environment of a country.

These results are robust to alternative estimations. First of all, the regression models were re-estimated using other covariates, apart from those included in the baseline estimation. For instance, the per capita GDP of the country, and the level of infrastructural development were included. Despite these inclusions, the IFRS adoption variable still remained consistently positive in informing trade and foreign direct investment (FDI). This connote

that IFRS is consistently positive and significant in informing trade and FDI in African countries despite the inclusion of other covariates like GDP per capita and infrastructural development.

As a further robustness check, the interactive variables were considered in the regression models where GDP Per capita and infrastructural development indicator were included. In this model, despite the inclusion of other covariates, the effect of the interactive variable on trade, foreign direct investment and foreign portfolio investment still remains the same. The significant values did not vary and it suggest that this variable maintained a consistent assertion that countries that have adopted IFRS will be able to efficiently improve their trade, FDI and FPI when their accounting infrastructure is also developed.

5.5   RECOMMENDATIONS

From the analysis of this study, the following recommendations were reached:

1) It is important for African countries to begin to take seriously the transition from their national accounting standard and guidelines to the use of IFRS. This is because IFRS adoption improves the information environment of relevant adopting countries.

2) This transition should be embedded on strong development of the relevant accounting infrastructure. This is based on the fact that accounting infrastructure plays a complementary role to the idealisation foreign investors rely on the strength of the information environment that is fostered by the adoption of IFRS. However, the development of accounting infrastructure is hinged on the fact that professionals that can help in the realisation of the development of information environment, through IFRS adoption, can only be realised when the accounting professional associations are developed.

3) There is the need for African countries to give serious consideration to the development of their institutional framework for them to maximise the benefit from the adoption of IFRS. The reason being that the adoption of IFRS is not a "magic one" to stimulate the inflow of FDI into African countries. Although out result shows a positive effect, how-

ever, the institutional development like the control of corruption, government effectiveness and the improvement of regulatory quality will prepare a sustainable foundation for the inflow of FDI as a result of IFRS adoption.

4) There is the need for professional accounting bodies to focus on the development of professional accountants to play a complementary role for the adoption of IFRS in attracting foreign investment and promoting trade in the selected African countries. More importantly, these development come as a result of time and other forms of resources put in to ensure the development of the professional accounting association in the country. From the data, this was found to be significant as an increase in the number of years of existence matters for the attraction of FDI and enhancement of trade flow.

5) Some authors have argued that the transition towards the adoption of IFRS may not be a suitable move for African countries because of the strength of their institutional environment and some even argue that African countries may not have adequate investors' protection framework. This therefore makes them unsuitable for the use of IFRS. In this study, we found that with the development of institutional infrastructures in African countries, then the transition towards IFRS adoption may be beneficial and most appropriate for African countries. More so, since the world is tending towards IFRS adoption, then the issue should not be whether African countries should or should not adopt IFRS, but for these countries to begin to develop complementary infrastructures to facilitate the inflow of FDI. Some of these infrastructures include accounting infrastructure and institutional framework.

5.6   CONTRIBUTION TO KNOWLEDGE

This study has been able to make theoretical and practical contributions to the field of accounting of African countries. This study has contributed to the body of literature in the area of International Accounting in the African context. To be explicit, the following are some of the specific areas where this study makes its contributions.

This study has contributed to the body of literature in the area of international accounting using the African context. This was based on observing the dynamic relationships between

the adoption of IFRS and its resultant effect on trade and foreign investment. The issue of accounting infrastructure was also considered, which is budding in accounting research in Africa.

This study has empirically revealed the importance of accounting institutions in African countries by considering the role of professional development in the IFRS, trade and FDI nexus. The findings from this analysis encourages the development of professional accounting institutions in realising the trade and FDI benefit from the adoption of IFRS.

This study expands the understanding of how trade and foreign direct investment into African countries are affected by accounting standards. This is an important dimension that has not been explored. The study also dissects foreign direct investment into portfolio and foreign investment, which expands the concept of foreign investment and explains how accounting standards affects these dimensions differently.

The emphasis on institutional development was also an important contribution as we were able to emphasise that for African countries to benefit from their transition towards IFRS adoption, there is the need for them to develop their institutional infrastructure including the control of corruption and those frameworks that ensures protection of investors' right and property.

5.7   LIMITATIONS OF THE STUDY

The generalisation of this study is limited to the period of study from 2003-2012. This study is also limited to the sampled African countries.

Another limitation of this study is that this study considered only a sample of African countries. The data were not readily available for all African countries. Based on this, our generalisation is limited to the behaviour of our main variables conditioned on the sampled countries.

The measure of accounting infrastructure for this study was specifically focused on the development of accounting professional body in the country by considering the number of

years such an association has been in existence. We did not consider other forms of accounting infrastructure like the number of professional accountant that is present in the sampled countries.

This study did not divide the trade value into manufacturing trade, agricultural trade or probably industrial/sectorial volume of trade. The reason being that of unavailability of data that will allow an in-depth examination of this kind of analysis.

The extent of institutional development that was considered in this study was only limited to those measures reported in the World Governance Indicators. There are other measures of data on institutions that could have been applied such as the one reported by the International Country Risk Guide (ICRG), Corruption Perception Index and those that directly measures investors control. However, due to time constraint and the extent of access opened to users, this form of data were not readily available for this research.

5.8   SUGGESTIONS FOR FURTHER STUDY

From the limitations that were highlighted above, the following are the submissions of this study on areas that could be considered to further enhance the knowledge in the area of international accounting and its consequences in African countries. Some other specific areas include:

1. There is the need to consider other periods with regards to extending the sampled period beyond 2012. This will bring about a more recent findings in the area of this study.

2. The measure of accounting infrastructure can be expanded from just focusing on the development of accounting professional body in the country to the number of professional accountant that is present in the sampled countries. This may be difficult because of the availability of data. However, if this difficulty can be solved, then it will make an important filling of knowledge gap in this budding area of enquiry.

3. The extent of institutional development can be expanded to consider data in relation to the International Country Risk Guide (ICRG), Corruption Perception Index and those that directly measures investors' control.

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