Evaluating the Impact of International Financial Reporting Standards on Foreign Direct Investments in Nigerian Banks

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Abstract: *This study examines how the adoption of International Financial Reporting Standard (IFRS) in the Nigerian banking system has improved the quality and comparability of financial statement of financial institutions. The main objective is to investigate how IFRS has impacted on Foreign Direct Investment (FDI) in Nigeria Banks. The methods of data collection include both the primary and secondary sources of data. The primary sources of data include the use of interviews and questionnaires which were distributed to the respondents while the secondary sources of data include Annual Financial Reports and Accounts of the selected Banks. The data was analyzed using ANOVA statistical tool to test the formulated hypothesis in line with the objectives of the study. The findings revealed that adoption of IFRS in Nigerian banking system has improved the exposure level of banks and attracted more Foreign Direct Investment (FDI) to the country as compared with period before the adoption. The study concludes that IFRS adoption engenders higher quality of Banks financial statement information compared to what it was using the previous standard. Some recommendations were made, among the major recommendations is the need for Accounting students in institutions of higher learning across the country to be exposed early to the new standard and that Accounting professional bodies such as ICAN, ANAN, IFRS etc should do more to keep their members updated and hence reduced the cost of training and development of accounting officers of the banks which is currently becoming a heavy burden on the banks in Nigeria.*

Keywords: *Foreign Direct Investment, Globalization, International Accounting Standards Board, International Financial Reporting Standards, Statement of Accounting Standards.*

1. Introduction

The world has become a 'smaller community or village' as a result of globalization and trade liberalization. To this extent, business organizations are no longer confined strictly to their localities but now operate beyond their national boundaries. In addition, investments in businesses have expanded beyond national boundaries such that foreigners (even though not resident in a particular country) invest in the business activities in that other country. To invest in any organization, information is needed. This set of information is however available through the published financial statements of the organization. Foreign investors (also commonly referred to as international investors) can easily make their investment decisions when they have access to financial information that they perceive adequate, qualitative and informative enough. It is these requirements that essentially buttress the need for the preparation of financial information on the basis of harmonized accounting standards and procedures. This led to the development of International Financial Reporting Standards (IFRS) by the International Accounting Standards Board (IASB) and a call by the body that the standard be adopted in the world's global and international capital markets in the preparation of financial statements.

IFRS are globally accepted set of accounting standards and interpretations established by the IASB and its interpretative body, the International Financial Reporting Standards Interpretation Committee (IFRIC). Countries across the world are required and expected to transit to this global financial reporting standard. Nigeria, just like most other countries of the world, has adopted the use of the Standard and the banking sector of the economy was the first mandated to converge to the new Standard in the preparation of financial statements. All banks in Nigeria, especially that are quoted on the Nigeria Stock Exchange, were given up to the year 2011 to discard the use of the Statement of Accounting Standards (SAS) and ensure that they convergence to IFRS. This, they have all complied with effectively from January 1, 2012.

It should be noted that one of the reasons for the adoption of the IFRS by Nigeria is the promotion of increased Foreign Direct Investments (FDI). This was done to improve the economy of the nation since no nation is an island and the flow of foreign currencies into the country is expected to bring positive impact on the economy. Essentially, it was noted that there was a serious decline in FDI to the nation especially in the financial sector of the economy. This is as a result of the fact that that high net worth investors, especially foreign investors, were becoming wary of the low exposure level and lack of transparency of financial statements prepared by Nigerian Banks on the basis of the local SAS.

In addition to this is the problem of comparability. The inability to compare financial statement especially among multinational companies became so obvious to the extent that foreign investors lack confidence in these statements and casted serious doubts on their quality. Affirming these complaints, the Securities and Exchange Commission (SEC) workshop of July 2011, in defending the need to adopt the IFRS, stated it clearly that "Financial reporting in Nigeria has failed to keep pace with strong balance sheet growth and deepening capital markets in recent years, with scant punishment for those in breach of low disclosure requirements" (SEC, 2011). From their empirical study on financial reporting practices of banks, Adeyemi and Asaolu (2013) concluded that the '…existing mandatory information disclosure requirements are inadequate and required to be strengthened'. The questions then are: is IFRS adequately packaged to provide solutions to complaints on the comparability of financial reports of Nigeria banks? Has it assisted in the improvement of the quality of financial statements of the banks? And has it in any way impacted on FDI?

This study sought to provide answers to these questions and also fulfilled the call on the need for further studies to determine whether or not IFRS addresses some of the lags especially in the mandatory disclosure in the financial statements of banks as suggested by Adeyemi and Asaolu (2013). It considered the Nigerian Capital Market with a focus on banks stocks between the periods 2010 to 2015 and sought relevant opinions and views of participants on the subject matter.

1.1 Objectives of the study

The main objective of the study is to investigate how IFRS has impacted on FDI in Nigeria Banks. In line with this objective are these specific objectives:

1. To determine if IFRS has brought about a reduction in the complaints on comparability of banks financial reports.

2. To establish if the quality of Nigeria Banks financial statements has improved.

1.2 Statement of Hypothesis

The only hypothesis formulated and tested in the course of this study is:

***H*?:** *The adoption of IFRS in Nigeria has not significantly attracted foreign direct investment to Nigerian Banks*

1. Literature Review

Since the world has become a global village, globalization of capital market becomes highly imperative. Over the years, it has been found out that there are many potential benefits that have been gained from mutually recognized and respected international accounting standards. The adoption of uniform standards cut the cost of doing business across borders by reducing the need for supplementary information. They make information more comparable, thereby enhancing evaluation and analysis by users of financial statement (Adekoya, 2011). Uniform standards also makes user become more confident in the information they are provided with and this naturally reduces uncertainty, promotes an efficient allocation of resources among other benefits.

To bridge the gap between accountings standards among countries, the International Accounting Standard Committee (IASC) was founded in 1973 by a group of professional accounting practitioners. The IASC was formulated with the one of its mandate as to work towards a reduction in the discrepancies in international accounting principle and reporting practices. In April 2001 the IASC was renamed as International Accounting Standard Board (IASB). The IASB updated the already existing international accounting standards and referred to them as International Financial Reporting Standards (IFRS).

2.1 Concept of Financial Reporting

Since accounting is said to be the language of business (or finance), financial reporting is said to be the communication of financial information useful for making investment, credit and other business decisions. Financial reporting is an external report published for the users of financial statement. Financial

reporting is concerned with the communication of information about the resources and performance of the reporting entity to those having right to such information.

Put simply therefore, it is the process of presenting accounting information that is useful to present and potential investors, credit and other users in making rational investment decisions. It is the duty of the management teams of the businesses to produce report of companies, since they are stewards to the owners of companies. The legal important attached to financial accounting statement stems directly from the need of a capitalist society to mobilize saving and direct them into profitable investments (Adefiranye, 2008). The whole essence of financial reporting is to ascertain and objectively present the result of economic activity and justified financial position in monetary terms. It also expected to show how organizations' strive to achieve their goals in the period. Over the years, several researchers had delved into studies that around the qualitative characteristics of financial statements, effect of financial reporting quality on information asymmetry, the relationship between financial reporting quality and investment decisions, among others. Studies relevant to ours are considered in this segment of our discourse.

2.2 Review of Empirical Studies

Ma (2012) considered the relationship between financial reporting quality and information asymmetry using the Chinese Stock Market as a point of focus. One of the basic rationales behind the study was to ascertain if high quality financial reporting can reduce information asymmetry in an emerging market such as that of China since earlier studies had shown that high quality financial reporting reduces information asymmetry in large markets such as that of the US.

Ma's study suggested that accounting information prepared under the IAS is of a higher quality than that under the Chinese GAAP. This position makes a very strong case for IFRS in Nigeria since as found in his (Ma's) study; the informed (local) investors seem to have a better information advantage over the uninformed (foreign) investors. This position is of a peculiar interest to us in this study because we are equally interested in assessing users' perception about the information content of companies' financial statements in Nigeria especially after the adoption of IFRS by the country. Okpala (2012) studied the implications of IFRS adoption and its effects on financial statements on Foreign Direct Investments (FDI) and the Nigerian economy. This was with a view to finding out whether or not the adoption has brought any improvement on the financial reports of Nigerian companies and had assisted in the areas of uniformity, reliability, and comparability which users had continually complained of, and also if it had any effect on improvement in investments by way of FDI.

The study by Okpala found out that IFRS adoption significantly affects FDI in Nigeria although it has not made much impact on timeliness and accuracy of financial reports. In addition to this, only a fraction of companies in Nigeria have commenced the use of the global standard as at the time of that study (up till 2011). This will then suggest that issues of FRQ and IA with expected impact on ID has not been adequately captured by that study. The implication of this to our study is that there is the need for us to see if there has been an improvement between the periods 2011 and 2014, and if so, to what extent has the issues at stake being addressed?

Adeyemi and Asaolu (2013) investigated the financial reporting practices and its effect on banks stability in Nigeria. This was with a view to identify and evaluate the information disclosure practices by banks and relate it with banks stability. That is, to what extent has banks financial reporting contribute to their survival? Banks will be stable and survive if there is steady and improved investment by investors. Investors will continually support the banks if they are confident in their performance and the performance usually will be indicated in their financial statements. This then means that where the reports are understood by the users (reduced information asymmetry) and the reports are adjudged to be of good quality (convey the much needed information), investment decisions will be informed ones hence there will be an improvement in investments.

The study indicated that even though compliance of banks with the existing regulatory requirements was high, banks information disclosures especially as it affects the quality of their assets as well as their

credit/market risks are still very poor. Put simply; "existing mandatory information disclosure requirements are inadequate and require to be strengthened". The expectation is that with the much talk about increase in information content, transparency, clarity, etc of IFRS, significant (positive) changes are expected in the financial statements of companies (including banks) in Nigeria. Little wonder then that the study (Adeyemi & Asaolu) suggested a further study into this area at some periods after 2009, especially to test the impact of IFRS in these areas.

2.3 Theoretical Bases for the Study

This study is essentially based on the Agency and Stewardship theories. The separation (or divorce) of ownership of an organization from management gives rise to the agency theory. Agency theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns (Berle & Means, 1932; Pratt & Zeckhauser, 1985). As put by Jensen and Meckling (1976), agency theory terms stipulates that the owners are principals and the managers are agents and there is an agency loss which is the extent to which returns to the residual claimants, the owners fall below what they would be if the principals, the owners, exercised direct control of the corporation.

Stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. In the contributions of Donaldson (1985), the issue becomes whether or not the organization structure helps the executive to formulate and implement plans for high corporate performance. Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorize and empower senior management. As regards the role of the CEO, the structures will assist them to attain superior performance by their corporations to the extent that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged. This situation is attained more readily where the CEO is also chair of the board. Power and authority are concentrated in one person.

An implication of agency theory is that where CEO duality is retained, shareholder interests could be protected by aligning the interests of the CEO and the shareholders by a suitable incentive scheme for the CEO, i.e. by a system of long-term compensation additional to basic salary. Where CEOs hold the dual role of chair, the presence of long-term compensation will align their interests with shareholders and forestall the loss in shareholder benefit which otherwise will result from the dual role. Any superiority in shareholder returns observed among dual CEO chairs over independent chairs would be explained away by agency theory as being due to the spurious effects of financial incentives. By contrast, stewardship theory would hold that any observed superiority in shareholder returns from CEO duality was not a spurious effect of greater financial incentives among CEO-chairs than among independent chairs.

3. Research Methodology

Research methodology is concerned with the steps, procedures and strategies for gathering and analyzing relevant data by using the appropriate statistical techniques. It is a means by which the researcher decides on where and how to collect information from and the research instrument actually put into operation to generate the needed information.

3.1 Study Approach

The study utilized the descriptive survey design approach. The survey was carried out with the aid of questionnaire which was carefully formulated to match question in relation to the topic under study. Closed questionnaire was administered to the respondents and interview was conducted with some of the respondents especially at the management cadre. With the help of members at the management cadre, and for the fact that the respondents were interested in the subject matter, the researcher obtained one hundred percent response and return of the questionnaire. In addition to the primary data, the published financial statements of the selected banks were also observed. The reports examined were the banks financial statements between 1999 and 2014, the period considered as the pre and post IFRS adoption periods. The data gathered in this research was analyzed with the Analysis of Variance (ANOVA) statistical tool. ANOVA is a method of data analysis which tends to analyze the different forms of variance associated within the selected sample. It is a corresponding test for detecting differences in means of a measurement on two or more groups (appendix 1).

3.2 Population of the Study

Since the major focus of this study is on the influx of FDI into banks in Nigeria especially after the adoption of IFRS, the population of this study was purposively made to be the members of staff of the three selected banks in Nigeria (Access, Eco, and First banks) who are in the accounts section and also those who are in the management cadre. These were taken as the focal point for the fact that they know much about the subject matter, that is, how the adoption of IFRS is impacting on FDI into the banks. The population of this study then is two hundred and thirty four (234) members of staff of the banks (appendix: 2), from the population, a sample set of one hundred and forty eight was drawn using the Yaro Yamane's sample formula (appendix 3). Closed questionnaire was administered to the respondents and interview was conducted with some of the respondents especially at the management cadre. With the help of members at the management cadre, and for the fact that the respondents were interested in the subject matter, the researcher obtained one hundred percent response and return of the questionnaire.

4. Results and Discussions

In this chapter, the information received from the respondents based on the questionnaires are presented and analyzed. The relevant data collected are presented in table, frequencies and percentages. The hypothesis was tested using the ANOVA statistical tool. Responses obtained from the field are presented under appropriate tables and heading thus:

Table 4.1: Whether the Adoption of IFRS has reduced complaints on comparability of the financial statements

Option	First Bank	ECO Bank	Access Bank	Frequency	Percentage
Agree	80	42	19	141	95
Disagree	_	_	_	_	_
Undecided	3	1	3	7	5
Total	**83**	**43**	**22**	**148**	**100**

Source: *Field Survey, 2015*

The Table 4.1indicates that 141 representing 95% of the respondents agreed that the there has been a reduction in the complaints on the comparability of the financial statements of banks in Nigeria after the adoption of IFRS. This is however not surprising since the financial statements are now prepared in line with the new standard. None of the respondents disagreed while 5% of the respondents were undecided.

Table 4.2: Whether the application of IFRS has been of Beneficial to Banks from the view of cost involved.

Option	First Bank	ECO Bank	Access Bank	Frequency	Percentage
Agree	61	30	10	101	68
Disagree	7	8	4	19	13
Undecided	15	5	8	28	19
Total	**83**	**43**	**22**	**148**	**100**

Source: *Field Survey, 2015*

Table 4.2 shows that 101 representing 68% of the respondents agreed, 19 representing 13% disagreed while 28 representing 19% remained undecided.

Table 4.3: Whether the adoption of IFRS has improved quality of financial statements of Banks

Option	First Bank	ECO Bank	Access Bank	Frequency	Percentage
Agree	75	40	20	135	91
Disagree	_	_	_	_	_
Undecided	8	3	2	13	9
Total	**83**	**43**	**22**	**148**	**100**

Source: *Field Survey, 2015*

Table 4.3 shows that 135 representing 91% of the respondents agreed, none of the respondents disagreed while 13 representing 9% remained undecided**.**

4.1 Test of Hypothesis

In line with the main objective of this study, the hypothesis formulated for test was that "the adoption of IFRS in Nigeria has not significantly attracted foreign direct investment to Nigerian Banks". This hypothesis was tested with the use of ANOVA statistical tool at 5% level of significance. The three options were coded thus: AGREED= A(X_1), DISAGREED= D(X_2), UNDECIDED= U(X_3)

H_o*: *The adoption of IFRS in Nigeria has not significantly attracted foreign direct investment to Banks

Table 4.4: Responses from relevant questions of the questionnaire

Question No.	Agreed	Disagreed	Undecided	Total
Question 1	141	_	7	148
Question 2	119	9	20	148
Question 3	110	15	23	148
Question 4	101	19	28	148
TOTAL	**471**	**43**	**78**	**592**

***Source:** Field Survey, 2015*

Table 4.5: Contingency Table for Hypothesis

No.	A(X_1)	D(X_2)	U(X_3)	Total
1	141	_	7	148
2	119	9	20	148
3	110	15	23	148
4	101	19	28	148
£x	**471**	**43**	**78**	**592**
£x= $\frac{£x}{n}$	$\frac{471}{4}$ **=117.8**	$\frac{43}{4}$ **= 10.8**	$\frac{78}{4}$ **= 19.5**	**148**
£x²	**$141^2+119^2+110^2+101^2$ = 56343**	**$9^2+15^2+19^2$ = 667**	**$7^2+20^2+23^2+28^2$ = 1762**	**58772**

***Source:** Field Survey, 2015*

$$TSS= ?? \frac{E(x)^2}{N}$$

$$TSS = 58772 - \frac{592^2}{8}$$

$$TSS = 58772 - \frac{350464}{8}$$

$$TSS = 58772 - 43808 = 14964$$

$$TRSS = \frac{£(x_1)^2}{n_1} + \frac{£(x_2)^2}{n_2} + \frac{£(x_3)^2}{n_3} \ldots - \frac{£(x)^2}{N}$$

$$TRSS= \frac{471^2}{4} + \frac{43^2}{4} + \frac{78^2}{4} - \frac{592^2}{8}$$

$$TRSS= \frac{221841}{4} + \frac{1849}{4} + \frac{6084}{4} - \frac{350464}{8}$$

TRSS= 55460 + 462+ 1521 – 43808

TRSS (Bank) = 13635

ESS (Error) = TSS – TRSS

ESS= 14964 – 13635

ESS= 1329

Table 4.6: Summary of ANOVA Table for the Hypothesis

Source of Variation	SS	DF	MS	F- VALUE
Between group (Treatment)	13635	K-1 3-1= 2	6818	6818 / 266 = 25.63
Within Group (Error)	1329	N-K 8-3= 5	266	
Total	**14964**	**7**		

F-Table = F2, 5(0.05) = 5.79
F- Value = 25.63

Decision

Since F-value of 25.63 is greater than F- table of 5.79, the test is significant. Therefore we reject the null hypothesis and accept the Alternative hypothesis which states that the adoption of IFRS has significantly affect the attraction of FDI to Banks. This fact is supported by the high percentage increase of FDI as shown in the Audited Financial Report of Nigerian banks after compared to the situation before the adoption and utilization of the IFRS.

4.2 Major Findings

Based on the analysis and interpretation of the data collected and the observation of the financial statements of the banks, the found that, there is a significant reduction in complaints with regards to comparability of financial statements of Nigerian banks; the study also found that the adoption of IFRS has improved the financial statements of banks in Nigeria as they are made easy and readily available for users to understand and hence significantly reduce the cost of doing business in Nigeria and across the border. Other findings are that the study found a significant increase in the inflow of FDI by way of investments in Nigerian banks and the cost of training and development of Bank Managers and Account officers is significantly high.

5. Conclusion and Recommendations

5.1 Conclusion

IFRS is driving the revolution world of accounting with over 120 countries either requiring or permitting it use. There is no doubt that conversion of IFRS in Nigeria is a huge task and a big challenge. The IFRS slip is already making its way around the world as a single set of high quality global accounting standards because the use of local standard in Nigeria has negatively attracted the confidence of potential and present investors. Also, the adoption of IFRS has enhanced comparability, FDI and exposure level of financial of Banks in Nigeria thereby breaking up the barriers of differences among financial reports presented by the direct multinational companies operating in Nigeria. A lot of progress had been made which help to bring improvement in financial reporting in Nigeria Banks.

5.2 Recommendations

Based on the findings and the conclusion of this study, the following recommendations are advanced:

1. Since this study has shown that IFRS has a significant positive effect on the financial statements of banks especially in the area of comparability, understandability, among others, other sectors of the economy are encouraged to conclude its adoption to benefit just as the banks are currently benefiting.

2. The cost of training and development, which was reported as significantly high in this study, can be reduced significantly if there is proper update of the accounting curricula such that the students become very familiar with the standard before they graduate from schools.

3. Accounting professional bodies in Nigeria should also devote more time to knowledge update on the IFRS provisions and requirements in tutelage, examinations, seminars and workshops.

5.3 Suggestions for Further Studies

This study considered the impact of IFRS on financial statements of Nigerian banks especially that are quoted on the Nigerian Stock Exchange. This was view a view to finding out if it has any significant effect on FDI and also if it has enhanced the quality and comparability of the financial statements. Aside banks however, all companies in Nigeria are expected to adopt the new standard and utilize it in the preparation of their financial statements. It is on this note that the study encourages other interested researchers to consider the effect of IFRS adoption on these other sectors of the economy and find out whether or not the result will be the same as seen in the case of Nigerian banks.

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Appendix 1: ANOVA: Computations

Where:

TRSS: Treatment Sum of Square or Sample

$$TRSS= \frac{? ?^2}{?} + \frac{? ?^2}{?} + \frac{? ?^2}{?} \ldots - \frac{? ?^2}{?}$$

TSS; Total sum of sample

$$TSS = ??^2 - \frac{? ?^2}{?}$$

ESS; Error sum of sample or square
ESS = TSS-TRSS.
MS: Mean Square
n= Total number of subject in each group
N= Total number of subject in all groups

The degree of freedom was calculated by applying the formula (K-1) (N-K) for between sample and within sample respectively.

Where:
K= the number of groups or columns in the study
N= the total number of subject in all groups
And the level of significance chosen for the study was 5%. The decision rule is that if the computed value i.e. F-Value of ANOVA is greater than the tabulated value [F-value of the degree of freedom between group and within group] accept the alternative hypothesis (Hi) and reject the null hypothesis (Ho), otherwise accept the null hypothesis and reject the alternative hypothesis.

Source of variation	SS	DF	MS	F-VALUE
Between sample	TRSS	K-1	TRSS	TRSS
(treatment)			K-1	K-1
Within sample	ESS	N-K	ESS	ESS
(error)			N-K	N-K
Total	TSS			
Source of variation	**SS**	**DF**	**MS**	**F-VALUE**
Between sample	TRSS	K-1	TRSS	TRSS
(treatment)			K-1	K-1
Within sample	ESS	N-K	ESS	ESS
(error)			N-K	N-K
Total	TSS			

Source: *Yekeen (2006)*

Appendix 2: Population of the Study

Selected Banks	Population	Percentage
Access Bank	35	15
Eco Bank	68	29
First Bank	132	56
Total	**234**	**100**

Source: *Field Survey, 2015*

Appendix 3: Sample size

Appendix 3.2 shows that 35 representing 15% of the total population of staff of Access Bank, 68 representing 29% for Eco Bank and 132 representing 56% for First Bank.

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = Sample size; N = Population; E = level of significance (5% or 0.05)

Therefore

$$n = \frac{234}{1+234(0.05)2}$$

$$n = \frac{234}{1+234(0.0025)}$$

$$n = \frac{234}{1+585} = 148$$

Sharing the obtained sample size among the selected groups we have:

Access Banks = $\frac{15}{100} \times \frac{148}{1} = 22$

Eco Bank = $\frac{29}{100} \times \frac{148}{1} = 43$

First Bank = $\frac{59}{100} \times \frac{148}{1} = 83$

Selected Banks	Population	Percentage
Access Bank	22	15
Eco Bank	43	29
First Bank	83	56
Total Sampled	**148**	**100**

Source: *Field Survey, 2015*