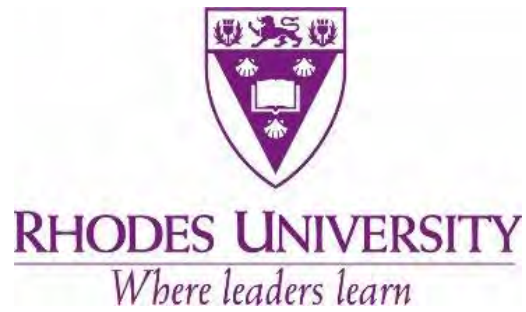




**THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS
AND FOREIGN DIRECT INVESTMENT INFLOWS: THE MODERATING EFFECT
OF THE INSTITUTIONAL ENVIRONMENT IN AFRICA**

A thesis submitted in fulfilment of the requirements of the degree of

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By

CHIPO SIMBI

ORCID 0000-0002-5335-3542

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ABSTRACT

Globalisation has created a need for an international accounting language to facilitate the smooth flow of trade across countries. In 2003, in an effort to establish a global financial reporting language, the International Accounting Standards Board (IASB) developed a single set of high-quality accounting principles known as the International Financial Reporting Standards (IFRS). Over the last decade, several African countries have adopted IFRS, and Africa has become the second-largest adopting continent after Europe. IFRS promotes improved quality of disclosure of accounting transactions, reduces information asymmetry between preparers and users of financial information, lowers the cost of investing, and breaks down information barriers to cross-border investment. Researchers suggest many benefits of IFRS adoption for macroeconomic indicators such as Foreign Direct Investment (FDI). The reduction in information acquisition and processing costs which translates into the reduction in investment costs, has been cited by most researchers. Researchers have argued, however, that the economic benefits of IFRS in Africa depend on the strength of the institutional environment. They also argue that the Western environment in which the IFRS was developed differs from the African environment. Thus, the universal approach of the IASB may not be appropriate due to the historical, social, economic and political context of African countries. The impact of the adoption of IFRS by African countries requires further examination, particularly as a weak institutional environment confronts many African countries.

Three research questions are designed for this study; (1) Is there a significant change in FDI inflows for IFRS adopters in selected African countries after the adoption? (2) Is there a significant change in FDI inflows due to the institutional environment? (3) Does the institutional environment in IFRS-adopting countries moderate the effect of IFRS on FDI in selected African countries? The present study is underpinned by the new institutional theory, the information asymmetry theory, the eclectic theory and the signalling theory, each of which provide reasons why African countries have adopted IFRS. Nine hypotheses are developed, based on the research questions, and tested using the Systems General Method of Moments and the Difference-in-Difference method. The study uses data from 26 African countries, 15 adopting and 11 non-adopting countries, over the period 1996 - 2018.

First, the study establishes that the adoption of IFRS positively and significantly affects FDI inflows into the selected sample of African countries. Second, the study concludes that legal

enforcement, accounting and auditing standards enforcement, and language origin positively and significantly impact FDI inflows into these countries. Legal origin, however, has a positive but insignificant association with FDI inflows. Third, legal enforcement, historical ties, accounting and auditing enforcement and the quality of the institutional environment are found to moderate the effect of IFRS adoption on FDI inflows.

These results indicate that IFRS is a crucial determinant of FDI inflows into African countries, but a supportive institutional environment is needed for African countries to attract FDI inflows after adoption. The results contribute to the accounting and finance literature on FDI into African countries, and may assist the investment community to assess the institutional risk associated with investing in IFRS adopting African countries.

Keywords: International Financial Reporting Standards (IFRS); Foreign Direct Investment (FDI); institutional environment, institutional quality; legal enforcement; accounting and auditing standards enforcement; language origin; legal origin; historical ties; General Method of Moments and Difference-in-Difference.

DECLARATION

I, Chipso Simbi, declare the following:

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- I did not allow and will not allow anyone to copy my work with the intention of presenting it as his/her own work.

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DEDICATION

This thesis is a special dedication to me. To the childhood I did not experience whilst selling plastics, ploughing fields and cleaning the church and the church toilets in order to survive. This is to the struggles that I have endured and overcome. I am proud of the woman I have become.

Chipo Simbi.

To my daughters, may what you have seen me go through during this challenging journey strengthen you once you start your own journeys. It is not the fall that matters but the lessons one picks up on your way up and the ability to keep your eyes focused on your goal. And remember if you start something, you must finish it!

Nono and Tata

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LIST OF ACRONYMS AND ABBREVIATIONS

ABBREVIATION	DEFINITION
AERC	African Economic Research Consortium
AICPA	American Institute of Certified Public Accountants
BRICS	Brazil, Russia, India, China and South Africa
COMESA	Common Market for Eastern and Southern Africa
DiD	Difference-in-Difference method
ECOWAS	Economic Community of West African States
EU	European Union
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
GAAP	General Accepted Accounting Principles
GDP	Gross Domestic Product
GMM	General Method of Moments
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MINT	Mexico, Indonesia, Nigeria and Turkey
OCAM PCG	The Organisation Commune Africaine, Malagace et Mauriciene
OHADA	The Organisation for the Harmonisation of Corporate Law in Africa
OLI	Ownership Location and Internationalisation
PCA	Principal Component Analysis
SADC	Southern African Development Community
SGMM	Systems General Method of Moments
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

According to the Financial Accounting Standards Board (FASB, 2021), the need for international financial accounting standards is a response to the globalisation of capital markets and increased cross-border flows. Ball (2006) also indicates that applying a common accounting language can reduce inconsistencies regarding investment information used by global investors.

Financial accounting standards are designed to provide relevant and reliable information about companies' performance and financial position so that investors and creditors can make informed decisions (Wahlen et al., 2015). Historically, nations developed their own domestic accounting rules based on a variety of unique needs, circumstances, and experiences. For example, a country's legal system, source of capital, cultural and social norms and tax structure have influenced the development of accounting standards around the world (Perera, 2012; Ortega, 2017b). As a result, domestic accounting regulations varied from country to country. From an international investor's perspective or that of a creditor, such variation in accounting rules reduces the quality and relevance of financial information and potentially decreases the efficiency of economic decision-making (Ding et al., 2007).

In an effort to establish a global financial reporting language, the International Accounting Standards Board (IASB) in 2003 developed a single set of high-quality accounting principles known as the International Financial Reporting Standards (IFRS) (Ball, 2016). As of May 2019, the IFRS have been adopted in 166 jurisdictions worldwide, including most of the African countries that are the focus of the present study. According to the IFRS Foundation (2021), Africa is now the second largest IFRS adopter after Europe (IFRS Foundation, 2021). In addition, African countries have either required all companies listed on their stock exchanges to utilise IFRS for financial reporting, or have shown an interest in adopting the standard later (Trimble, 2018).

Proponents of IFRS such as Tarca (2013), note that using one set of global accounting standards has the potential to increase the quality of financial reporting due to enhanced comparability and transparency, leading to increased international transactions. Studies focusing on the benefits of IFRS adoption in Europe argue that implementing a common set of accounting standards across the globe enhances the comparability of cross-country information (Cascino and Gassen, 2015; De George et al., 2016; Barth et al., 2018). Other studies attribute the benefits of IFRS to increased transparency levels in financial statements (El-Diftar and Elkalla, 2019; Isaboke and Chen, 2019), and reduction in information asymmetry (Daske et al., 2008), ultimately resulting in the reduction of information risk to investors (Abad et al., 2018; Nejad et al., 2020). It can be asserted that IFRS adoption has the potential to enhance the quality of financial reporting by increasing comparability and lowering information asymmetry, thereby improving international capital mobility. Consequently, IFRS adoption has the potential to influence macroeconomic conditions, in order to attract Foreign Direct Investment (FDI), which is the focus of the present study.

The World Bank (2013) defines FDI as an investment by a foreign investor to gain lasting control over the management of an enterprise operating in an economy other than that of the investor, which is usually at least 10% of voting stock in the enterprise. The World Bank explains that it is usually the sum of the equity capital and the reinvestment of earnings, other long-term capital and short-term capital, as seen in the balance of payments. FDI can be measured as stock or flow. According to Gorg and Greenaway (2004), FDI flow is what is generated within a year, which could either be inwards, meaning what comes in for the particular year, or outwards, what goes out in that year. Adegboye et al. (2020) emphasise the importance of FDI in improving a country's growth rate through increases in technology, assisting in human capital formation, contributing to international trade integration, employment generation, knowledge spill over, and supplementing domestic savings, among others. The authors indicate that FDI benefits contribute to higher economic growth, an essential tool for poverty alleviation for most African countries. Hence, the decision to base the present study on the inward flow of FDI into selected African countries, rather than other forms of inward investment.

Prior literature has asserted that the settings in which IFRS reporting takes place have a strong influence on whether the potential benefits of IFRS can be realised (Daske et al., 2008; Nnadi and Soobaroyen, 2015; Owusu and Mohd Saat, 2017), implying that the success of IFRS

depends not only on the quality of the standards issued by the International Accounting Standards Board (IASB), but also on the institutional environment of the adopting country. For example, Kimeli (2017) argues that the IASB objective of enhanced use of accounting reports by capital markets is dependent on the institutional environment related to these financial disclosures, which, when weak, may not guarantee the achievement of the objective.

Studies on the African continent indicate that adopting IFRS in developing countries makes them more attractive for FDI inflows (Elhouderi, 2014; Nejad et al., 2018; Gu and Prah, 2020; Musah et al., 2020). Other researchers have criticised the mandatory adoption of IFRS by African countries, arguing that the environment in which the accounting systems of the developed world operates is different from those of the developing world (such as Africa) (Chand and White, 2007; Hopper et al., 2017). Thus, the universal approach of the IASB may not be appropriate due to the historical, social and political context in African countries. If this is the case, accounting systems designed for well-structured developed systems cannot necessarily be expected to provide the same results in an African context. Lassou et al. (2019) cite the institutional context of political influence and a lack of civil rights protection in most African countries as a hindrance to the effective implementation of international accounting standards. Tunyi and Ntim (2016) describe African countries as characterised by low levels of financial development, illiquid stock markets, underdeveloped local capital markets that are less integrated with international capital markets, high levels of corruption, weak accounting systems, and a weak commitment to the rule of law, which negatively affects the investment climate of African countries.

This present study investigates the effect of IFRS adoption on FDI inflows by focusing on selected African countries. Apart from investigating this relationship, the study investigates the direct effect of the institutional environment on FDI inflows and the indirect effect (the moderating effect) of the institutional environment on the relationship between IFRS adoption and FDI inflows. The study assumes that the effect of IFRS adoption on FDI inflows cannot be examined in isolation. This is because IFRS may have a minimal or negative impact on FDI inflows into the sample of African countries, depending on the quality of the institutional environment. A strong institutional environment includes the presence of a regulatory framework to complement the adoption of IFRS in attracting FDI inflows.

1.2 STATEMENT OF THE PROBLEM

Certain African countries have adopted IFRS. Most recently, as reported by the IFRS Foundation (IFRS Foundation, 2021), Africa has become the second-largest adopting continent after Europe. Several reasons are suggested to justify African countries' decisions to adopt IFRS. On the one hand, some argue that the decision to adopt IFRS is a result of colonial imperialism (El Omari and Khelif, 2014; Lassou et al., 2019). On the other hand, other researchers argue that the need to attract capital market benefits through the disclosure of quality financial statements is another possible reason for the adoption (Abad et al., 2018; De Moura et al., 2020; Nejad et al., 2020). It has been found that the need for funding by African countries has become one of the most essential items on African policy agendas (Ajayi 2006). The achievement of the United Nations Sustainable Development Goals by most African countries requires financial support from domestic and foreign investors. Glaister et al. (2020) report that FDI inflows fill the funding gap between domestic savings and investment requirements. As a result, most African countries have intentionally been pursuing policies that attract FDI, such as IFRS adoption.

There are different forms of foreign capital, FDI inflows, and foreign portfolio investments. Theoretically, foreign investment augments domestic capital. The literature is explicit on how the different forms of capital contribute differently to growth. For example, Arellano et al. (2009) state that FDI contributes positively to economic growth through an increase in investment and spill-over effects; foreign portfolio investments contribute to economic growth positively through stock market liquidity. However, Amiram (2012) emphasises that the effects of foreign portfolio investment could be adverse due to volatility.

Investigating FDI rather than other forms of foreign capital is essential, particularly for African countries, because FDI is characterised by more permanent finance and contributes directly to the growth of the economy, whilst other forms of foreign capital, such as foreign portfolio investment, are volatile and fluctuate (Akisik and Mangaliso, 2020). The authors explain further that, in addition to the role of FDI in supplementing domestic savings and investment, it helps to overcome foreign exchange and import constraints, smoothing national expenditure, increasing the macroeconomic efficiency of production, and supplying technology and skills

through FDI projects. For these reasons, the present research adopts FDI as the inward investment variable.

Several researchers have demonstrated the reasons for and expected benefits of IFRS adoption; however, the research on the relationship between IFRS adoption and FDI inflows is inconclusive. Some studies note that IFRS adoption improves the FDI inflows of the adopting country (Marquez-Ramos, 2008; Gordon et al., 2012; Akpomi and Nnadi, 2017). Other studies, however, show evidence of a negative or insignificant association between IFRS and FDI (Nnadi and Soobaroyen, 2015; Efiobi, 2017; Owusu and Mohd Saat, 2017). There are therefore inconsistencies in the literature on the direct effect of IFRS adoption on FDI inflows, specifically in Africa. Furthermore, studies have acknowledged that it is difficult to measure the direct effect of IFRS on FDI inflows without considering the institutional environment. For example, Cieslewicz (2014) and Owusu and Mohd Saat (2017) argue that adopting IFRS alone without the support of the institutional environment is insufficient to attract capital market benefits. This debate on IFRS adoption that focuses specifically on Africa has not been fully considered in the literature. For example, in their studies, Nnadi and Soobaroyen (2015) and Efiobi (2017) refute the claim of a linear relationship between IFRS and FDI inflows. Prior studies argue that without a supportive institutional environment, IFRS alone cannot positively influence FDI inflows. Louis and Urcan (2012) claim that the economic effect of IFRS adoption depends on the strength of local institutions and regulatory implementation. Despite the claims of all these studies regarding the significance of the institutional environment on the IFRS and FDI relationship, these studies did not justify these claims or relationships in their analysis or provide evidence of a moderating effect of the institutional factors in their studies. Furthermore, the studies did not consider whether the effects of IFRS adoption on FDI inflows differ, depending on the strength of the adopting country's institutional environment. The present study that investigates the moderating role of institutional environment would address this gap.

The new institutional theory argues that a country's decision to adopt IFRS will signal to the global market that the business environment in the country is conducive to investment. However, a robust institutional environment should support the adopting country's accounting system to attract and maintain the FDI inflows. The eclectic theory argues that the institutional environment of the host country should signal a favourable investment climate. Therefore, based on Nnadi and Soobaroyen's (2015) argument that IFRS will only impact foreign investment when the country's legal and institutional settings are in place to facilitate the

process, the institutional variables are tested in the present study. Studies across Europe and Africa have mainly proxied a country's institutional environment using the six world governance indicators (Louis and Urcan, 2012; Efiobi, 2014; Beneish et al., 2015; Owusu and Mohd Saat, 2017; Varma et al., 2020). The African institutional environment is unique and diverse. The continent has a dominant colonial past that shaped most institutions, with diverse religious traditions and cultures. The governance indicators do not capture this aspect of the African institutional environment. The institutional environment should be considered in the context of the African settings if finance and accounting studies are to capture the actual effect of the institutional environment on the IFRS and FDI nexus. There is a need to investigate the institutional environment in terms of African past colonial ties, accounting and auditing systems, and legal and language origins, to fully understand the impact of the African institutional environment on the IFRS and FDI nexus. Therefore, this study first considers the direct effect of IFRS on FDI inflows, second, the direct effect of the institutional environment on FDI inflows, and third, the indirect effect of the institutional environment on the relationship between IFRS and FDI inflows.

1.3 OBJECTIVES OF THE STUDY

The main objective of the present study is to examine the effect of IFRS adoption on FDI inflows and the moderating role of various determinants of the institutional environment on the relationship between IFRS adoption and FDI inflows. The specific objectives of this study are:

1. To determine whether IFRS adoption significantly impacts FDI inflows in selected African countries.
- 2_a. To determine whether legal enforcement has a significant association with FDI inflows.
- 2_b. To determine whether auditing and accounting enforcement has a significant association with FDI inflows.
- 2_c. To determine whether language origin has a significant association with FDI inflows.
- 2_d. To determine whether legal origin has a significant association with FDI inflows.
- 3_a. To determine whether legal enforcement significantly moderates the relationship between IFRS and FDI inflows.
- 3_b. To determine whether auditing and accounting standards enforcement significantly moderates the relationship between IFRS and FDI inflows.

- 3c. To determine whether historical ties significantly moderate the relationship between IFRS and FDI inflows.
- 3d. To determine whether the quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.

1.4 RESEARCH QUESTIONS

Africa is endowed with abundant natural resources, yet the continent remains one of the poorest in the world, which makes accounting and economics studies on the African continent essential. In order to address the research problem discussed above, the study aims to answer the following research questions:

- RQ1.** Is there a significant change in FDI inflows for IFRS adopters in selected African countries after the adoption?
- RQ2a.** Is there a significant change in FDI inflows due to the legal enforcement environment of the selected African countries?
- RQ2b.** Is there a significant change in FDI inflows due to the auditing and accounting enforcement environment of the selected African countries?
- RQ2c.** Is there a significant change in FDI inflows due to the language origin of the selected African countries?
- RQ2d.** Is there a significant change in FDI inflows due to the legal origin of the selected African countries?
- RQ3a.** Does the legal enforcement environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?
- RQ3b.** Does the auditing and accounting environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?
- RQ3c.** Do the historical ties in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?
- RQ3d.** Does the institutional quality in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

1.5 RESEARCH HYPOTHESES

In order to answer the research questions directing the study, nine hypotheses are tested. The first hypothesis (H_1) tests the direct effect of IFRS adoption on FDI inflows. Hypotheses H_{2a} , H_{2b} , H_{2c} , and H_{2d} test four institutional variables (legal enforcement, auditing and accounting standards enforcement, legal origin, and language origin). Hypotheses H_{3a} , H_{3b} , H_{3c} , and H_{3d} test four institutional moderators (legal enforcement moderator, historical ties moderator, auditing and accounting standards enforcement moderator, and institutional quality moderator). The following nine hypotheses¹ derived from the research questions are tested:

H₁: IFRS adoption has a significant impact on FDI inflows.

H_{2a}: Legal enforcement has a significant association with FDI inflows.

H_{2b}: Auditing and accounting enforcement has a significant association with FDI inflows.

H_{2c}: Legal origin has a significant association with FDI inflows.

H_{2d}: Language origin has a significant association with FDI inflows.

H_{3a}: Legal enforcement significantly moderates the relationship between IFRS and FDI inflows.

H_{3b}: Auditing and accounting standards enforcement significantly moderate the relationship between IFRS and FDI inflows.

H_{3c}: Historical ties significantly moderate the relationship between IFRS and FDI inflows.

H_{3d}: The quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.

1.6 RESEARCH METHODOLOGY

As is discussed in Chapter 4, this study adopts a post-positivist perspective. A post-positivist research paradigm is appropriate for testing the correlation between variables (Ugwu, 2018). The post-positivist paradigm is appropriate because the aim of this study is to test hypotheses

¹ All the hypotheses are two-tailed hypotheses. The research seeks to identify both the direction and level of significance of the impact, whether positive or negative. The hypotheses are therefore non-directional.

based on the research questions, and the study does not claim to establish an absolute truth that is universally applicable (Brown and Dueñas, 2020). The present study covers 26 African countries purposively selected for the study. The sample includes 15 adopting and 11 non-adopting countries, with data covering the study period from 1996 to 2018. The study utilises annual macroeconomic and governance indicator data from the World Bank database (World Bank, 2019). There are therefore 270 country-year observations using data from these 26 African countries. Statistical analyses are applied to test the hypotheses of the study. The new institutional theory by DiMaggio and Powell (1983), the information asymmetry theory (Abad et al., 2018), the signalling theory by Spence (1978) and the eclectic theory by Dunning (1993) are used as explanatory theories in the study. These theories explain the reasons why African countries may adopt IFRS.

The study period is divided into pre-adoption of IFRS (1996-2004) and post-adoption (2005-2018). Data are collected for all the variables to be tested, where the data are available. The adopting sample includes all countries that require all listed companies to apply IFRS and have active capital markets. The non-adopting sample includes all countries that have not adopted IFRS by 31 December 2018, do not have active capital markets, or do not belong to a regional capital market. All of the data used in this study are obtained from reputable secondary sources. As such, issues of confidentiality, privacy, potential harm to human subjects, and informed consent do not apply to this study.

The study applies panel data analysis. Descriptive statistics, the mean, range and standard deviation, and the Pearson Correlation analysis are carried out to ascertain the general characteristics of the dataset and its suitability for the study. The Systems General Method of Moments (SGMM) is chosen as the best estimation technique over other panel data techniques because it addresses endogeneity issues. Additional tests are carried out using the Difference-in Difference (DiD) method and the t-test of means. STATA software is utilised to test the nine hypotheses.

1.7 SIGNIFICANCE OF THE STUDY

The present study adds to the body of knowledge in several ways. Studies have been carried out on the effect of IFRS adoption on capital markets in several countries. There is, however, no conclusive evidence on the actual impact of IFRS adoption on macroeconomic indicators in

Africa, specifically on FDI inflows. According to the IASB, IFRS, as an international accounting standard that enhances the quality of accounting information, if adopted and implemented, is expected to affect FDI inflows positively. Research in prior studies on the African continent has generated mixed findings. Efiobi et al. (2014), in their study on 42 African countries, identify a positive effect of IFRS on FDI. By contrast, Nnadi and Soobaroyen (2015), using a sample of 34 African countries, find a negative association between IFRS and FDI, and Owusu and Mohd Saat (2017), using a sample of 116 developing countries, establish an insignificant effect of IFRS on FDI inflows. In light of this inconclusive evidence, the present study aims to assess the impact of IFRS in Africa by using a sample of African countries where IFRS is required for all listed companies. Countries that require IFRS for only some listed companies or have the option to use IFRS or local Generally Accepted Accounting Statements are excluded from the present study sample. Thus, the study indicates how adopting IFRS influences the flow of FDI into African countries.

Second, several studies have investigated the direct effect of IFRS on FDI inflows whilst controlling for economic and institutional factors. Most of these studies have proxied the institutional environment with six World Governance Indicators (Nnadi and Soobaroyen, 2015; Mhedhbi and Zeghal, 2016; Lungu et al., 2017; Owusu and Mohd Saat, 2017; Siriopoulos et al., 2021). The African institutional environment is varied and besides the six governance indicators, African religion, culture, norms and values, accounting and auditing enforcement systems and colonial history influence the flow of FDI into the region. The present study is the first of its kind to consider past African colonial ties and auditing and accounting enforcement mechanisms as institutional indicators that can directly affect FDI inflows, which need to be controlled for if the study is to establish the direct effect of IFRS on FDI inflows.

Third, several studies that have investigated the impact of IFRS on FDI inflows have mainly focused on the direct effect of IFRS on FDI inflows. The present study extends the literature by investigating the moderating effect of the institutional environment on IFRS on FDI inflows. The study adds to knowledge by providing a new understanding that adopting IFRS by African countries without institutional reforms aimed at improving the quality of institutions, will not deliver the full potential benefit. The study creates a model that captures the effect of the institutional environment as a moderating factor on the IFRS and FDI inflows nexus, thereby enabling a better understanding of the impact of international financial reporting standards and the quality of the institutional environment of the host country on investment decisions.

The study has two main limitations. First, the study is limited to 26 out of the 54 African countries. This precludes the generalisation of the outcome of this study. The study is limited in terms of the period (1996-2018), and only African countries with available data for the study period are included in the study. This reduces the sample size, which has the potential to affect the statistical significance of the results. An attempt is made, however, to overcome these limitations by using panel data instead of cross-sectional data.

1.8 THE THEORETICAL AND CONCEPTUAL FRAMEWORK

IFRS proponents note that nations benefit from adopting a unified accounting standard because it reduces information asymmetry (Amiram, 2012; Beneish et al., 2015). Amiram (2012) concludes that IFRS adoption provides investors with familiarity due to the similar accounting environment, which also prevents information asymmetry through increased comparability, transparency and quality information in financial reports. IFRS adoption signals to outside investors that firms within the adopting country are willing to disclose quality financial information.

Researchers such as Nnadi and Soobaroyen (2015) argue that IFRS adoption alone is not enough to signal a conducive investment environment that attracts FDI. Countries need a supportive and strong institutional environment to support the accounting system of an adopting country.

The concepts used in this study are IFRS adoption, FDI inflows, and the institutional environment. It is conceptualised that countries adopt IFRS to be recognised as legitimate investment destinations on global markets. The adoption of IFRS is assumed to enable the countries to increase the transparency, comparability and disclosure quality of their financial reports, provide quality financial information and reduce information asymmetry between firm insiders and outsiders, thereby signalling to investors their ability to disclose quality financial information. FDI inflows are assumed to be attracted to a country by the effect of IFRS adoption in reducing information acquisition and processing costs. It is also assumed that the quality of institutions in IFRS adopting countries, measured in terms of legal enforcement, accounting standards enforcement, and historical ties, may create a location advantage by creating a conducive business environment for domestic and foreign investors.

A detailed description of the conceptual framework on which the present study is based, its elements, and interrelationships, is presented in chapter 5, together with Figure 5.1, which provides a diagrammatic representation of the conceptual framework.

1.9 STRUCTURE OF THE STUDY

This chapter sketches a brief background to the study, and describes the problem statement. The objectives of the study are articulated, together with the research questions and the nine hypotheses to be tested to address the research questions. The research methodology adopted for the study is outlined, and the significance of the study clarified. Finally the conceptual framework for the study is briefly described. The rest of the study is organised as follows:

Chapter 2 provides a historical overview of the development of accounting standards in Africa. The development of IFRS and its adoption is described. The extant literature on the challenges and benefits associated with the adoption of IFRS in Africa is reviewed. Africa, as a developing continent, has few functional and developed capital markets. Thus, adopting IFRS may not bring the intended capital market benefits to Africa. The chapter argues that accounting standards should take the African institutional environment into consideration in order to provide the benefits of IFRS adoption in African countries.

Chapter 3 presents a review of extant literature dealing with the three research questions of the study. The review discusses the effect of IFRS adoption on FDI inflows, the effect of the institutional environment on FDI inflows, and the moderating effect of the institutional environment on FDI inflows. Literature relating to the institutional variables tested in the present study is analysed. The discussion of the literature illustrates the need for these variables to be tested in African countries. The gap in the current literature is established.

Chapter 4 focuses on the research methodology and design, and explains and motivates the research strategy adopted. The appropriate research paradigm is identified as post-positivist and the research methodology as quantitative, utilising statistical analysis measures. The estimation procedure and the post-estimation techniques are presented and discussed.

Chapter 5 first discusses the theoretical underpinnings of the study, being the new institutional theory, the information asymmetry theory, the signalling theory and the eclectic theory. The conceptual framework is then presented. Two econometric models are developed, to be applied in the study to test the nine hypotheses of the study. These nine hypotheses are presented and linked to the literature.

Chapter 6 presents the findings in relation to the research questions that guide the discussion in Chapter 5.

The results of the descriptive statistics and the regression analyses are presented and interpreted. Appropriate diagnostics and robustness tests are conducted.

Chapter 7 concludes the thesis by summarising the research. The significant findings of the study are set out, the conclusions are presented, the contribution to existing knowledge is confirmed, limitations of the study are discussed, and suggestions are made for further research.

CHAPTER 2

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN AFRICA

2.1 INTRODUCTION

This chapter provides a historical perspective on the adoption of international accounting standards by African countries, and the challenges and benefits associated with the adoption. The chapter first deals with the development of accounting systems in Africa, the role played by colonisation, and the two groups of accounting systems in Africa. An overview is then given of the development of International Financial Reporting Standards (IFRS). This is followed by a detailed discussion of the adoption of international accounting standards by African countries, and the benefits and challenges of IFRS adoption in Africa is elaborated on. Finally, the controversies associated with IFRS adoption in Africa are highlighted.

2.2 THE DEVELOPMENT OF ACCOUNTING SYSTEMS IN AFRICA

Writers on African history have generally depicted Africans as “hunters and gatherers” in the pre-colonial era, with no economic institutions or culture before European colonisation (Paganelli, 2012). However, much of the published research indicates that African pre-colonial societies showed evidence of modern economic activities such as a defined tariff system, taxation, regulation of economic activity, and cosmopolitan commercial centres, for example, in the great empire of Ghana (Diop, 1987; Paganelli, 2012; Perera, 1989). Similarly, researchers such as Annisette (2006) and Ackers (2018) have challenged the view that colonialism brought the accounting system into Africa. They argue that financial systems have always been in the African societies, grounded in communal life, such as the *esusu* in Nigeria, *stokvel* in South Africa, and the “Eye of Horus” in Egypt. This indicates that African states had developed sophisticated financial systems based on their social systems.

Annisette (2006) argues that the need for a trading linkage between African economies and Western markets forced Western countries to “monetise” the African economy, which was based on a barter system. Consequently, African countries were forced to abandon their traditional accounting system in preference for the Western system (Annisette, 2006; Perera,

1989; Zori and Seny Kan, 2018). Studies have emphasised that an accounting system that is not deeply rooted in the peoples' culture and environment cannot have a meaningful impact, and before a local economy fully integrates itself into the world economy or trade, it must have adequately developed its internal dynamics and means of production (Cieslewicz, 2014; Perera, 2012). Perera (2012) argues that Western capitalist countries' accounting principles and practices were never "sold" to developing countries based on convincing arguments supporting their superior quality in terms of local needs.

The section below discusses how colonialism integrated accounting systems into African economies.

2.2.1 Accounting Systems and African Colonisation

The origin of accounting standards in developing countries can be traced in many ways to the legacies bequeathed by their colonisers. Past studies such as those of Okike (1994) and El Omari and Khelif (2014) have shown that most countries inherited their accounting systems either knowingly or unknowingly from their colonial masters. For example, they report that the influences on professional accountancy in Morocco, Tunisia and Nigeria were colonially driven. In addition, numerous studies have identified colonialism as the most compelling reason for the diversity of accounting practices in African countries (Nobes and Parker, 2010; Nobes, 1984, 2011; Perera, 1989; Radebaugh et al., 2006). The former colonialists integrated accounting practices in African states by bringing accountants and bookkeepers from their countries to work in their colonies, thereby influencing the accounting practice and systems in these states (Sian, 2011; Wallace, 1990). Thus, accounting systems and practices in most African states resemble those left by their colonisers.

In support of the above argument, Perera (1989) and Lassou et al. (2019) claim that most developing countries' industrialisation, political institutions and cultures are influenced mainly by the socio-political traditions and philosophy of the colonial powers by which they were ruled. Perera (1989, p.141) puts it this way:

An examination of the accounting development patterns of most developing countries reveals that they had little chance to evolve accounting systems that would truly reflect the local needs and circumstances. Their existing systems are essentially extensions of those

developed in other countries, particularly the western capitalist countries such as the UK and the USA.

Accounting systems in different parts of Africa still reflect, to some extent, colonial influences. Botzem et al. (2017) suggest that countries that were under British colonial rule continued to develop their accounting systems in the Anglo-Saxon tradition (for example, Ghana, Zimbabwe, Nigeria and many other countries in Eastern and Southern Africa), others colonised by France and Belgium established national and regional accounting systems based on revised versions of the French *Plan Comptable* after independence (such as OHADA in western countries, such as Gabon, Cameroon, and Burundi).

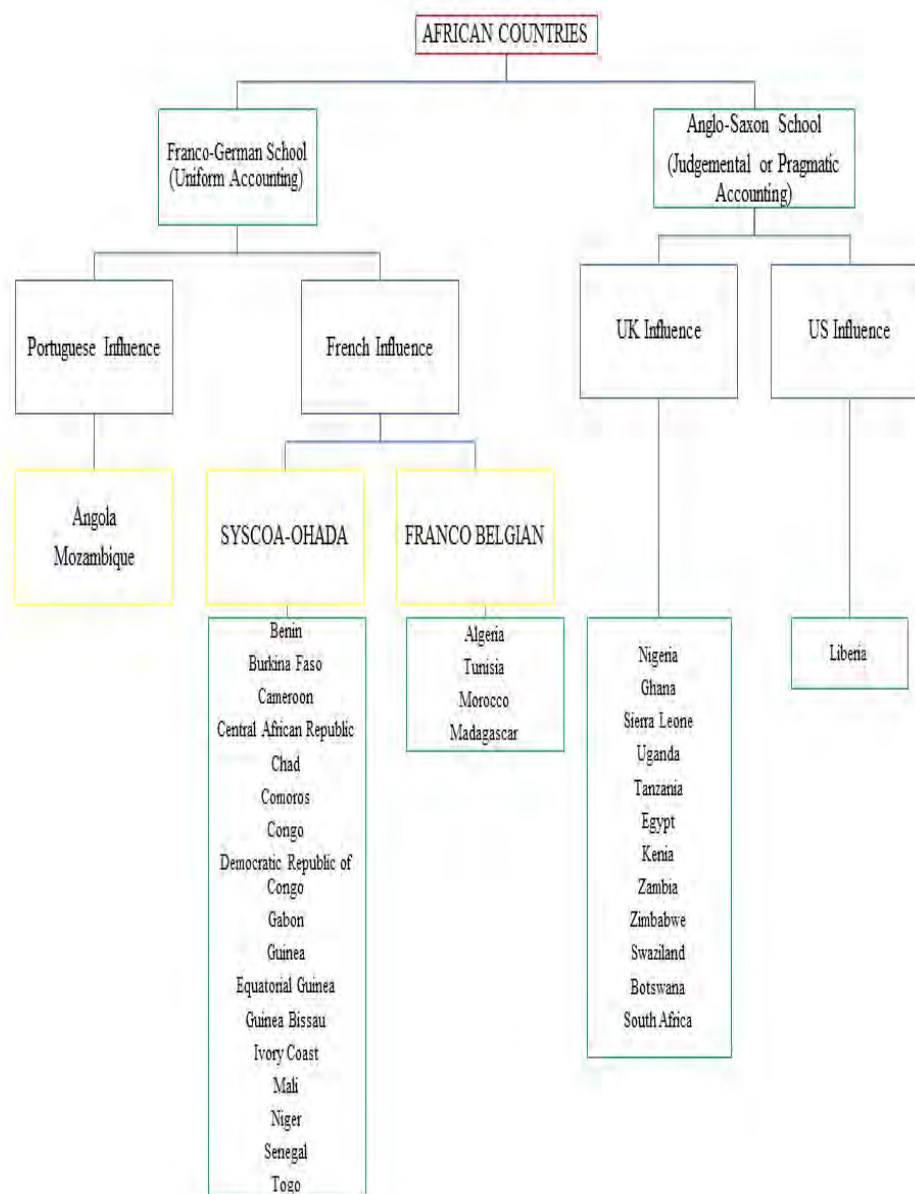
These accounting systems have also, however, several drawbacks. Hove (1986) points out that most African countries attach substantial importance to international accounting standards without considering their own socio-economic, cultural and environmental differences. He suggests that African countries should consider these factors in establishing an accounting system that suits their individual needs, because their needs are different from those of developed countries. This demonstrates that the implementation of international accounting standards require African institutions and environments to be receptive or developed enough to assimilate the northern-centric accounting standards. To expand on this, African social, political, legal and economic backgrounds differ from those of the developed world. Researchers such as Chand and White (2007), Hopper et al. (2017) and Mantzari et al. (2017) argue that the implementation of IFRS has minimal or negative net benefits in developing countries because the standards are designed to serve the interests of influential players in North America and Europe. Mantzari et al. (2017) elaborate that this has been noticed in the adoption of accounting standards in Africa, where countries from North Africa have shown great resistance to adopting international accounting standards. For example, the authors explain that countries that practise Islamic law are not likely to be receptive to international standards, based on religious grounds. Accounting systems and traditions can be transferred to countries because of historical, political and social ties, such as through colonialism (Nobes, 1998). Africa is a complex continent, characterised by cultural differences, religions and its colonial past. To expect to find a homogenous accounting system is therefore implausible.

The next section discusses the leading accounting systems found in Africa, based explicitly on Africa's colonial history. This section aims to assess how these systems influence the adoption and implementation of IFRS in Africa.

2.2.2 Accounting Systems in Africa

Literature discussed in the previous section has argued that the Western powers influenced African social and political systems during the colonial era. From this perspective, every African country is heterogeneous in culture and historical antecedents, formed through conquest and settlements following wars between imperial powers, and from a collection of previously independent policies (Lassou et al., 2019; Nobes, 1998). These differing historical origins are reflected in the profiles of accounting systems found in Africa. Nobes (1998) broadly classifies accounting in Africa into two groups: the Anglo-Saxon or Anglo-American “judgemental accounting approach” and the Franco-German “uniform accounting”. Figure 2.1 below summarises the African countries that fall under Africa's two central accounting systems.

Figure 2.1: Classification of accounting systems in Africa



Source: Elad (2015)

Figure 2.1 above depicts the strong influence of French or British systems on African accounting systems. The United Kingdom (UK) accounting system influences most countries from the Southern and Eastern regions of Africa, and the Northern and Western African countries are influenced by the French accounting system.

2.2.2.1 Anglo-Saxon or Anglo-American accounting systems

Most of the Anglophone countries have regulations that recognise and regulate the accounting profession, also known as the Anglo-Saxon or Anglo-American system. This system is found in countries that are English speaking and heavily influenced by the UK and the United States of America (USA). According to Okoye (2009), the Anglo-Saxon accounting system is oriented towards the decision needs of external investors. Okoye (2009) emphasises that financial statements prepared under this system enable investors to evaluate management performance and to predict future cash flows and profitability. This portrays the Anglo-American system as a system that is strongly influenced by professional accounting bodies rather than the government, emphasising the importance of capital markets.

Zeghal and Mhedhbi (2006) state that the Anglo-Saxon accounting system usually relies on the capital market as a significant funding source. The authors further explain that the financial market in an Anglo-Saxon system enables ordinary shares and bonds to be exchanged frequently, allowing companies to raise large amounts of capital. Damak-Ayadi et al. (2020), in their study, note that most anglophone countries apply IFRS, which is an Anglo-Saxon standard that aims to provide valuable and relevant information for investors to make informed investment decisions.

African countries that use the Anglo-Saxon accounting system, such as Zimbabwe and Kenya, adopted international accounting standards as early as 1996 and 1998, respectively. The indication is that for Anglophone countries, it is easier and less costly to adopt the standards because of the common language background. These countries do not incur additional translation costs as English is their official language. This is different for countries such as Angola, which have not yet adopted any accounting standards. The country was colonised by the Portuguese. Hence English is not their official language and adopting IFRS becomes more costly for the non-Anglophone countries.

2.2.2.2 Franco-German accounting system

Elad (2015) states that francophone African countries are still firmly tied to France and the *Organisation Commune Africaine, Malagace et Mauriciene Plan Comptable General*² (OCAM PCG), which was in place during the colonial era. The *Plan Comptable* imposes a uniform framework for recording transactions and presenting financial statements. In 1998, the western African countries developed new accounting standards called the *Système Comptable Ouest Africain* (Adams and McMillan, 1997). In the present study, this accounting system will be referred to as OHADA (*Organisation for the Harmonisation of Business Law in Africa*). The OHADA accounting standards were mainly developed to replace the several accounting systems coexisting in the same geographic zones, such as the French Accounting System of 1957, the French Accounting System of 1982 and the OCAM (*Organisation Commune Africaine et Malgache*) (Elad, 2015). The OHADA was developed to create a common accounting language to support trade between countries, and accounting information that was understandable between countries. The OHADA rendered all the other accounting systems void and integrated certain aspects of the international or Anglo-Saxon standards.

Nobes (1998) acknowledges differences between the OHADA accounting standards and IFRS. He points out that to protect creditors, the OHADA standards require companies to create reserves equal to 20% of share capital from annual appropriations until the required size of the reserves is achieved, whereas IFRS does not require the use of the reserve system as its primary interest is to meet the demands of equity markets. The difference between the two systems is that OHADA standards protect the interests of creditors who are not shareholders of the business, whilst IFRS protects the interests of shareholders. The fundamental differences in these systems have resulted in many French-speaking countries being reluctant to adopt IFRS.

According to the IFRS Foundation (2019), companies listed on the stock exchanges and other publicly accountable companies in seventeen West and Central African jurisdictions that are

² OCAM was formed in 1965 as a regional organisation representing French African countries. The organisation was responsible for the development of a uniform accounting system known as the French PCG, which was to be adopted by African member states of the Monetary and Economic Community of Central Africa. The French PCG served as a forerunner to the modern French PCG of 1982 and 1999. The OCAM PCG faced a number of impediments to implementation in some countries, such as a lack of qualified accountants, educational training of practitioners, and effective regulatory mechanisms, which heightened the need for harmonisation in 1993, and OHADA was created (Elad, 2015).

members of the OHADA began using IFRS in their consolidated financial statements from 1 January 2019. The recent adoption of IFRS by OHADA countries indicates the influence of IFRS in Africa. However, Mnif Sellami and Gafsi (2019) emphasise that adopting IFRS in Africa has been presented as a prerequisite to participating in global markets. The authors explain that this has resulted in African countries adopting IFRS but not fully enforcing the standards because the existing environments do not accommodate them. Mnif Sellami and Gafsi (2019) argue that the African environment demands that the standards consider the social, political, legal, economic, and cultural context of these standards.

The following section presents a discussion on the development of IFRS.

2.3 DEVELOPMENT OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

In his historical account of the development of accounting systems, Ortega (2017) reports that the need for an international accounting system was prompted by the highly diverse and country-specific accounting systems. Specifically, Ortega (2017) identifies differences in the legal, political and economic systems as the major contributors to diversity in the accounting systems. For example, Paliy (2008) points out that the 1929 stock market crash resulted from the differences in financial reporting principles across countries. From this perspective, Ortega (2017) concludes that these differences resulted in financial report users doubting the information. The information became unsuitable for the analysis of economic entities, leading to erroneous and conflicting conclusions about companies' business activities and financial conditions.

Significant analysis and discussion of the development of accounting systems was presented by the Financial Accounting Standard Board (FASB) and the International Accounting Standards Board (IASB) (FASB, 2013). In their report, the FASB points out that the development of international accounting standards was a reaction to the challenge faced by the traditional accounting systems due to the emergence of new technology and complex production means. In addition, the FASB (2013) identifies that the emergence of multinational corporations during the 1960s also strengthened the need for a meaningful comparison of financial reports. This, according to Zeff (2012), resulted in the establishment of the American

Institute of Certified Public Accountants (AICPA) Committee on International Cooperation in 1962, whose aim was to assist in reaching an agreement on unified accounting standards.

Following the work of the AICPA, the FASB (2013) reported that England and Canada, through the Institute of Chartered Accountants of England and Wales and the Canadian Institute of Chartered Accountants, formed a study group called the Accountants International Study Group in 1966 whose intention was to study the differences in accounting and auditing practices between the USA, the UK and Canada. In collaboration with other participants from various countries, the Accountants International Study Group formed the International Accounting Standards Committee (IASC) in 1973, whose aim was to create uniform accounting standards that would be used worldwide. In 1975, the IASC issued its first standard on transparency of accounting policy. According to Ortega (2017), this prompted the formation of the International Federation of Accountants (IFAC), whose aim was to develop high-quality international auditing and accounting standards for the private and government sectors.

In 1995 the International Organisation of Securities Commission, together with the Securities Exchange Commission, recommended the endorsement of IASC standards for all capital markets for listing purposes (Whittington, 2005). According to Whittington, this resulted in other developing and developed countries adopting International Accounting Standards as the basis of their local standards.

In 2000, the IASC changed its name to International Accounting Standards Board (IASB), and in 2001, the standards developed by the IASB were called International Financial Reporting Standards (FASB, 2013). Saidi (2013) states that the introduction of IFRS as a unified accounting system was supported and endorsed by recognised international organisations such as the World Bank and the International Monetary Fund.

Trimble (2018) notes that in 2002, the European Union (EU) legislated the use of IFRS for financial reporting by publicly traded companies, starting in 2005. This decision to make IFRS the official standards influenced other countries outside Europe to adopt the standards. In 2002, according to the FASB (2008), the FASB agreed to converge the US Generally Accepted Accounting Principles (GAAP) and IFRS. The agreement was reached with the signing of the Norwalk Agreement in September 2002. This prompted the Securities Exchange Commission

to discontinue its 1982 requirements for foreign investors listed on US stock markets to reconcile their local GAAP or IFRS to US GAAP.

The acceptance of IFRS as an internationally recognised accounting standard by international organisations, together with the Securities Exchange Commission in 2005, resulted in an increase in the adoption rate of IFRS by both developing and developed economies. According to the IFRS Foundation (IFRS Foundation, 2019), more than 166 jurisdictions have adopted IFRS. One hundred and forty-four of these jurisdictions require the use of IFRS standards, and another twenty-two jurisdictions permit the standards to be used. Africa is not an exception, with countries such as Zimbabwe having adopted international accounting standards as early as 1996, and South Africa adopting IFRS in its purest form since 2003.

There has been a recent increase in IFRS adoption by African countries. To position the present study within the African continent, the following section gives an overview of the status of IFRS adoption in Africa.

2.4 AN OVERVIEW OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN AFRICA

In line with the United Nations Sustainable Development Goals of attracting investment into Africa, most African countries have recently adopted IFRS to enhance the transparency of their financial information to reduce the problem of information asymmetry, which could negatively affect foreign investment, and to increase investors' level of confidence in the financial market (Mameche and Masood, 2021). This view is supported by Omotoso et al. (2022), who state that adopting IFRS is assumed to be a global change that would eliminate information barriers facing the users of financial statements.

Since the introduction of IFRS by the IASB, the standards have been adopted worldwide and they have been commended for representing the accounting world's best practices. According to the IFRS Foundation, the global adoption rate is currently at 65 per cent. Of the 38 jurisdictions in Africa that have been analysed, 95 per cent require IFRS for all or most domestic publicly accountable entities (IFRS Foundation, 2019). With the adoption of IFRS among the OHADA countries in 2019, Africa will be the most populated IFRS continent

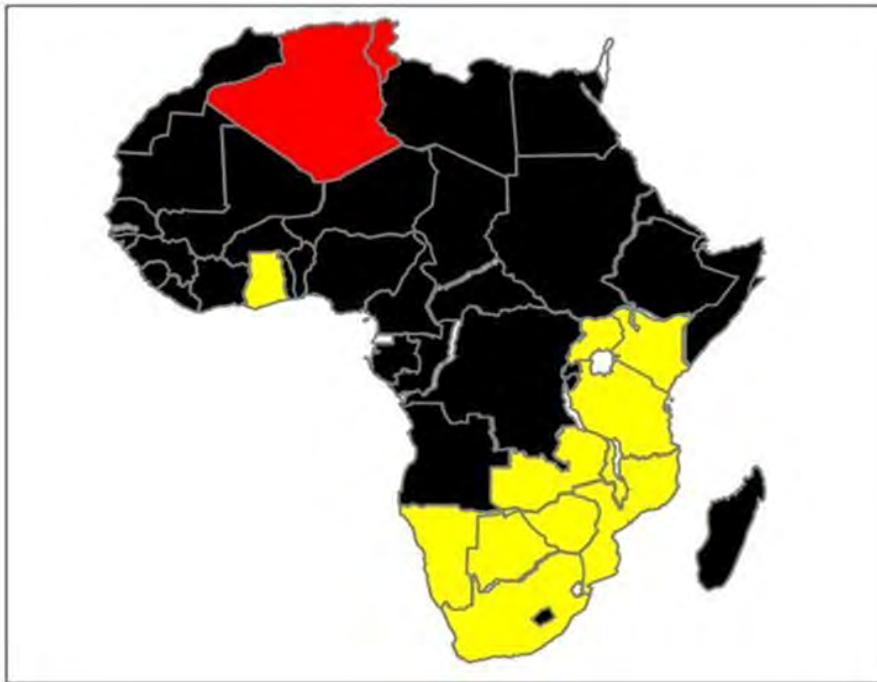
outside Europe. Seventeen countries (Benin, Burkina Faso, Cameroon, Central Africa, Comoros, Congo, the Democratic Republic of Congo, Ivory Coast, Gabon, Guinea-Bissau, Equatorial Guinea, Mali, Niger, Senegal, Chad, and Togo) that are members of the West African Monetary Unit adopted IFRS from January 2019. These primarily French-speaking countries previously had their own GAAP based on the French accounting plan, a rule-based accounting system, unlike IFRS, which is principles-based (Nobes, 1998; Elad, 2015; Degos et al., 2019). Although countries in the OHADA region have adopted IFRS, it is restricted to the financial reporting of large public businesses and listed companies. According to Zori (2015), most of the businesses in this region are, however, small and are unlikely to use IFRS to produce their financial reports. Also, even for listed companies, in addition to IFRS, they will still have to produce accounts under OHADA for taxation purposes, which in turn becomes costly for these companies.

Some African countries such as Zimbabwe, Zambia, and Lesotho have used IFRS since formal financial reporting commenced in the country, with Zimbabwe starting as early as 1996 (Chamisa, 2000). Other countries, such as Ghana and Nigeria, developed their national accounting standards based on IFRS before full adoption in 2007 and 2012, respectively (Zori, 2015).

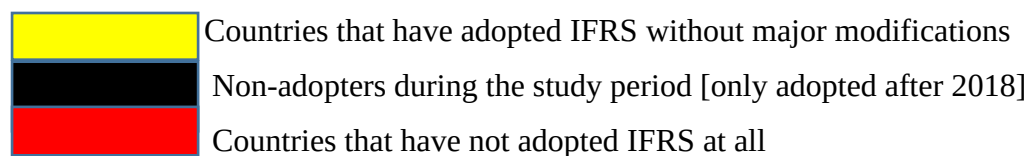
There is considerable evidence that most African countries claiming to have their own national standards have only adapted the International Accounting Standards (Chamisa, 2000; Hassan, 2008; Assenso-Okofu et al., 2011). These countries can loosely be called the “early users” of IFRS. IFRS adoption in African countries such as South Africa, is the purest form of adoption (Nobes, 2011, p.16).

Figure 2.2 below shows how IFRS has spread throughout Africa. The countries indicated in yellow are those countries that adopted IFRS without significant modifications. The countries in black are those that only adopted IFRS starting in January 2019, and those in the north that have not yet adopted IFRS are in red. The map shows that most countries from the southern and eastern part of Africa fully adopted IFRS, while most western and northern countries only adopted IFRS as late as January 2019. The map indicates that former English colonies were readily receptive to IFRS, and former French colonies were hesitant.

Figure: 2.2 The status of IFRS in 2019



Source: World Factbook (2020)

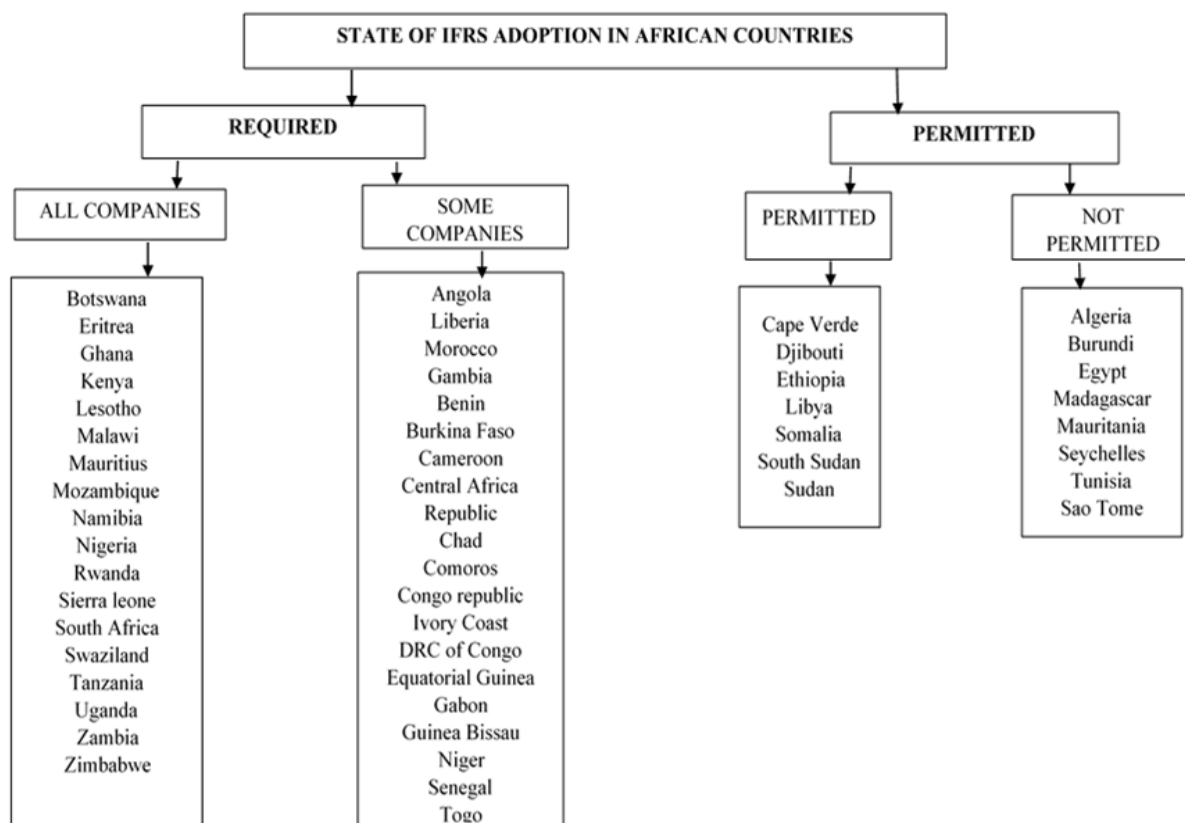


The widespread use of IFRS in Africa has made it the second largest IFRS user after Europe. Thirty-eight out of fifty-five African countries adopted IFRS between 1996 and 2020. Botzem et al. (2017) indicate, however, that adopting IFRS means different things. While some countries made IFRS as issued by the IASB obligatory for all listed public companies (full adoption), others permitted them to be applied voluntarily, required them for some companies, or adopted nationally modified versions (partial adoption). Other countries do not need, or even prohibit IFRS because they have different systems in place (non-adoption).

Figure 2.3 below, adapted from Tawiah (2019), provides a summary of countries that have either fully adopted, permitted, or have not permitted IFRS in their jurisdictions. Eighteen countries in Africa require all their companies to adopt IFRS, while nineteen African countries allow some, but not all companies to report in accordance with IFRS. Seven African countries permit the use of IFRS in their jurisdictions, which can be viewed as voluntary adoption, whilst eight African countries prohibit the use of IFRS in their jurisdictions. From Figure 2.3, it is

evident that most of the African countries that require all companies to report using IFRS are those whose accounting systems are influenced by the UK system (Anglo-Saxon), whilst the accounting systems of those who require IFRS for some companies, or permit IFRS in their jurisdictions, are influenced by the Francophone or Lusophone accounting system, as shown in Figure 2.3.

Figure 2.3: Status of IFRS in Africa



Source: Adapted from Tawiah (2019, p. 647)

Several studies have highlighted that the search for economic prosperity and stability in a global economic system by many developing countries in the post-independence era is the most compelling reason why most African countries are adopting interventionist policies such as IFRS (Bakre et al., 2021; Boolaky et al., 2020; Venugopal, 2015). Bakre et al. (2021) argue that African countries are eager to adopt some of these accounting interventionist policies. However, it is submitted that some of these rules and regulations of accounting are a response to politics, conflicts and scandals in the Western world. Therefore, expecting them to work in Africa can have implications for the adopting countries, and this can lead to internal contradictions. For example, in trying to regulate oil and gas prices, the UK and the USA urged

the FASB to develop uniform accounting principles for oil and gas companies to eliminate the flexibility in GAAP, which permitted companies to substantially evade accurate government evaluation of their financial positions and operating performance (Bakre, 2008). It is suggested that standards developed in the Western world are developed and structured to solve Western problems.

2.5 THE CONTROVERSIES ASSOCIATED WITH IFRS ADOPTION IN AFRICA

Cieslewicz (2014) argues that an accounting system that is not deeply rooted in the peoples' culture and environment cannot achieve a meaningful impact. This is supported by Lassou et al. (2019), who note that it has been claimed that accounting systems of developed economies are unsuitable to meet the needs of developing economies. This is pertinent because Africa is a developing continent, and most of its nations are underdeveloped and are different from advanced Western economies for whom and by whom IFRS were developed. Africa is diverse, with different ethnicities, languages, and diverse ways of living. According to Verick (2006), many business transactions that take place in Africa take place in the informal sector, without adequate information processing records. Tunyi and Ntim (2016) point out that weak capital markets characterise the African continent. Most firms in the continent depend more on families and banks and less on capital markets for financing needs.

Undoubtedly, African social, political, legal and economic environments are different from those of the developed world. Researchers such as Walker (2010) and Lassou et al. (2019) explain that most African countries are characterised by, for example, civil wars in the Democratic Republic of Congo, corruption cases in South Africa, hyperinflation and currency restrictions in Zimbabwe, tribal wars in Nigeria, as well as the absence of infrastructure in most African states. For this reason, political influence and the lack of civil rights protection in most African countries are a weak frame of reference for the proper implementation of an international accounting standard that requires the backing of a strong institutional setting. In addition, Hopper et al. (2017) indicate that African governments are often in search of financial aid from Bretton Wood Institutions like the World Bank and the International Monetary Fund, and they tend to accept any conditions set by these institutions without clearly reflecting whether their social settings allow them to implement these conditions. In that regard, there are unique circumstances in African countries worth investigating in relation to IFRS adoption.

Besides pressure to adopt accounting standards from former colonialists, Boolaky et al. (2020), in their study on institutional drivers of IFRS adoption in Africa, find evidence of the influence of northern accounting associations and International Financial Institutions, especially the World Bank, the International Monetary Fund (IMF) and the World Trade Organisation as drivers of the adoption of IFRS in Africa. This includes the IFAC, IASB, the International Public Sector Accounting Standards Board and the “Big Four” accounting firms. Similarly, Graham and Annisette (2012) also acknowledge that International Financial Institutions have become a driving force behind the reshaping of accounting in African countries (including the adoption of IFRS) to promote northern economic expansion and enable colonial powers to exploit their ex-colonies commercially. Researchers such as Okike (1994) have criticised how the British Association of Chartered Certified Accountants have promoted accounting education and training irrelevant to the African socio-economic environment and development. This has resulted in the African accounting systems resembling the British accounting system. Furthermore, these economies are relatively small and highly reliant on exporting a limited number of primary commodities. The national governments in these economies play a major role in investment and employment. These prevailing characteristics of the African economies suggest that they are less likely to be reliant on capital markets.

The development of capital markets in Africa still lags behind Europe. There are 38 countries with capital markets in Africa³ Of the 38 capital markets, 29 are active markets, and nine are not trading, or there are no listings on those capital markets. Africa has three of the oldest stock exchanges, the Egyptian Stock Exchange founded in 1883, the Johannesburg Stock Exchange of South Africa founded in 1887, and the Casablanca Stock Exchange of Morocco founded in 1929.

There is a group of countries (Mozambique, Lesotho, Gabon, Cape Verde and Angola) that have both adopted IFRS and have capital markets, but the capital markets are not trading (see Appendix A). In these countries, even though they have adopted IFRS, the capital market benefits cannot be measured, or the adoption has not produced the intended capital market benefits. This line of argument is supported by Cai et al. (2014) who argue that the use in

³ African stock markets are explained here: <https://www.afdb.org/en/about-us/corporate-information/financial-information/investor-resources/capital-markets>

research of IFRS adopting countries with active capital markets best assists in capturing the capital market consequences of IFRS adoption. The authors' results support the assumption that capital markets experience a higher level of integration post adoption of IFRS as compared to the pre-adoption period. They further observe that the adoption of IFRS reduces the number of accounting practices in the Gulf region, which facilitates the efficient movement of foreign investment. There is a second group of countries that adopted IFRS, and they have capital markets, but there is little activity on their capital markets (see Appendix A). Countries such as Somalia and Cameroon have only two listings on their stock exchanges. The last group of countries, South Africa, Egypt, Nigeria, Mauritius, Kenya, Morocco and Zimbabwe, have adopted IFRS, and they have very active capital markets.

This inconsistent relationship between IFRS adoption and capital market activity in Africa highlights the question of the universal approach of the IASB and whether it has produced the intended benefits in Africa. It raises doubts about the extent to which the use of international accounting standards designed for the sophisticated global economies will help investors to assess the performance of businesses and ultimately attract foreign investment into the continent. Consequently, the use of IFRS may not be able to generate the reliable and relevant information that investors into Africa may need.

Like many developing countries, African countries have also been subjected to coercive pressures from international financial agencies like the World Bank and the IMF. Boolaky et al. (2020) contend that in many cases, the World Bank has often instructed developing countries to adopt IFRS and, in some cases, make it a precondition for granting loans. Researchers such as Borker (2013) and Zeghal and Lahmar (2018) have raised concerns about whether the implementation of IFRS, a product of what they claim to be a monopolistic accounting standard setter (i.e. the IASB), is the right decision for a global accounting practice, since accounting relates to culture and culture is dynamic across jurisdictions. When an accounting system is created in one culture and environment and adopted in countries with a different culture and environment, it may not fit or meet their social needs.

In support of this argument, Botzem et al. (2017) in their study reveal that only 4% to 7% of all members of the listed bodies of the IFRS Foundation from 2001 to 2014 came from Africa. However, the absence of African countries from the accounting standard-setting process extends beyond the people serving on the IFRS Foundation bodies. Botzem et al.(2017) report

that their analysis of comment letters on IFRS 9 and the Conceptual Framework indicates that African stakeholders' participation in the IASB's due process is as low as 3% of all letters submitted. Similarly, Dobler and Knospe (2016) explain that, on average, only 4% to 5% of comment letters on different IFRS projects came from Africa during the period 2006 to 2012 compared to 50.2% from Europe, 46.8% from North America, and 28.5% from Asia. This is a clear indication that actors from African jurisdictions participate less frequently than others in the public consultations of the IASB. In the same vein, Pelger and Spies (2017) observe that no efforts were made to engage individuals or organisations from Africa in the IASB agenda consultation project conducted from 2009 to 2012.

On the other hand, the IASB has spearheaded several reforms in Africa, including the formation of regional professional associations such as the Eastern Central and Southern African Federation of Accountants and the Association of Accounting Bodies in West Africa , as well as the Pan-African Federation of Accountants, and has been fostering training activities in Africa. Andrews (2013:84), however, argues that after analysing the Reports on the Observance of Standards and Codes issued by the World Bank and the IMF on African countries since the 1990s, it is clear that these reforms “over-specify solutions and oversimplify what it takes to adopt and implement them, creating institutions resembling iceberg tips with no foundation”.

The cost of converting to IFRS by African countries presents a challenge to the adoption of IFRS. The cost of setting up the system, changing previous reports and information, retraining accounting professionals, as well as monitoring and ensuring that the required standards are adhered to, is very high for African countries. Similarly, in their analysis of Reports on the Observance of Standards and Codes dealing with why African countries may be experiencing difficulties in adopting IFRS, Stainbank and Taurigana (2016) report that the most common obstacle to the successful adoption and implementation of IFRS in Africa is the lack of capacity in all aspects of the accounting supply chain. In particular, the authors note from the Reports on the Observance of Standards and Codes, that in some countries regulators lack the capacity to monitor and enforce the standards even when they have been adopted. This, they suggest, leads to compliance gaps in the financial statements, when compared to IFRS.

2.6 SUMMARY

This chapter provides a historical overview of the pre-existing accounting systems in Africa. Accounting systems in African countries have been shown to have developed as a result of their colonial history. The accounting systems in most countries in Africa have been influenced by either the Anglo-Saxon, Francophone, or Lusophone systems. This resulted in most Anglophone countries being receptive to international accounting standards, whilst most Francophone and Lusophone countries are resistant to adopting IFRS.

The development of IFRS by the IASB is explained, and how IFRS became an internationally recognised accounting standard.

The chapter then discusses the challenges and benefits associated with the adoption of IFRS in Africa. Literature has emphasised that IFRS was designed for developed economies characterised by functioning and developed capital markets, and has argued that Africa is a developing economy with few functional and developed capital markets. Thus, adopting IFRS may not bring about the intended capital market benefits in Africa. In addition, the chapter argues that accounting standards should consider the African socio-political environment to be suitable for Africa.

The following chapter, Chapter 3, provides an empirical literature review on the impact of IFRS adoption on FDI. The effect of the institutional environment on FDI inflows and the effect of the institutional environment on the IFRS and FDI nexus is also demonstrated. The literature is used to inform the present study's variables and provide cogent reasons why these variables are selected. The chapter further provides the basis for the development of the hypotheses for the study.

CHAPTER 3

LITERATURE REVIEW

3.1 INTRODUCTION

In chapter 1 of the thesis the following research questions were posed:

RQ1. Is there a significant change in FDI inflows for IFRS adopters in selected African countries after the adoption?

RQ2a. Is there a significant change in FDI inflows due to the legal enforcement environment of the selected African countries?

RQ2b. Is there a significant change in FDI inflows due to the auditing and accounting enforcement environment of the selected African countries?

RQ2c. Is there a significant change in FDI inflows due to the language origin of the selected African countries?

RQ2d. Is there a significant change in FDI inflows due to the legal origin of the selected African countries?

RQ3a. Does the legal enforcement environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

RQ3b. Does the auditing and accounting environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

RQ3c. Do the historical ties in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

RQ3d. Does the institutional quality in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

This led to the formulation of nine hypotheses to be tested. The first hypothesis tests the direct effect of IFRS adoption on FDI inflows, in order to answer research question one. The second hypothesis tests four institutional variables: legal enforcement, auditing and accounting standards enforcement, legal origin, and language origin, to answer research question two. The third hypothesis tests four institutional moderators: the legal enforcement moderator, historical

ties moderator, auditing and accounting standards enforcement moderator, and institutional quality moderator, to answer research question three.

This chapter presents a literature review, in which the literature is used to describe these variables and provide cogent reasons why these variables have been selected. It also provides the basis for the development of the hypotheses for the study (chapter 5).

3.2 THE IMPACT OF IFRS ADOPTION ON FDI INFLOWS

This section reviews the literature on the impact of IFRS adoption on FDI inflows. The aim is to place the present study within the current debate on IFRS adoption.

In 2015 the United Nations Sustainable Development Summit adopted the 2030 *Agenda for Sustainable Development*, which contains seventeen *Sustainable Development Goals*. Amongst other things, the sustainable development goals are committed to the eradication of poverty, protecting the planet and building inclusive global partnerships. Achieving each of the seventeen goals requires substantial financial resources, particularly the involvement of the private sector, thus emphasising the important role of FDI.

As described in chapter 1, FDI is the direct investment that an entity residing in one country makes in another entity residing in a different country, where the entity making the direct investment has more than 50% influence or voting power in the entity in which it is investing. A report by the United Nations Conference on Trade and Development reveals that FDI inflows worldwide plummeted in 2017 by about 23%, from \$1.87 trillion in 2016 to about \$1.43 trillion (UNCTAD, 2018). The downward trend in FDI inflows poses a significant challenge for policymakers globally, particularly in developing countries, and especially in Africa, where economies continue to face a decline in FDI inflows (United Nations Conference on Trade and Development, 2018; Adegboye et al., 2020). UNCTAD's recent World Investment Report indicated that Africa's total global FDI inflows fell from 6.3% to 5.9% between 2019 and 2020.

Ajayi (2006) describes African countries as developing countries with low economic development, backward infrastructure and scarce financial resources. The author explains that the need for funding has become one of the essential items on the African economic policy

agenda. FDI is seen as an engine of growth as it provides the much needed capital for investment. Fang (2021) emphasises that FDI contributes to the growth of African countries in a substantial manner because it is more stable than other forms of capital flows. Fang (2021) argues that by providing access to foreign markets, FDI will inevitably improve the integration of the host country into the global economy, foster growth and raise the much needed financial inflows for African countries.

FDI investment complements domestic savings by providing foreign savings (Glaister et al., 2020), and in analysing the determinants of FDI inflows in Africa, Glaister et al. confirm that FDI inflows fill the funding gap between local savings and investment requirements and augments the host country's balance-of-payments receipts. As a result of these perceived benefits, individual countries worldwide have been actively pursuing policies to attract FDI.

Several studies have been conducted on the capital market consequences of IFRS adoption (Amiram, 2012; Beneish et al., 2015; Houqe, 2016; Kim and Ryu, 2018; De Moura et al., 2020). Amiram (2012), using foreign portfolio investment as a proxy for foreign investment inflows, investigates the association between IFRS adoption and foreign investment decisions. The study establishes that foreign equity portfolio investment increases in countries that adopt IFRS. The study explains that the positive relationship between IFRS adoption and foreign investment was driven by the familiarity effect of investors with the accounting environment, which may lead to lower information asymmetry and, therefore, greater quality of accounting information for foreign investors. Amiram's study is based on 52 countries; however, out of the 52 countries, only 3 are African countries, making it impossible to generalise this study's findings in an African context.

Beneish et al. (2015) investigate whether IFRS adoption is associated with increased FDI inflows into the adopting country using the Difference-in-Difference technique. The study uses macroeconomic data from 51 countries that adopted IFRS in 2005. The study identifies a significant increase in total FDI inflows due to mandatory IFRS adoption. However, out of the 51 countries in the study sample, only one was from Africa. Both Amiram's (2012) and Beneish et al.'s (2015) studies indicate that the increase in foreign investment is found in countries characterised by a better quality of governance, greater economic development, and greater creditor rights before adoption. The results are, however, based on a sample mainly from the Western world.

Gordon et al. (2012) investigate the impact of IFRS adoption on a country's FDI inflows and whether this impact varies based on a country being classified as having a developing or developed economy. Employing both the Ordinary Least Squares and Difference-in-Difference techniques on a sample of 124 countries with data ranging from 1996 to 2009, the authors compared the pre-and post-adoption periods and concluded that the overall FDI inflows are positively associated with a country's decision to adopt IFRS; however, these results are statistically significant only for those countries classified as developing economies. In addition, Gordon et al. report that developing countries, where the level of information asymmetry is relatively high, are more likely to have the potential to increase FDI inflows than developed countries because of the improved financial information quality resulting from IFRS adoption. Gordon et al. explicitly examine the consequences in developing and developed country settings. The study assumes that "developing economies" consist of relatively homogeneous constituencies, whether located in Asia, Africa, or America. The authors do not, however, state whether there is any difference in the association between IFRS and FDI inflows between various regional clusters, while Akisik (2008) does identify some regional effects between the countries located in Asia, and Latin America, Central, and Eastern Europe. Akisik, too, did not include African countries in the research population.

Lungu et al. (2017) study the macroeconomic effects of IFRS adoption on FDI inflows in the enlarged European area from 1996 to 2014. The study investigates whether IFRS significantly impacts economic development indicators such as FDI inflows. Their results show that FDI inflows in IFRS-adopting countries increased more when compared to non-adopting countries. The study by Lungu et al. clearly indicates the incremental relevance of financial information disclosed under IFRS. In 73 developed and developing economies from 2007 to 2014, Golubeva (2020) also examines whether adopting IFRS by a country increases FDI inflows. The results show differences in the impact of IFRS on the FDI inflows of developing and developed economies. Golubeva's findings indicate that developed economies attract more FDI inflows after adoption than developing economies. The author explains that the differences in the institutional environments of these two classes of economies were the major causes of the different effects of IFRS on FDI inflows. Similar to Gordon et al. (2012) and Lungu et al. (2017), Nejad et al. (2018) examine the effect of IFRS adoption on FDI inflows in ten Association of Southeast Asian Nations countries from 2002 to 2016, using the least square dummy variable bias-correlated techniques. They identify a positive association between FDI

inflows and IFRS adoption. The authors acknowledge the importance of adopting IFRS to signal to other investing countries that firms within these jurisdictions follow a global accounting standard that ensures the disclosure of quality financial information.

Increased FDI inflows after IFRS adoption have also been shown in emerging economies. Omotoso et al. (2022) based their study on the decision-usefulness theory. Their study examines the effect of IFRS adoption on foreign portfolio investment in Africa from 1994 to 2015 using fixed effects, random effects, and the System Generalised Method of Moments regression techniques. The study establishes that foreign investment inflow increases in the African countries that apply IFRS-based financial standards. The findings of Omotoso et al. therefore suggest that adopting IFRS is an informational change that eliminates information barriers facing the users of financial statements. However, Omotoso et al. assume that the effects of IFRS on foreign investment inflows are homogenous, as the study does not consider the differences in the institutional environment of the adopting countries. Akpomi and Nnadi (2017) examine the relationship between IFRS adoption and FDI flows in African countries. The study uses panel data from 1996 to 2011 from 45 African countries. The authors conclude that IFRS adoption leads to a 32.22% increase in FDI inflows into African countries. The results of the study by Akpomi and Nnadi provide evidence that the performance of African countries in attracting foreign investment is enhanced by adopting IFRS.

Other studies examine the moderating effect of IFRS on the impact of FDI inflows on economic growth. Akisik and Mangaliso (2020) investigate whether adopting IFRS moderates the effect of FDI on economic growth, using a sample of 49 African countries and the General Method of Moments estimation technique. The study finds that IFRS enhances the positive effect of FDI on economic growth. The results confirm the signalling role of IFRS to foreign investors of a country's commitment to transparency. Similarly, Gu and Prah (2020) examine the influence of IFRS on the relationship between FDI inflows and economic growth but use a smaller sample of 12 countries from Africa, and identify the same positive effect of IFRS on the relationship between FDI inflows and economic growth. The two studies indicate that the moderating role of IFRS on FDI and economic growth is not affected by sample size or the length of the study period.

Manawadu et al. (2019) examine the moderating effect of IFRS on the relationship between FDI inflows and conditional accounting conservatism in South Asian countries between 2006

and 2015. Conditional conservatism in accounting focuses on the asymmetry that exists between the verification of gains versus the verification of losses (Moy et al., 2020). The study confirms that IFRS positively moderates the relationship between FDI and conditional accounting conservatism in South Asia. The study's results are an indication that adopting IFRS reduces information asymmetry and increases the disclosure of high-quality financial information for investment decisions.

Siriopoulos et al. (2021) analyse the effects of IFRS adoption on FDI inflows using Dunning's OLI paradigm, focusing on the Gulf Cooperation Council countries from 1996 to 2017. The study explains that IFRS is a strong determinant of FDI inflows, and that harmonising accounting standards issued by different regulatory bodies is a pre-condition for economic relations between nations. Mameche and Masood (2021) investigate the effect of IFRS on FDI inflows in the Gulf Cooperation Council region from 1980 to 2017. Unlike the study of Siriopoulos et al. (2021), Mameche and Masood's study relies on the information asymmetry theory, according to which IFRS adoption acts as a positive signal for investors of the disclosure of quality financial information. Using the autoregressive distributed lag modelling approach, Mameche and Masood's study determines that a country's adoption of IFRS positively impacts FDI inflows by 3% in the short run. The study's results show that, in the short term, improving financial information quality through IFRS adoption reduces information asymmetry and leads to an overall increase in FDI inflows.

There is also evidence of a negative association between IFRS and FDI flows in the literature. Nnadi and Soobaroyen (2015) investigate the incremental influence of IFRS adoption on FDI inflows in African economies. The authors use a panel dataset of 34 African countries over 20 years from 1994 to 2014 and employ an Ordinary Least Squares regression model. Their study shows a negative association between IFRS and FDI inflows. The authors argue that IFRS alone does not attract FDI inflows. They emphasise that, in Africa, a country's basic legal and socio-economic factors, such as the rule of law, legal systems, and level of corruption, are more critical in attracting FDI than adopting international accounting standards. Efiobi (2017) provide evidence of a negative association between IFRS and FDI inflows using an even larger sample of 48 African countries from 2002 to 2014. Efiobi's results indicate the need to focus on developing institutional frameworks that support IFRS adoption. This result confirms the conclusions of Nnadi and Soobaroyen (2015) concerning African countries.

The studies referred to above show inconsistency in the findings in the literature on IFRS adoption and FDI inflows. These differences in the findings could be a result of different estimation techniques (panel, cross, or time series), differences in the type of economy studied (developed, developing, or emerging), and the level of adoption (required or permitted).

It is submitted that the benefits of IFRS, as endorsed by international financiers, have been the promotion of transparency and accountability on the part of the adopting country, thereby signalling safe investment destinations for investments. It is also predicted that investors seeking returns on their investments are attracted by business environments that do not compromise these returns. Furthermore, the adoption of IFRS promotes the disclosure of standardised accounting information that investors or shareholders can use to hold their managers accountable for any company losses. This demonstrates that the availability of standardised financial reports allows investors to compare returns across nations and countries in making informed decisions regarding their investments.

Literature on FDI inflows has identified several economic, political, and social factors as possible determinants of FDI. Scholars such as Gordon et al. (2012) have identified a number of economic factors, such as the inflation rate, interest rate, and GDP, as possible determinants of FDI. Nnadi and Soobaroyen (2015) also argue that institutional factors such as legal systems, the rule of law and control of corruption are possible determinants of FDI. Other scholars, such as Hoque (2016) and Kim and Ryu (2018), maintain that the IFRS adoption benefits of transparency and quality accounting information are determinants of FDI inflows. This demonstrates the interrelationship between the economic, institutional, and accounting information environment on the flow of FDI into different jurisdictions. This is discussed in the sections that follow.

3.3 THE IMPACT OF THE INSTITUTIONAL ENVIRONMENT ON FDI INFLOWS

Different aspects of the institutional environment in developing countries may affect FDI inflows differently. In one of the earliest studies, Asiedu (2006) indicates that large markets, infrastructural quality, efficient legal systems, and strong institutions promote FDI inflows, while corruption and unstable political environments constrain it. This view is supported by the recent single- and cross-country studies by Uddin et al. (2019) and Dorożyński et al. (2020).

In a single-country study based on Pakistan, Uddin et al. (2019) examine the institutional determinants of FDI inflows between 1972 and 2016 using institutional variables derived from the Economic Freedom of World Index: regulatory framework, property rights, political stability, and political rights. The authors establish that these institutional determinants strongly and positively affect FDI inflows. Using a cross-country study, Dorożyński et al. (2020) use institutional variables from the Global Competitiveness Index. They conclude that institutional quality exerts a statistically significant impact on FDI inflows. These two studies indicate that a country's regulation system has more influence on FDI inflows than other institutional variables and that institutional quality tends to be a significant stimulus in attracting FDI inflows in emerging economies.

In a study investigating 33 sub-Saharan countries, Gossel and Beard (2019) conclude that countries that effectively control corruption, strengthen their institutions and implement development and economic growth policies are significantly more attractive for FDI inflows. Gossel's (2022) study concludes that corruption in Africa is unlikely to decline, thus threatening the continent's FDI flows.

Contrary to these studies, Varma et al. (2020) provide evidence that FDI inflows into African countries are indifferent to the institutional environment of the host African countries. The study argues that countries like India, whose firms are familiar with operating in corrupt and less efficient business environments, are less likely to be driven away by a poor institutional environment that may characterise African countries. The evidence of Indian firms investing in African countries despite the African continent's poor institutional environment indicates the contradiction amongst studies on the importance of a quality institutional environment as a determinant of FDI inflows into Africa.

Studies have focused on different proxies to measure institutional quality. Uddin et al. (2019), for example, use the Economic Freedom of World Index, composed of the regulatory framework, property rights, political stability, and political rights to create an institutional quality index, while Contractor et al. (2021) only use the protection of minority investors index as a proxy for institutional quality. On the other hand, Bhasin and Garg (2020) use two world governance indicators (the rule of law and regulatory efficiency) to proxy institutional quality. Contractor et al. (2021) examine the impact of institutional quality on FDI inflows using the rule of law and property rights as proxies for legal enforcement. The study establishes a positive

association between legal enforcement and FDI inflows. The availability of strong laws protecting property rights signals effective institutional support offered by the government to foreign investors. Even though Bhasin and Garg (2020) used legal enforcement to proxy institutional quality in 23 emerging economies between 2006 and 2015, their study establishes a negative association between legal enforcement and FDI inflows in emerging economies. The study argues that strict rules adversely affect investors who intend to invest in emerging economies for the very reason of their weak laws, norms, and values. The authors explain that strict rules deter investors whose primary motive for investing in emerging economies is to take advantage of the country's poor laws, norms, and values. The two studies show how different proxies used to measure legal enforcement can reflect different results. However, most studies agree that an enabling environment with strict legal enforcement and compliance mechanisms is required to attract foreign investors.

Studies from Brazil, Russia, India, China, and South Africa (BRICS countries) and Mexico, Indonesia, Nigeria, and Turkey (MINT countries) report differences in the impact of institutions on the flow of FDI into these countries. Anwar and Iwasaki (2021) examine the role of institutional quality on foreign investment attractiveness in the five BRICS countries and show a positive and significant effect of institutional quality on FDI inflows. In addition, they identify that most state-owned enterprises invest in African countries because of their natural resources or locational attractiveness. On the other hand, Bashir et al. (2021) investigate the role of the institutional environment on FDI inflows in BRICS and MINT countries. Their study reveals that institutional factors affect FDI inflows in different magnitudes between the BRICS and MINT countries. Institutional quality is positively related to FDI inflows in BRICS countries, while institutional factors such as the legal system and security of property rights adversely affect foreign investment in MINT countries.

The impact of different variables used by various studies to measure institutional quality is a cause for concern for policymakers and academic researchers. There is inconclusive evidence on the actual impact of the institutional environment because of differing results regarding different variables. Variables such as the control of corruption have been found to directly impact the flow of FDI in some studies. Other studies have shown that the variables play a mediating role. Ross et al. (2019), in their study on Chinese FDI inflows into Africa between 2003 and 2015, used five world governance indicators (voice and accountability, which is the extent to which a country's citizens can participate in selecting their government and their

freedom of expression, political stability, regulatory quality, the rule of law, and control of corruption) as proxies for institutional quality. Their studies show that political stability and the control of corruption are significant institutional predictors of China's foreign investment in Africa, but other measures such as regulatory quality, voice and accountability, and the rule of law are not significant predictors of Chinese FDI inflows into Africa. Similarly, Miao et al. (2021) examine the flow of Chinese FDI into Africa between 2003 and 2017 but conclude that the control of corruption, government efficiency, voice, and accountability have a mediating role in the Chinese foreign investment in Africa. The two studies disagree on the actual impact of the institutional environment on the flow of Chinese investment into Africa.

The comparison of the effects of the institutional environment on FDI inflows between developing and developed economies has also yielded different results. Owusu-Nantwi (2019) investigates the effect of institutional quality on FDI inflows in ten South American countries between 1996 and 2015. The study highlights a significant and positive relationship between institutional quality and FDI inflows resulting from all three estimation techniques used in the study. Using a sample from developed economies from 2002 to 2012, Peres et al. (2018) provide evidence that institutional quality positively and significantly impacts FDI inflows in developed countries.

The results of various studies do not agree on the effects of the institutional environment on FDI inflows in developing economies. Some provide evidence of positive effects, while others show adverse effects. Literature does not provide robust evidence of a positive effect (La Porta, 1998; Gaio, 2010; Owusu-Nantwi, 2019; Uddin et al., 2019; Contractor et al., 2020) or negative correlation between institutional factors and FDI inflows (Peres et al., 2018; Ross et al., 2019; Bhasin and Garg, 2020; Varma et al., 2020). Factors such as the control of corruption, an effective legal system for enforcing contracts, and the protection of property rights, therefore promote a conducive environment to stimulate the levels of FDI inflows. According to Asiedu (2006), such an environment has a marked effect on the extent of FDI inflows. On the other hand, poor quality institutions create an unhealthy environment for business activities and impose uncertainty on long-term commitments (Bhasin and Garg, 2020). Different studies employed different institutional variables to proxy the institutional environment. Therefore, there is inconclusive evidence regarding the relationship between institutional environment and FDI inflows, specifically for Africa.

It can be argued that institutions shape or influence the business environment within a jurisdiction. Investors' interests clearly lie with higher returns. However, poor quality institutions tend to make it costly for an investor to invest in these jurisdictions. On the other hand, a supportive business environment promotes the ease of business within a country and reduces the cost of investment on the part of investors. Such environments are characterised by upholding the rule of law, the ability to control corruption, and protecting the rights of creditors and the interests of minority investors, amongst other factors.

Effective and reliable laws that safeguard the interests of both domestic and foreign investors are important. For example, Asiedu (2006) notes that inadequate intellectual property rights increase the expropriation risk, affecting FDI inflows. The author emphasises that a sound institutional environment ensures the enforceability of contracts and protects foreign investors. It appears that a strong institutional environment in a country may attract FDI inflows by safeguarding investor interests, or it may deter foreign investment due to stringent rules and reduced scope for taking advantage of regulatory loopholes.

3.3.1 Legal Systems and Investor Protection

A country characterised by a sound institutional environment should be in a position to protect the interests of shareholders. Common law countries have an Anglo-Saxon background that subscribes to judgemental accounting and preparing financial information to meet investors' needs (Elad, 2015). Thus, these jurisdictions have mechanisms in place to protect and safeguard the interests of minority investors. This clearly boosts investor confidence and ensures that there is greater disclosure of value relevant information. On the other hand, civil law countries emphasise mechanisms that safeguard the interests of creditors rather than investors, as these countries raise most of their capital from family or bank loans, and not the capital market (Elad, 2015).

In their study, La Porta et al. (1998) provide evidence of how a country's legal system affects its accounting system. The authors determine that common law countries have better accounting systems and better protection of investors than civil law countries. Lee et al. (2014) note that common law legal rules and reliance on case law precedents can potentially decrease the risk in economic transactions, thereby providing a climate favourable for FDI inflows. Hayek (1960) emphasises that common law systems have fewer government restrictions on

economic liberties and give stronger protection to investors' rights, as opposed to civil law systems that expand the power of the state and limit the jurisdiction of judges to protect property rights and ensure enforcement of contracts. In a common law system judgments could prompt the promulgation of legal rules that become embedded in the law (Steigner, 2019). This implies that common law systems provide investors with more certainty than civil law systems.

Several studies have been conducted on the relationship between legal origins and FDI inflows. Glaister et al. (2020) establish that developing countries with common law systems attract significantly higher FDI inflows than civil law countries. The authors explain that common law systems promote much higher levels of adherence to the rule of law than other systems. They suggest that common law systems are better able to enforce private property rights and contractual commitments, thereby reducing investor risk. La Porta et al. (2008) assert that common law systems provide opportunities for markets to flourish and for lower levels of government regulation, which is attractive for foreign investors. In civil law countries, there are more prominent policies such as nationalisation and direct state control. Cai et al. (2008) establish a positive and significant association between common law systems and FDI inflows. The authors explain that investors invest more in common law countries, which are characterised by stronger investor rights and attract more FDI inflows. Steigner et al. (2019), in their study, report higher FDI inflows into common law countries than civil law countries. Similarly, Globerman and Shapiro (2003) report that countries with a common law legal system attract more FDI inflows from the US, which is also a common law country. The authors explain that FDI flows between similar legal systems are higher because it makes it easier for investors to invest in such jurisdictions. By contrast, Feng et al. (2019) find a statistically insignificant relationship between FDI inflows and common law systems.

The overall results of prior studies indicate that everything from understanding the meaning of contracts and investment terms, to compliance with environmental regulations, to predicting the outcome of a labour dispute, is more certain in a familiar legal environment.

3.3.2 Cultural Proximity

It is predicted that to prevent information asymmetry when investing in a foreign market, investors need to access reliable and detailed information from reliable sources in the target

country. In their study on the importance of a shared language history in business, Levin and Cross (2004) demonstrate that reliable and detailed information useful for investment decisions is most likely to come from individuals with whom one has a trusting relationship, which is built over time, and explain that it is easier to establish such a relationship when there is a shared language, which reduces information processing costs. Similarly, Oh et al. (2011), in their study on the role of language in FDI, conclude that speaking a common language is more important in attracting FDI.

Language differences affect the interpretation of international standards and codes. It can be contended that in terms of IFRS adoption, Anglophone countries are likely to experience lower costs when adopting and implementing the standards than countries with a Francophone language background, due to language and cultural proximity to the developers of the standards. The training of Anglo-Saxon professional accountants is in English, and therefore, their understanding and interpretation of the IFRS is likely to be better than professional accountants trained in a language other than English. Mhedhbi and Zeghal (2016) establish a positive association between IFRS adoption and an Anglo-Saxon culture. Their study argues that because of cultural proximity, countries with an Anglo-Saxon culture are more likely to adopt and implement IFRS than countries with a Francophone culture. Anglo-Saxon countries are mainly adopters of IFRS, with countries like Zimbabwe and Kenya adopting IFRS as early as 1996 and 1998 (Akpomi and Nnadi, 2017).

Countries with cultures other than Anglo-Saxon that seek increased investments should aim to make their accounting standards more similar to the IASB standards and encourage and facilitate their application by companies (Mhedhbi and Zeghal, 2016). This demonstrates that the adoption of IFRS by non-Anglo-Saxon countries constitutes a signal to the different actors operating in capital markets. It can be concluded that the adoption of IFRS by Francophone countries is, therefore, likely to reduce information processing costs on the part of investors. It signals the disclosure of quality information by the adopting country that is useful for investors in making informed decisions.

3.3.3 Compliance with and Enforcement of Accounting Standards

The compliance with and enforcement of accounting standards have been raised in numerous studies. Kurauone et al. (2021), in their study, argue that IFRS can only achieve its objectives when there is strong legal enforcement. The authors describe a strong legal enforcement environment as one characterised by strong monitoring mechanisms and auditing to promote transparency. Similarly, Chand (2005) concludes that the quality of law enforcement influences the degree of IFRS adoption. They establish that IFRS implementation is manageable in countries with a robust law enforcement mechanism. Ball (2006) argues that the IASB can persuade individual countries to adopt IFRS but cannot enforce its standards. Thus, the IASB is a standard setter that lacks enforcement mechanisms, and has no authority to penalise any country or company where managers, auditors or regulators cannot fully implement IFRS (Ball et al., 2006). An adopting country with a strong legal enforcement mechanism that can impose a punishment on offenders is, therefore, better placed to enforce and implement standards. As a result, countries with a strong legal system benefit from the opportunities offered by adopting IFRS.

Preiato et al. (2015) state that, when adopted, IFRS requires strong monitoring and enforcement to reduce information asymmetry. The authors explain that countries with weak institutions exhibit low levels of accounting enforcement and this can result in adoption and enforcement costs for companies in these countries. This is reiterated by Daske et al. (2008) in their study. The authors argue that the best results from IFRS adoption have been seen in countries with strict legal enforcement and an institutional structure that provides strong reporting incentives. Weak institutional structures result in non-compliance with IFRS, especially in developing and transitional economies (Street and Bryant, 2000).

Borgi and Sellami (2022) investigate the effects of legal enforcement, particularly government quality, on compliance with disclosure in terms of IFRS in Africa, from 2012 to 2014. Their findings reveal that government quality positively and significantly affects African compliance with IFRS disclosure requirements. The study shows that legal enforcement is critical in improving compliance across African countries. It has therefore been established that a strong legal enforcement environment signals the availability of a strong monitoring and enforcement system, which facilitates the disclosure of unbiased financial and economic reports, enabling

investors to make informed decisions. Legal enforcement in the present study is a proxy used to capture the compliance of a country with any rule or standard being implemented by the government.

The adherence to effective enforcement of reliable laws assists in safeguarding the interests of both domestic and foreign investors. Furthermore, it can be assumed that the ability of a country to enforce national laws assures investors of the safety of their investments and the low probability of investment risks. A high probability of investment risk in the investee's country reduces investors' confidence in that particular country. Thus, it can be contended that a country characterised by a weak legal enforcement environment signals a poor investment climate to potential investors. On the other hand, a strong legal enforcement environment signals the availability of a strong monitoring and enforcement system that will facilitate the disclosure of unbiased financial reports that assist in the elimination of asymmetric information and, thus, reduce the cost of investment.

The literature indicates that enforcement is the most critical factor in achieving financial reporting benefits. Early scholars have argued that the extent to which standards are enforced and violations prosecuted is as important as the standards themselves. For example, in their studies, Sunder (1997) and Kothari (2000) conclude that the quality of financial information is a function of both the quality of accounting standards and the regulatory enforcement or corporate application of the standards. Therefore, this confirms that even the best accounting standards will be inconsequential in the absence of adequate enforcement, and implies that if no action is taken when rules are breached, the rules remain requirements only on paper.

Variables such as the strength of auditing and financial reporting, the country's membership of an international financial regulatory body like IFAC, and the strength of professional accounting organisations in a country, have been used by past studies as measures of accounting and auditing regulation (Boolaky et al., 2013; Boolaky et al., 2020; Kurauone et al., 2021). According to Boolaky et al. (2013), the strength of auditing and financial reporting is an integral component of institutional transparency relevant to businesses, investors, and governments. The authors argue that good accounting and audit regulations facilitate transparency through better disclosure of information and easier cross-country comparisons. Strong regulations incentivise firms to provide investors with relevant information. This

implies that if regulations are weak, firms may choose not to disclose information or may manipulate the information.

African countries have been reported as having high rates of corruption by the Global Barometer of 2019 (Pring and Vrushni, 2019). This indicates that most African countries are not doing enough to deal with corruption. African countries have recently experienced cases of the lack of accounting standards enforcement, resulting in the loss of investors' funds, for example, the Steinhoff case in South Africa. This creates doubt regarding the levels of compliance with IFRS in African countries. Thus, to moderate the high levels of corruption and organised crime, which can be costly for investors, conducting audits and producing regular, timely and more transparent information can serve as mitigation measures.

3.4 THE MODERATING ROLE OF THE INSTITUTIONAL ENVIRONMENT ON THE IFRS AND FDI NEXUS

In this section the sparse available empirical literature on the moderating effect of a country's institutional environment on the relationship between IFRS and FDI inflows is demonstrated.

The exact role of the institutional environment in the relationship between IFRS adoption and FDI inflows has remained unclear. Louis and Urcan (2012) investigate whether the mandatory adoption of IFRS by EU countries in 2005 increased cross-border acquisitions into the adopting countries and whether the association is driven by IFRS or concurrent enforcement changes, that is, if countries combined the adoption of IFRS with enforcement changes. The study's results show that the increase in FDI inflows after the adoption is limited to adopting countries whose governments can implement sound regulations. The results of Louis and Urcan's (2012) study are consistent with the claim that the economic effects of IFRS depend on the strength of the local institutions and regulatory implementation. Despite the contribution of Louis and Urcan's study indicating that institutions matter in the relationship between IFRS adoption and FDI inflows, the study only emphasises institutional transformation, but could not empirically justify these relationships in their analysis.

Studies have examined whether institutional factors have a complementary role (that is, institutional factors enhance the relationship between IFRS and FDI inflows) or a substitutive

role (that is, institutional factors supersede the role of IFRS in the relationship between IFRS and FDI inflows) (Chen et al., 2014; Daske et al., 2008). Daske et al. (2008) examine the impact of IFRS adoption on market liquidity, the cost of equity, and Tobin's q on a sample of 26 developed economies. They find that, on average, market liquidity and the value of equity increase after IFRS adoption, but could not find substitutive evidence of the effect of IFRS adoption on market liquidity and equity value. However, they emphasised that capital market benefits exist only in countries with strict enforcement regimes and institutional environments that provide strong reporting incentives. The study suggests that the capital market benefits of IFRS depend on a country's institutional environment. This positive role played by institutional factors is supported by Wysocki (2011) and Chen et al. (2014), who emphasise that institutions have a complementary relationship with IFRS in attracting FDI inflows. Even though these studies find evidence of institutional factors that influence the IFRS and FDI nexus, the studies could not provide evidence of a substitutive or moderating role of the institutional factors on the relationship between IFRS and FDI inflows. This may have resulted from not including an interactive effect (when the effect of one causal variable on an outcome depends on the state of the second causal variable) in their analysis. The studies did not consider whether the effects of IFRS adoption on FDI inflows change depending on the strength of the adopting country's institutional environment.

In the study on Papua New Guinea and Fiji, Chand (2005) uses the accountancy profession, education, training, and legal backing as moderating variables in the relationship between IFRS and capital market benefits. The study shows that it is easier to implement IFRS in jurisdictions with greater professional expertise, and education and training, and that when there is a lack of legal backing within a country, professional organisations find it difficult to discipline companies that are not complying with standards and practices that they have adopted. The study concludes that strong legal backing facilitates the implementation and enforcement of accounting standards, resulting in higher levels of compliance, which is ideal for attracting investors. Laupe (2018) uses legal rights as a proxy for institutional quality to investigate its moderating role in the relationship between IFRS and capital market benefits. The study concludes that countries with a strong law enforcement mechanism attract capital market benefits after IFRS adoption because law enforcement guarantees investors transparency and corporate governance. This argument is supported by DeFond et al. (2019), who use anti-directors' rights, accounting cluster, and legal origin to proxy institutional quality as a moderating variable. The study concludes that the number of foreign institutional investors did

not increase after China's IFRS adoption. However, they provide evidence that China's weak institutional infrastructure prevents the achievement of the intended goal of IFRS to attract foreign investment through improved financial reporting. The study emphasises that a strong law enforcement mechanism is needed for countries to realise the benefits of adopting IFRS.

Owusu and Mohd Saat (2017) examine the moderating role of country-level institutional quality in the relationship between IFRS adoption and FDI inflows. The study employs panel data from 116 developing countries from 1996 to 2013, and the two-step Systems Generalised Method of Moments estimation. The study's results demonstrate that IFRS adoption, on its own, does not affect the level of FDI inflows in a developing country. The authors observe that when they interact the IFRS adoption variable with the institutional quality variable, they find a positive influence of IFRS adoption on FDI inflows. Their results show that institutional quality can favourably alter the relationship between IFRS adoption and FDI inflows. Interpreted differently, the results show that the economic benefits of adopting IFRS at the country level depend on the strength of a country's institutions. However, this contradicts existing studies that have concluded that adopting IFRS is enough to attract FDI inflows into a country. Owusu and Mohd Saat's (2017) study bases their institutional quality measure on the six world governance indicators (control of corruption, the rule of law, political stability, government effectiveness, regulatory quality, and voice and accountability). These indicators do not precisely capture the accounting and auditing regulatory environment. In addition, even though the study uses the Systems Generalised Method of Moments as a robust estimation technique, the study did not measure the effect of the institutional environment on the IFRS and FDI nexus. Also, the study does not specify the level of IFRS adoption in the sample and assumes that the institutional quality measure is homogenous for the 166 developing countries.

Efiobi et al. (2014) use a sample of 42 African countries from 2002 to 2012 to examine whether the institutional structures in African countries affect the extent to which IFRS adoption can inform FDI inflows. The study employs the average of three world governance indicators (the rule of law, government effectiveness, and control of corruption) to proxy institutional quality. Efiobi et al. conclude that the institutional environment has a substitutive relationship with IFRS adoption in informing FDI inflows. They conclude that African countries benefit more from adopting IFRS by improving their institutional frameworks rather than having a static institutional framework and adopting IFRS. The findings of Efiobi et al. support Owusu and Mohd Saat's (2017) findings; however, Efiobi's study relies on the average of only three world

governance indicators as a measure of institutional quality, making the study's findings limited, as the institutional environment is very broad and cannot be measured using world governance indicators only. Therefore, the results cannot be generalised to represent the moderating role of the institutional environment on the IFRS and FDI relationship.

Agyei-Boapeah et al. (2020) examine the moderating effect of the rule of law on the impact of IFRS on capital market benefits. The study uses data from seven African countries from 2000 to 2015 and uses the rule of law to proxy institutional quality. The authors conclude that institutional quality as a moderating variable has a positive and statistically significant effect on firm value. The results suggest that the effects of IFRS on firm value are substantially higher in an African environment characterised by a greater commitment to the rule of law. This study was a micro-level study and did not represent the moderating role of institutions at a macro or country level, which is the focus of the present study.

Balsmeier and Vanhaverbeke (2018) investigate whether the application of IFRS to attract foreign loans varies with the strength of the local enforcement regime. The study uses the regulatory quality index of Kaufmann (2009) to proxy institutional quality. The study concludes that institutional quality has a moderating role because firms that operate under a strong institutional environment and apply IFRS are associated with an almost nine times greater chance of securing access to foreign loans. Where a country's institutional environment is weak, the study establishes that the positive association between applying IFRS and access to foreign debt is absent. Simbi et al. (2022) investigate whether a country's institutional framework influences the effectiveness of IFRS in influencing foreign portfolio investment inflows. The study uses data from 15 African countries from 1994 to 2014 and employs the six world governance indicators to proxy institutional environment. The study reveals that the quality of the African continent's institutional environment negatively moderates the strength of the association between IFRS and foreign portfolio investment inflows. It can be suggested that IFRS alone cannot ensure the intended capital market benefits, but African countries should strengthen their institutional environment to attract foreign investors after adoption.

More African studies are required because of the unique African setting. Africa is a developing continent characterised by illiquid capital and less-developed stock markets (Tunyi and Ntim, 2016). Evidence from this continent is essential as most countries have a pressing need for foreign investment. The present study incorporates auditing and accounting regulation and

historical ties as part of the institutional environment to determine their direct and indirect effect on the IFRS and FDI nexus. This is very important as the African institutional environment is diverse. The inclusion of African colonial history is relevant if the study is to capture the continent's institutional environment fully. The present study aims to address gaps in extant research and provide evidence of the moderating effect of the institutional environment on the IFRS and FDI nexus by using interactive variables in the analysis.

3.5 LIMITATIONS OF PRIOR RESEARCH

The preceding section highlights that adopting IFRS can positively or negatively affect FDI inflows. The results of the studies reviewed are conflicting. Studies by Nnadi and Soobaroyen (2015) and Akpomi and Nnadi (2017) reveal that IFRS alone cannot achieve the intended FDI inflows. The two studies explain that institutional factors play a significant moderating role in the effect of IFRS on FDI inflows. Few scholars have adopted this line of investigation since the call was made by Akpomi and Nnadi (2017) and Nnadi and Soobaroyen (2015) for further investigation. Studies that have attempted to examine this phenomenon only advocated for better institutions to enhance the effect of IFRS on the adopting country without providing empirical estimations of the intervening role of institutions in their econometric models (Gordon et al., 2012; Chen et al., 2014). One would expect that the presence of quality institutions should create an environment for a country to attract capital market benefits after adopting IFRS. However, empirical analysis is necessary to move beyond mere anecdote to justify this conclusion.

Most conclusions on the effects of IFRS adoption on FDI inflows have been based on studies from developed economies. The positive capital market benefits from IFRS adoption established in this research cannot be generalised to the African continent, which is diverse and is characterised by weak institutional environments, less developed capital markets, and illiquid financial markets (Tunyi and Ntim, 2016). Golubeva (2020) reports different effects of IFRS adoption on their mixed sample of developing and developed countries. The study clearly shows the differences in impact levels of IFRS between developed and non-developed countries. The present study fills this significant gap in the literature by investigating the effects of IFRS adoption on FDI inflows using an exclusively African sample and considering the degree of adoption in these countries.

Studies have shown that some institutional factors significantly impact FDI inflows, while other factors have been found to have no effect at all. Most studies have based their institutional quality proxy on world governance indicators, global competitiveness indicators, or the world index of economic freedom. These proxies do not consider the enforcement of accounting and auditing regulations or the historical background of the African continent. An understanding of the relationship between legal enforcement and FDI inflows assists in assessing the role of a strong law enforcement system in a country in creating an environment suitable for attracting foreign investors. Furthermore, understanding the importance of enforcing auditing and accounting mechanisms assists in understanding the role of local and international regulatory bodies in creating an environment suitable for investing.

None of the reviewed literature considers the African colonial history as an institutional factor that could affect the flow of funds into the African continent. African countries are shaped by colonial influences and understanding the role of this colonial legacy helps to understand the effect of colonialism on creating institutions that attract or deter FDI inflows. This study examines the effects of the legal enforcement systems, accounting and auditing enforcement systems and historical ties on the flow of foreign investment to provide a broader perspective.

In Africa, only four studies have examined the moderating effect of institutions and have either used all six world governance indicators to proxy institutional quality or have used only one. Again, the studies fail to recognise the enforcement of accounting and auditing standards and the historical ties as part of the institutional environment. This may limit the applicability of the results. There is a need to include institutional factors that influence the implementation and enforcement of international accounting standards in African countries. This is important because, without proper regulatory and compliance mechanisms in place, the effects of IFRS on capital market benefits may not be realised. Therefore, this study investigates the moderating effects of the institutional environment on FDI inflows, including legal enforcement, the enforcement of accounting and auditing standards and the African colonial history.

3.6 SUMMARY

This chapter presents a detailed analysis of the literature dealing with the variables to be tested in the study. The role of IFRS in promoting FDI inflows into African countries that have adopted the standards is demonstrated. While there are conflicting results from the studies reviewed, it appears that the overwhelming findings are that the adoption of IFRS supports FDI inflows, but that this depends on a sound institutional environment in the adopting country. The chapter then presents evidence from literature of the importance of the institutional variables tested in the present research. The basis for the strength of the institutional environment is identified as having appropriate legal systems that offer investor protection, the role of cultural proximity, and the compliance with and enforcement of accounting standards. The sparse literature dealing with the moderating role of the institutional variables on the IFRS adoption nexus with FDI inflows is discussed, illustrating the need for these variables to be tested in African countries. Finally the limitations of prior research are discussed, substantiating the need for the present research.

The next chapter describes the research methodology adopted for this study.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

The previous chapter reviewed the literature dealing with the effect of IFRS adoption on FDI inflows, the effects of the institutional environment on FDI inflows, and the moderating role of the institutional environment on the relationship between IFRS adoption and FDI inflows. This chapter describes the research methodology adopted for the research. The research questions formulated in Chapter 1 are re-visited, together with the hypotheses to be tested in order to address the questions. The pragmatic assumptions on which the research approach was based are summarised, after which the research paradigm, and the research design are described. The research sample is presented, and the data collection process is set out. The estimation techniques applied in the study are explained and the preliminary data check that is conducted, is described. The robustness checks employed in the study are also set out. The ethical considerations are dealt with and the chapter concludes with a summary.

4.2 RESEARCH QUESTIONS AND HYPOTHESES

Chapter 2 and Chapter 3 reviewed extant literature, and the following gaps in the literature were identified:

- there is a need to identify the effect of IFRS adoption on FDI using an exclusively African sample;
- there is a need to assess the direct effects of the institutional environment on FDI; and
- there is a need to assess the indirect effect of the institutional environment on the relationship between IFRS and FDI inflows in Africa.

As a result of these gaps in the literature, the research design was structured to address the following research questions and corresponding hypotheses:

RQ1: Is there a significant change in FDI inflows for IFRS adopters in selected African countries after the adoption?

H₁: IFRS adoption has a significant impact on FDI inflows

RQ2_a. Is there a significant change in FDI inflows due to the legal enforcement environment of the selected African countries?

H2_a: Legal enforcement has a significant association with FDI inflows.

RQ2_b. Is there a significant change in FDI inflows due to the auditing and accounting enforcement environment of the selected African countries?

H2_b: Auditing and accounting enforcement has a significant association with FDI inflows.

RQ2_c. Is there a significant change in FDI inflows due to the language origin of the selected African countries?

H2_c: Legal origin has a significant association with FDI inflows.

RQ2_d. Is there a significant change in FDI inflows due to the legal origin of the selected African countries?

H2_d: Language origin has a significant association with FDI inflows.

RQ3_a. Does the legal enforcement environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3_a: Legal enforcement significantly moderates the relationship between IFRS and FDI inflows.

RQ3_b. Does the auditing and accounting environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3_b: Auditing and accounting standards enforcement significantly moderate the relationship between IFRS and FDI inflows.

RQ3_c. Do the historical ties in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3_c: Historical ties significantly moderate the relationship between IFRS and FDI inflows.

RQ3_d. Does the institutional quality in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3_d: The quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.

4.3 RESEARCH PARADIGM

This study is situated within the post-positivist paradigm. The ontological approach associated with this paradigm is that not everything is entirely knowable (Krauss, 2015). According to Phillips and Burbules (2000), knowledge is conjectural – absolute truth can never be found. Thus, maintaining the objectivist stance of absolute truth is untenable in today's world (Levers, 2013). Truth and universal laws exist, but discovering these truths is therefore nearly impossible. Levers (2013) emphasises that knowledge is fallible because contextual influences shape it, but an objective investigation will bring researchers closer to the truth. One of the objectives of this research is to determine the effects of the institutional environment on the relationship between IFRS adoption and FDI inflows in the African context. This inevitably means that some data are contextually influenced, as many variables employed to measure the institutional environment are not contextually independent. Post-positivism is therefore an appropriate paradigm. The research does not claim to establish an absolute truth that is universally applicable.

The epistemology of the present research assumes that obtaining knowledge is subject to human error. Therefore, human knowledge is imperfect, and only probable truths can be established. Social reality is measurable and knowable, albeit difficult to access (Brown and Dueñas, 2020). This study adopts a post-positivist approach to examine the effects of IFRS adoption on FDI inflows in African countries. In this approach, the major factor underpinning the research philosophy is the research question. It is acceptable to adopt the post-positivist position and employ a quantitative methodology to collect and interpret data. Furthermore, Merton et al. (2009) acknowledge that examining behaviours through numeric measurement is dominant in the post-positivist paradigm. In this study, data of a quantitative nature are collected on all variables employed in the study.

The methodology adopted in a post-positivist paradigm is usually experimentation. The ex-post facto research technique is the most appropriate for this study. The study examines the relationship between IFRS adoption (independent variable) and FDI inflows (dependent variable). Thus, a correlation study is employed. This approach has been used in a study by (Ugwu, 2018). Secondary data were collected for all the variables for the period 1996 - 2018; thus, the data were already in existence before the study was conducted. As the researcher has

little or no control over the data, the approach to the research is objective, and there is no room for data manipulation.

4.4 THEORY TESTING

In the post-positivist paradigm, observations are rooted in theory (O’Leary, 2006), and the aim is to test the theory. The extent to which a researcher is concerned with theory testing determines the research approach of the study (Saunders et al., 2009). There are two main research approaches, deductive and inductive approaches. The deductive approach involves the development of a theory and subjects the theory to testing (Zalaghi and Khazaei, 2016). It aims to verify or falsify the tested theory. On the other hand, the inductive approach allows the researcher to look for patterns through observation (Saunders et al., 2015), and then the researcher develops a theory from those patterns through hypotheses (Zalaghi and Khazaei, 2016). This study adopts a deductive approach to test the hypotheses that are based on the research questions, and the conceptual framework (refer to chapter 5). The theories that underpin the research and serve to explain the reasons why African countries may adopt IFRS are the new institutional theory, the information asymmetry theory, the signalling theory, and the eclectic theory. The theories are described in detail in chapter 5. The deductive approach is considered appropriate because the study seeks to test known concepts and theoretical patterns, rather than infer new patterns, and concepts from empirical data (Saunders et al., 2009; Bryman and Bell, 2015).

4.5 RESEARCH DESIGN

The main goal of this study is to assess the effect of IFRS adoption on FDI inflows and estimate the moderating effect of the institutional environment on the association between IFRS and FDI inflows. The study adopts a quantitative panel data analysis to explain the relationship between two variables more appropriately and recognises both time series and cross-sectional observations (Cresswell, 2014).

Quantitative research is specifically appropriate when collecting quantifiable measures of variables (Almeida et al., 2017). According to Cresswell (2014), a quantitative methodology may involve a researcher investigating a social or human problem by testing a theory composed

of variables or formulated hypotheses, using statistical methods. Furthermore, quantitative research seeks to develop relevant statements that describe the relationship of interest (Cresswell, 2014). The study addresses the relationship between variables and expresses this in terms of questions and hypotheses. The results of the quantitative analysis are then used to assess hypothetical-deductive generalities⁴.

4.6 RESEARCH SAMPLE

In selecting countries for the research, this study takes data availability or access to data sources for African countries into account. The study also proposes that there are diversities in the strategy of IFRS adoption across Africa. The present study focuses on 26 African countries purposively selected for specific reasons. First, the countries selected have a clear IFRS adoption status. This allows the study to identify the adopting and the non-adopting sample. The adoption status is found on the IFRS Foundation website and the Deloitte and PricewaterhouseCoopers websites. The same selection criteria have been followed in Nnadi and Soobaroyen's (2015) African study. Secondly, the study takes into account the availability of economic data for African countries on world-renowned resource databases. Countries that have all the economic data needed for the study are included in the sample. Third, the study considers countries with a colonial past that may have influenced their accounting systems and IFRS adoption status. Following Elad (2015), two main accounting systems emanating from the African colonial past (Anglo-Saxon and Franco-German) were considered in selecting the study sample. Lastly, according to the IFRS Foundation (2019), most African countries prescribing the OHADA system officially adopted IFRS on 1 January 2019. This group of countries make up the non-adopting sample, thus making 2018 the end period for the study. Table 4.1 below shows how the study arrived at adopting and non-adopting samples.

⁴ This is a proposed description of scientific method where scientific inquiry proceeds by formulating a hypothesis in a form that could conceivably be falsified by a test on observable data.

Table 4.1 Sample selection

Adopting sample	Number
Number of countries in Africa	54
-Removal of countries that have not fully mandated IFRS ⁵	<u>(36)</u>
	18
-Removal of countries without active stock exchanges	<u>(3)</u>
Adopting sample	<u>15</u>
Non-Adopting sample	
Countries that have not fully mandated IFRS	36
-Removal of counties that prohibit/permit/require	(13)
-Removal of non-compliant countries	(8)
Removal of countries using local GAAP but without an active stock exchange	<u>(4)</u>
Non-Adopting sample	<u>11</u>
Total sample (15 +11)	<u>26</u>

Source: Author's formulation

Data are collected from these 26 countries for the period from 1996 to 2018 (inclusive), relating to all the variables. This is a limitation of the present study as only 26 countries are included in this investigation; therefore, the results of the study cannot be generalised to other developing countries in Africa or on other continents. To avoid selection bias that might result in the study showing findings that do not reflect the reality of the African investment environment, the selected adopting countries are only those that have required all listed companies to apply IFRS in compiling financial statements. Therefore, six African countries that require IFRS for only some listed companies, and two that are permitted (have an option to use IFRS or local GAAP) are excluded. The same approach was employed by Owusu et al. (2017), who argue that, in order to account for the actual benefits of IFRS adoption and to avoid selection bias, only countries that have fully adopted IFRS and have made it mandatory for their firms should be used as sample countries. The non-adopting sample includes all countries that had not modified, converged, or permitted IFRS between 1996 and 2018 but only used their local GAAP. Various sources are consulted to select the final sample, such as the Reports on the Observance of the Standards and Codes, of the World Bank (World Bank, 2019), the IFRS Foundation database (IFRS Foundation, 2019), Deloitte (Deloitte, 2019) and

⁵ These are countries that only permit IFRS (IFRS in some form are permitted for all listed firms); prohibit (IFRS in any form are not allowed); converge (local GAAP have been converged with IFRS to create jurisdiction-specific IFRS), and modify (modified version of IFRS are required for all listed firms).

PricewaterhouseCoopers (PwC, 2019). To run the regression analyses, data are grouped into the pre-adoption period, from 1996 to 2004, and the post-adoption period from 2005 to 2018, representing the period during which countries adopted IFRS in different years. The year 2005 is chosen as the official IFRS adoption year because this was the year IFRS was mandated by the European Union (Nnadi and Soobaroyen, 2015). Table 4.2 below summarises the study sample.

Table 4.2 Study sample countries

Adopters			
Country	Stock exchange	Accounting standards	IFRS adoption year
Botswana	Botswana Stock Exchange	IFRS	2003
Ghana	Ghana Stock Exchange	IFRS	2007
Kenya	Nairobi Stock Exchange	IFRS	1999
Malawi	Malawi Stock Exchange	IFRS	2001
Namibia	Namibian Stock Exchange	IFRS	2005
Nigeria	Nigerian Stock exchange	IFRS	2012
Rwanda	Rwanda Stock Exchange	IFRS	2008
Sierra Leone	Sierra Leone Stock Exchange	IFRS	2006
South Africa	Johannesburg Stock Exchange	IFRS	2005
Tanzania	Dar es Salaam Stock Exchange	IFRS	2004
Uganda	Ugandan Stock Exchange	IFRS	1998
Zambia	Lusaka Securities Exchange	IFRS	2005
Zimbabwe	Zimbabwe Stock Exchange	IFRS	1996
Swaziland	Eswatini Stock Exchange	IFRS	2009
Mauritius	Stock Exchange of Mauritius	IFRS	2001
Non-Adopters			
Benin	Bourse Regionale des Valeurs Mobilières	OHADA	*
Bissau Guinea	Bourse Regionale des Valeurs Mobilières	OHADA	*

Adopters			
Country	Stock exchange	Accounting standards	IFRS adoption year
Cameroon	Doula Stock Exchange	OHADA	*
Chad	Bourse des Valeurs Mobilières de l'Afrique Centrale	OHADA	*
Equatorial Guinea	Bourse des Valeurs Mobilières de l'Afrique Centrale	OHADA	*
Gabon	Bourse des Valeurs Mobilières de l'Afrique Centrale	OHADA	*
Guinea	Bourse des Valeurs Mobilières de l'Afrique Centrale	OHADA	*
Mali	Bourse Regionale des Valeurs Mobilières	OHADA	*
Niger	Bourse Regionale des Valeurs Mobilières	OHADA	*
Senegal	Bourse Regionale des Valeurs Mobilières	OHADA	*
Togo	Bourse Regionale des Valeurs Mobilières	OHADA	*

Source: IFRS Foundation (2019); PwC (2019)

Note: * indicates that the country had not yet adopted IFRS during the study period.

The following section explains the data used in the study.

4.7 DATA

The panel data in the current study begins in 1996 and ends in 2018. Data for the world governance indicators used in creating the legal enforcement institutional variable are only available from 1996, establishing a benchmark year for the study. Moreover, the earliest country to adopt international accounting standards in Africa also adopted them in 1996. The year 2018 was the cut-off point for data collection since, at the time of the study, the most recent data for most of the study variables were available up to that year only. Therefore, the study has 23-year time-series data for 26 Sub-Saharan countries (adopting and non-adopting countries).

The study employs annual data obtained mainly from the World Bank World database. The study utilises the World Bank database for macroeconomic data (mostly control variables) and

governance indicators. The World Bank databases are globally recognised and used by most researchers in economics, finance, and accounting (Nnadi and Soobaroyen, 2015; Samaha and Khlif, 2016; Akpomi and Nnadi, 2017; Yeboah and Akacs, 2019; Akisik and Mangaliso, 2020). Data for IFRS status are obtained from the World Bank Reports on the Observance of Standards and Codes, iasplus.com, IFRS.org, PwC, the IFAC membership profile, and the African country's Professional Accountancy Organisation websites. Data on the countries' legal systems and language origins are sourced from the World Fact Book (World Factbook, 2020).

4.8 ESTIMATION PROCEDURE

The study employs the Systems General Method of Moments (SGMM) for Model 1 and Model 2, which are developed in chapter 5, to test Hypotheses 1, 2 and 3. This technique is appropriate for this study because the choice of the right-hand variables included in the models may raise many concerns. Institutional variables are popularly known to be externally determined, and there is a possibility that they will correlate with the error term. In addition, FDI inflows may affect a country's economic structure, such as GDP growth (Te Velde and UNCTAD, 2006). As such, the volume of FDI inflow into a country can affect a country's level of IFRS adoption (Ramanna and Sletten, 2014). These raise endogeneity and reverse causality concerns in the econometric model. A conventional approach to dealing with these problems is the application of instrumental variables in the estimation model. However, any candidate instrument must be such that it is highly correlated with the instrumented variable, but not with the error term. Such variables are difficult to find, especially for the kind of variables in this model that are plagued with multiple endogenous variables.

Given this limitation, this study employs the system type of the General Method of Moments (SGMM) estimation technique, which has been used in several studies on FDI inflows and IFRS (Asiedu, 2006; Omotoso et al., 2022; Owusu and Mohd Saat, 2017). The SGMM addresses endogeneity issues by using internally generated instruments, which have been noted to be more efficient (Blundell and Bond, 1998). The SGMM technique also includes reasonable stationarity restrictions on its initial condition process, providing additional moment conditions, unlike other dynamic estimation tools such as the Difference GMM. Moreover, the SGMM allows for the inclusion of time-invariant variables (Bandyopadhyay et al., 2014).

Since no well-established process assists in choosing the optimal instrument set before using the SGMM estimation, the blind use of instruments may lead to the problem of "many instruments." According to Roodman (2009), this problem is even more severe if the sample size has a relatively short horizon. Therefore, the Hansen (1982) test for overidentifying restrictions and the Arellano and Bond (1991) test for autocorrelation are used to ensure the validity of the instruments used in the study's estimations. The present study considers the lag of original values as instruments.

For robustness and an additional test, similar to Gordon et al. (2012), the study conducts a Difference-in-Difference (DiD) estimation to test Hypothesis 1. The DiD test is based on the difference in FDI inflows for IFRS adopters, after adopting IFRS, versus non-adopters of IFRS, compared to the difference in FDI inflows for IFRS adopters, before adopting IFRS, versus non-adopters. The technique is relevant to studies evaluating the effects of policies or programs instituted at a particular time. With this approach, IFRS adopters are used as the treatment group, and the non-adopters are used as the control group, to estimate the Average Treatment Effect of the standards (Bryson et al., 2002).

The DiD is widely used since it effectively controls unobserved variables and trends that may affect the outcomes of available data after an intervention (Ravallion and Chen, 2005). However, the validity of estimations largely depends on the strong assumption that trends would have been the same for the treatment and control groups, to make more accurate inferences in the DiD estimation. The study uses the bootstrapping of standard errors. The bootstrapping DiD is employed to avoid incorrectly concluding that IFRS impacted FDI inflows when it might not have had an effect at all. Moreover, problems arise when two groups display very divergent characteristics. As a result, if changes over time are a function of initial conditions that at the same time affect adoption, the DiD can be biased (Jalan and Ravallion, 1998). Therefore, for robustness, by applying the Kernel Propensity Score Matching DiD to match treated units with similar non-treated units on observational characteristics, and then applying the DiD on matched units, this problem can be overcome.

4.9 PRELIMINARY DATA CHECKS

The study deals with time-series data; thus, the data-generating process of the variables could affect the models. The starting point of analysis is to test the variables for unit root to determine the order of integration. If the variables are not in the same order, they may affect the performance of the models. Testing the stationarity of the results is important because the stationarity of a series can strongly influence the behaviour and properties of the series estimation. The use of non-stationary data can lead to spurious regression, where two variables trending over time could give high R^2 values. The regression of one variable affects the others, although the two variables do not have any connection (Brooks, 2014).

The literature contains several methods for testing for a unit root. To ensure the robustness of the study's results, the study employs the Levin-Lin-Chu (LLC) unit root test for variables that have balanced panels and the Im-Pesaran-Shin (IPS) test for variables that have unbalanced panels (Baltagi, 2013). The LLC is well suited for data sets with large numbers of panels and a few periods when N lies between 10 and 250 and T lies between 5 and 250 (Choi, 2001). This study has a T of 23 (1996 – 2018) and an N of 26, thus the suitability of the dataset.

Descriptive data analysis is applied, and the usual descriptive statistics such as the mean, median, maximum, and standard deviation are calculated. The descriptive statistics are used to provide basic information about the variables in the present study's dataset.

The study tests the strength of linear relationships amongst variables used in the models using a correlation matrix. This is done as a preliminary measure to determine any linear association among variables that may cause unstable estimations and inaccurate variances that can affect confidence intervals and hypothesis testing (Senaviratna and Cooray, 2019). The strength of the association between the independent variables is measured in terms of the level of correlation. The closer the correlation is to 1, the higher the strength of association and the higher the chances of a multicollinearity problem in the research model. Moreover, the further the correlation coefficient is from 1, the weaker the strength of the association and the smaller the multicollinearity problem. The association between the dependent variable and the independent variable is explained in terms of the direction and the strength of the relationship. Negative signs imply that the variables move in the opposite direction (negatively correlated),

and a positive sign means the variables move in the same direction (positively correlated). Therefore, to avoid any spurious findings, the study employs the Pearson Correlation Matrix to determine whether the models contain any affected variables to ensure that they are not evaluated together in the same model.

4.10 ROBUSTNESS CHECKS

The study conducts additional analyses in relation to Hypothesis 1 to ensure the effect of adoption on FDI inflows. First, the study tests whether the effects of IFRS adoption on FDI are significant between the pre-adoption and the post-adoption period for the adopting group. The Weighted Average Model is used to find the mean differences between pre-and post-adoption periods. The Weighted Average Model is used in preference to the standard average model because it considers the differences in the adoption years and time factors such as inflation and global disasters. These factors can cause differences between sample countries in terms of average flows. Therefore, to solve the issue of time and other unobserved factors that can affect the levels of investment flows between the pre-and post-adoption date, the study employs the Weighted Average Model to compare the flows between the two periods.

The t-test of means is then employed to test the significance of the means, following Duenya and Tsegba (2020). The t-test of means is conducted to determine whether statistical evidence shows that the associated population means are significant. The rule of thumb for a t-test is a sample size of 30 in order to get results that have statistical power. However, De Winter (2013) established that the t-test could be applied to small sample sizes. He concluded that there are no principle objections to using a t-test with small samples. Following Gu and Prah (2020), who used a t-test on a sample of 12 countries, the present study applies the t-test to a sample of 26 countries to show the FDI differences between early adopters and late adopters and between the pre-adoption period and the post-adoption period.

The study splits the adopting sample into early and late adopters to determine whether any improvements in comparability, transparency or accounting quality are due to IFRS adoption as required by law (late adopters) or simply the result of the signalling effect of early adoption (early adopters), as suggested by Daske et al. (2008). Following this line of enquiry, the study conducts additional analyses to test whether adoption is a way for firms to signal their quality

through the adoption of IFRS before the mandated time. The study again employs the Weighted Average Model to compare the differences in means between the pre-and post-adoption period between the early adopters and late adopters. The t-test of means is conducted to test the significance of the means.

Additional tests are carried out in terms of the SGMM estimates. The Hansen (1982) test for overidentifying restrictions and the Arellano and Bond (1991) test for autocorrelation are used to ensure the validity of the instruments used in the Systems General Method of Moments estimations. The Arellano-Bond test is employed in this study to test for serial correlation for GMM models. It is a test for correlation based on the residuals of the estimation. The computation is done with the standard covariance matrix of the coefficients by default. The null hypothesis is that there is no autocorrelation.

The Hansen (1982) test is employed to test for overidentifying restrictions implied by an overidentified model (Baum, 2009). To be overidentified means that the model has more instruments than it has regressors, resulting in the mis-specification of the model. The null hypothesis is that overidentifying restrictions are valid. Rejection of the null hypothesis can mean that the instruments are either correlated with the errors or omitted variables in the model (Davidson and Mackinnon, 2015).

In addition to these robustness and diagnostic checks, the study also applies the STATA command for robust standard errors. This is done to address the problem of errors that are not independent and are identically distributed.

4.11 ETHICAL CONSIDERATIONS

Ethical considerations are considered throughout this study. Since the benchmark model specification was adapted from the Gordon et al. (2012) study, the model developed by Gordon et al. (2012) is acknowledged throughout this study. In addition, all of the data used in this study are obtained from reputable secondary sources. As such, issues of confidentiality, privacy, potential harm to human subjects, and informed consent do not apply to this study. Approval to conduct the study, based on the Research Proposal, was obtained from the Rhodes University Faculty of Commerce Higher Degrees Committee in June 2019.

4.12 SUMMARY

This chapter provides an overview of the research methodology and design applying to this study. The study adopts a post-positivist approach and employs a quantitative method. The study uses a sample of 26 African countries, with data collected covering the period from 1996 to 2018. Data are obtained from internationally recognised databases such as the World Bank, the IFRS Foundation, the World Economic Forum, and the International Monetary Fund. Preliminary tests are described that are carried out using descriptive statistics and the Pearson Correlation method to obtain an initial profile of the data. The specified estimation procedure is referred to, with SGMM and DiD as estimation techniques that are used in the study. Post-estimation techniques such as the Hansen (1982) test for overidentifying restrictions and the Arellano and Bond (1991) test for autocorrelation are explained as robustness checks for the SGMM estimations.

The following chapter, Chapter 5, discusses the theories on which the research is based, the conceptual framework, the development of the econometric models, and the hypotheses.

CHAPTER 5

THE CONCEPTUAL FRAMEWORK AND HYPOTHESES

5.1 INTRODUCTION

In chapter 3, the analysis of the literature substantiated the choice of the variables to be tested in the study, and established the gap in the literature that this study addresses. Using these variables, the present chapter first discusses four theoretical perspectives that provide reasons why the African countries selected for the study would choose, or be induced to adopt IFRS in order to increase FDI inflows into the countries. The chapter then provides a diagrammatic illustration of the conceptual framework adopted for the study, indicating the variables and their inter-relationships, This diagram is accompanied by a brief explanation.

The econometric models used to test the hypotheses for the study are formulated and discussed. Based on these models, the hypotheses for the study are set out and linked to the often contradictory findings in literature, and the scarcity of studies dealing exclusively with African countries and the moderating role of the institutional environment.

5.2 THEORETICAL FRAMEWORK

The study uses four main theoretical perspectives to explain why African countries adopt IFRS, and to predict whether African countries that have adopted IFRS attract more FDI inflows. The institutional theory of isomorphism and the signalling theory assist in understanding the driving force behind the adoption of IFRS by African countries, which intend to establish the legitimacy of their financial reporting. The information asymmetry and the OLI paradigm assist in understanding the benefits that accrue to the investing community of a country that adopts IFRS.

5.2.1 The New Institutional Theory and Isomorphism

The primary assumption of the new institutional theory is that all social actors seek legitimacy and reinvent legitimacy norms within the institutional environment, since any deviations from these norms will attract criticism, and therefore, institutional constraints will converge to create isomorphism, or similar structures, thoughts, or actions within a defined environment (Judge

et al., 2010; Hassan, 2014). It is suggested that legitimacy theory explains how different organisations or countries are challenged to follow actions that adhere to the norms and expectations within their respective environment. Pricope (2015) investigates factors that explain IFRS adoption by impoverished jurisdictions characterised by weak regulatory frameworks, drawing upon the institutional isomorphism theory. The study establishes empirically that impoverished jurisdictions are driven by legitimacy concerns to adopt an international accounting perspective, and that countries may align their regulatory practices and accounting standards with international accounting practices existing within or outside their countries.

DiMaggio and Powell (1983) identify two forms of isomorphism: structural and competitive isomorphism. Structural isomorphism is described by Hannan and Freeman (1977) as isomorphism that occurs by encouraging organisations to resemble structures utilised by others, even if the structure adopted may not improve the performance or efficiency of that particular organisation. Competitive isomorphism happens due to competitive forces. DiMaggio and Powell (1983) explain that whenever there is one established practice of doing something, competition will create a situation where competing institutions adopt the best-established practice to stay competitive. Institutional isomorphism therefore arises due to institutional pressures from similar organisations imposing pressure on other organisations to adopt the same practices. DiMaggio and Powell (1983) suggest that competitive isomorphism must be supplemented by the three forms of institutional isomorphism, which are coercive, mimetic and normative isomorphism, through which isomorphic change can occur.

5.2.1.1 Coercive Isomorphism

Di Maggio and Powell (1983) argue that coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent, and by cultural expectations within societies in which these organisations function. These pressures may manifest as persuasion or invitations to adopt certain practices. DiMaggio and Powell (1983) also note that in cases where alternative practices are either not readily available or require effort to locate, the stronger party to a transaction can coerce the weaker party to adopt its practices to accommodate the stronger party's needs. In other words, the rationale underlying these institutional influences is primarily financial dependence.

Boolaky et al. (2020) explain that nations, like organisations, can be pressured to conform to international standards due to coercive institutions outside the country. The authors argue that when the country's economy is relatively small and poor, it may become more dependent on financial aid, coupled with demands to conform to international standards, than when relatively large and wealthy. Similarly, Hopper et al. (2017) identify the need for financial aid as one of the mechanisms most often used by international non-governmental organizations to coerce change within a nation's economy. The authors explain how after independence, most African countries were left at the mercy of transnational organisations like the United Nations, the World Bank or the IMF, and their former colonial masters. These organisations provided financial aid to African countries in need, while recommending that reforms are instituted in the public and private sectors. Boolaky et al. (2020) state that these recommendations were often tied to demands such as the mandatory adoption of IFRS.

Wolf (2004) emphasises that the IMF and the World Trade Organisation are among the leading agents of neoliberalism, promoting globalisation through the integration of markets for goods and services and the integration of international markets. Wolf (2004) explains that one of the motivations behind the World Bank's and the IMF's promotion of market integration is to encourage trade among nations, ease the movement of capital across countries, and facilitate the growth of income due to increased national productivity. Similarly, Sachs and Warner (1995) highlight that one of the motivations behind the promotion of IFRS adoption by African countries is the belief that the adoption will result in improved capital flows.

In addition, international financiers such as the World Bank and the IMF believe that the accounting profession and the adoption of international standards and codes can play a central role in facilitating the development of a democratically governed society by promoting good governance, transparency and public accountability within its market-oriented reform programme (Elad, 2015; Boolaky et al., 2020). Furthermore, the World Bank, in support of IFRS, has noted in its agenda that effective corporate governance requires institutions to produce accurate and reliable financial information for stakeholders (Judge et al., 2010).

5.2.1.2 Mimetic Isomorphism

Di Maggio and Powell (1983) state that mimetic isomorphism occurs when organisations in countries without well-defined national rules and practices import institutionalised rules and practices from other nations. They argue that organisations tend to model themselves after similar organisations in their fields that they perceive to be legitimate or successful. They also assert that the organisations on which they are modelled may be unaware of the modelling or may have no desire to be copied; it merely serves as a convenient source of practices that the borrowing organisation may use. Mimetic isomorphism is therefore driven by uncertainty.

Mimetic isomorphism usually arises from replicating practices across nations, where there is a tendency to emulate what more successful countries have done to secure benefits and social acceptance (Nurunnabi, 2015). DiMaggio and Powell (1983, pp. 151-152) explain: “When organisational rules and practices are poorly understood, when goals are ambiguous or when the environment creates symbolic uncertainty, organisations may model themselves on other organisations.”

Lungu et al. (2017) state that the desire to attract foreign investment is likely to create a demand for better quality reporting by domestic entities. The authors further suggest that a higher level of foreign investment leads to greater economic coherence at a national level. It appears that this enables domestic entities to imitate what they perceive to be the minimum expectations in order to become a member of the global marketplace. For example, African countries belong to regional trading blocs like the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), or the Economic Community of West African States (ECOWAS), whose members also subscribe to IFRS. It is assumed that this would influence the adoption of IFRS by other African countries. Furthermore, it can be contended that colonial ties between most African countries and their former colonists also result in mimetic isomorphism. In the context of international harmonisation of accounting standards, Chua and Taylor (2008) explain that mimetic isomorphism has resulted in standardisation through efficient copying behaviour.

5.2.1.3 Normative Isomorphism

Hassan et al. (2014) explain that normative isomorphism refers to the role and influence of professionalisation processes led by local bodies and institutions (such as universities) that establish the requirements for a qualified accountant. DiMaggio and Powell (1983) identify two aspects of professionalisation as essential sources of isomorphism. The first is the resting of formal education and legitimation in the cognitive base produced by universities and professional bodies like the Association of Chartered Certified Accountants, the South African Institute of Chartered Accountants, and the Chartered Institute of Management Accountants. The authors state that the second occurs when universities and professional training institutions are indispensable centres for developing organisational norms among professional managers and their staff.

Hassan (2008), in his studies, provides evidence of how normative pressures from educational institutions and international accounting firms have influenced countries to move from domestic standards to IFRS. Similarly, Albu et al. (2011) and Irvine (2008) show how accounting firms act as agents of IFRS professionalisation. Albu et al. (2011) argue that large international accounting firms like the "Big Four" have contributed to the adoption of IFRS in African jurisdictions. Their influence is based on establishing IFRS, on the one hand, and its implementation on the other. In other words, adopting IFRS is instrumental in developing the accountancy profession within African jurisdictions, which is associated with normative pressure.

Greenwood et al. (2002) explain that institutions such as IFAC, the Association of Accountancy Bodies in West Africa and the Pan African Federation of Accountants have been recognised as major contributors to the normative accounting discourse. The authors further note that most African countries that have adopted IFRS are members of IFAC, whose objective is to monitor the adoption and implementation of IFRS within a jurisdiction. The implication is that these countries have accepted IFAC's "Statement of Membership Obligation" to adopt IFRS for financial reporting in member countries. Greenwood et al. (2002) emphasise that this requirement creates an institutional obligation for its members to adopt IFRS, thus reinforcing the norms of global accounting practices amongst its members.

5.2.1.4 Relevance of the New Institutional Theory in African Accounting Studies

Institutional theory has considerable explanatory powers, broader than the neoclassical models, for understanding the African accounting and institutional infrastructure after independence, by recognising social structures that affect human behaviour (Alawattage and Azure, 2019; Lassou et al., 2020). Lassou et al. (2020) further describe the neoclassical models as theories that assume that demand and supply affect a country's institutions, while institutionalists assume that social structures are essential in changing institutions. Therefore, following the assumptions of the institutionalists, the conceptual basis for the analysis in the present study must be grounded in a broader sociological framework. According to Berger and Luckmann (1967), institutions always have a history of which they are the products. Therefore, it is impossible to understand an institution adequately without understanding the historical process which created it.

African countries are classified by the World Bank (2022: Online) as developing economies. According to Elad (2015) most African states were under the control of their colonial masters during the colonisation period, which meant that the coloniser developed their policies and regulations. Elad (2015) further asserts that most African states were left with weak institutional frameworks and less developed capital markets after independence. Similarly, Boolaky et al. (2020) explain that African countries became dependent on international financial institutions and former colonisers' financial aid. To understand the relevance and effects of IFRS adoption in African countries, which is a standard developed in the Western world, the political and economic impact of the colonial era should therefore be taken into account.

Several studies (Albu et al., 2011; Owusu and Mohd Saat, 2017) have used the new institutional theory to explain certain social phenomena, and the adoption and implementation of International Accounting Standards, in particular. These phenomena include differences in institutional quality that account for differences in levels of FDI inflows (Owusu and Mohd Saat, 2017). The activities of professional accounting bodies, accounting regulators, government agencies, and broader social values create an environment that generates pressures to develop the country's accounting practices (Boolaky et al., 2018), determine how developing countries face pressures to adopt IFRS from international financiers and colonial masters (Boolaky et al., 2020), how differences in legal institutions account for differences in the

governance system, market development, and economic growth (La Porta et al., 2008), and how differences in economic institutions lead to divergent accounting practices among countries (Nobes, 1998).

Another strand of studies provides evidence of the pressures developing countries face to adopt international accounting standards and how Western prescriptions do not consider the different institutional environments in these countries. Kimani et al. (2020) show how the principle-based accounting practices based on Western practices prompted by the World Bank, the IMF, and other Western agencies, proved inappropriate in Kenya because most firms have concentrated family ownership. Mir (2005) investigates the adoption of IFRS in Bangladesh, using institutional theory as a theoretical lens to explore the IFRS adoption process. The author finds evidence that institutional legitimisation was the major factor influencing IFRS adoption. Mir (2005) concludes that the adoption of IFRS by Bangladesh was due to pressure exercised by key international financial lending institutions to provide foreign investors with highly credible financial information. Similarly, Al-Omari (2010) applies an institutional approach to IFRS adoption in the Jordanian context and identifies that key lenders such as the World Bank and foreign investors represent the significant coercive pressures that led to IFRS adoption in Jordan.

Meyer and Rowan (1977) contend that the problem often associated with isomorphism is that institutions searching for external support and stability may adopt incompatible structural elements that could negatively impact their efficiency. Meyer and Rowan (1977) explain that even though isomorphism creates legitimacy and stability, or assurance in terms of uncertainty, or may help firms compete against well-established ones, it is often criticised for lacking logic. Rodrigues and Craig (2007) state that it is imperative to obtain legitimacy and social acceptability from external sources, but argue that the disadvantage is that governments may accept potentially unsuitable practices inherent in some standards.

Therefore, literature has shown that institutional theory helps to understand the driving force behind adopting IFRS in Africa. There is a need for more studies that utilise the institutional approach to investigate how the institutional environment moderates the effect of IFRS on FDI inflows, after a country has adopted international accounting standards. The findings from studies of African countries will further reaffirm the role of institutional theory by identifying

institutional factors that significantly influence the flow of FDI into African countries, after adopting IFRS.

5.2.2 The Information Asymmetry Theory

Nejad et al. (2020) define information asymmetry as a situation where some stakeholders have access to more information than others. Thus, information asymmetry results in three fundamental problems in the capital market: adverse selection, moral hazard, and monitoring cost (Yildiz, 2021). Theoretically, studies have focused on three reasons why quality information reduces information asymmetry: changing the behaviour of uninformed investors, reducing the incentive to search for private information, and reducing information risk (Van Nieuwerburgh and Veldkamp, 2010; Abad et al., 2018b; Nejad et al., 2018).

The presence of information asymmetry increases the investment risk for the uninformed investor. In addition, information asymmetry reduces the quality of accounting information presented to external users (Cascino and Gassen, 2015). Furthermore, studies have shown that high levels of information asymmetry influence investors' decisions, since it results in high information processing costs, leading to higher adverse selection risk for foreign investors (Abad et al., 2018; Van Nieuwerburgh and Veldkamp, 2010). Proponents of the international accounting standards argue that IFRS reduces information asymmetry by providing quality financial information for investment decisions (Abad et al., 2018; Nejad et al., 2018).

In addition, Barth et al. (2018) and Chauhan and Kumar (2019) establish that IFRS adoption results in greater information comparability and a better quality of financial reporting information. The lack of comparability and transparency in financial statements is mainly a result of differences in national accounting standards (Owusu and Mohd Saat, 2017). Differences in national accounting standards increase information acquisition and processing costs, which results in lower cross-border investments. Yildiz (2021) emphasises that foreign investors are at a disadvantage compared to local investors regarding information processing and acquisition costs. Therefore, to alleviate this disadvantageous position, foreign investors tend to invest in firms providing outsiders with a higher quality of corporate information (Kang and Stulz, 1997).

One of the objectives of the IASB's international financial reporting standards is to provide investors with transparent and comparable information across nations to enable informed decisions and promote cross-border investments (IASB, 2010). Moreover, comparable and transparent information can reduce the investor's information processing and acquisition costs (Ugwu and Okoye, 2018; Yildiz, 2021; Omotoso et al., 2022). Amiram (2012) emphasises that adopting IFRS replaces unfamiliar local country standards with a single set of accounting standards, allowing foreign investors to assess foreign firms and markets at a lower cost. This view is supported by DeFond et al. (2011) and Abad et al. (2018). The authors establish that an increase in cross-border investment after IFRS adoption is directly attributable to the reduced information acquisition costs resulting from improvements in the comparability of financial statements. Similarly, Abad et al. (2018) note that, if implemented, IFRS adoption reduces barriers to entry for foreign investors by lowering information acquisition costs, thereby making it less costly to analyse financial statements. From this perspective, Hopper et al. (2017) acknowledge that accounting becomes an instrument and an object of globalisation. The authors explain that a uniform accounting standard can improve financial statement comparability, enabling capital markets to attract investors from across the globe.

Adopting global uniform accounting standards is expected to reduce information asymmetry (Abad et al., 2018). Abad et al. (2018) state that the transparency and comparability of financial information disclosed under IFRS serve as an incentive for foreign investors to increase their investment in countries.

5.2.3 Signalling Theory

The signalling theory was developed by Spence (1978) to explain behaviour in the labour markets (Watts and Zimmerman, 1986). However, Morris (1987) explains that signalling is a general phenomenon applicable in any market with information asymmetry. Morris explains that signalling theory ensures that relevant information is passed on to the stock market. It is submitted that using signalling, organisations can use financial reports to signal their expectations to foreign investors. This implies that countries adopting IFRS signal to foreign investors that companies in their jurisdictions are willing to disclose the relevant information based on international standards.

Pricope (2017) explains that signalling theory implies that management uses financial statements to signal their expectations to investors to enable them to make effective decisions. Moreover, adopting IFRS should increase investors' confidence in the financial statements. It can be speculated that as countries adopt IFRS, they become attractive FDI destinations because IFRS creates confidence and assurance regarding financial information disclosure. Hlel et al. (2020), using signalling theory, emphasise that adopting and implementing IFRS can be viewed as a positive signal of greater quality and the transparency of financial reports disclosed in a particular country.

Mhedhbi and Zeghal (2016) indicate that the adoption of IFRS signals to national and international investors about decisions taken by national regulators to ensure the appropriate functioning of their capital markets. They conclude that there is an improvement in the quality of financial information provided by listed companies after adopting and implementing IFRS due to a reduction in information asymmetry. The adoption of IFRS by African countries could therefore increase financial information reliability and signal the reduction of information asymmetry between the users of accounting information, resulting in increased FDI inflows. This implies that IFRS adoption encourages investors to have more trust in the country's capital market due to the reduced information asymmetry. Thus, signalling theory is used in the present study to explain the rationale for the adoption of IFRS and the relationship between IFRS and FDI inflows.

5.2.4 The Eclectic Theory

Nobel Laureate John Dunning propounded the Ownership, Location, and Internalisation (OLI) paradigm (or Eclectic Paradigm) in 1976, which provides a framework for understanding foreign investment activities. The Eclectic Paradigm explains the ownership, location, and internalisation advantages of promoting FDI (Dunning, 1993). According to this paradigm, a country needs all three advantages to attract FDI inflows successfully. Duenya and Tsegba (2020) explain that ownership and internalisation advantages refer to a country or company's competitive advantage in attracting FDI inflows. The advantages include access to assets that generate income for the host country.

Location advantages refer to the host country's business environment, from which firms may benefit in their operational and productive activities (Siriopoulos et al., 2021). The environment

includes institutional settings such as political stability and the rule of law (Globerman and Shapiro, 2003). Location advantage explains that where firms choose to locate is based on factors such as customer access, inflation, exchange rates, government regulations, and institutional and political stability (Bevan et al., 2004).

The OLI framework has been employed in several FDI and IFRS studies. For example, Gordon et al. (2012) employ the OLI framework in their study and find that a country characterised by favourable Gross Domestic Product (GDP) growth, a low wage and inflation rate, a stable exchange rate, quality government infrastructures, a sound regulatory environment, a low risk profile, favourable long-term interest rates, and openness to trade, has a location advantage when compared to other countries that are not so characterised. The authors emphasise that excellent economic conditions are a location advantage for a country. These variables are therefore included in this study.

Investors therefore need a conducive business environment in order to be willing to take a risk. The first concern, it is submitted, is the quality of the host country's institutions. Quality institutions may promote economic relationships in terms of trade and investments as they guarantee a familiar and secure market environment (Akinola, 2009; Buchanan et al., 2012). In the same manner, institutions of host countries influence the flow of investments (Meyer, 2004), as FDI inflows depend on the institutional quality of host countries (Slangen and Van Tulder, 2009). Common governance principles such as international accounting standards create a familiar environment, one pre-condition for investments. Although the OLI framework does not refer to international accounting standards as a specific example, Dunning's (2004; 2008) works highlight the importance of the institutional environment. Therefore, accounting standards, including IFRS, qualify as a component of a nation's institutional environment (Chen and Yu, 2011). Investors need understandable financial information to make decisions, and IFRS provides a common accounting language among countries that reduces the information cost (Siriopoulos et al., 2021). Investors are more likely to be attracted to locations with high accounting information quality. This is because providing quality accounting information reflects a country's corporate transparency (Owusu and Mohd Saat, 2017). Since countries with highly transparent financial information are preferred as destinations by foreign investors, adopting IFRS should enhance the locational attractiveness of the country (Gelos and Wei, 2005).

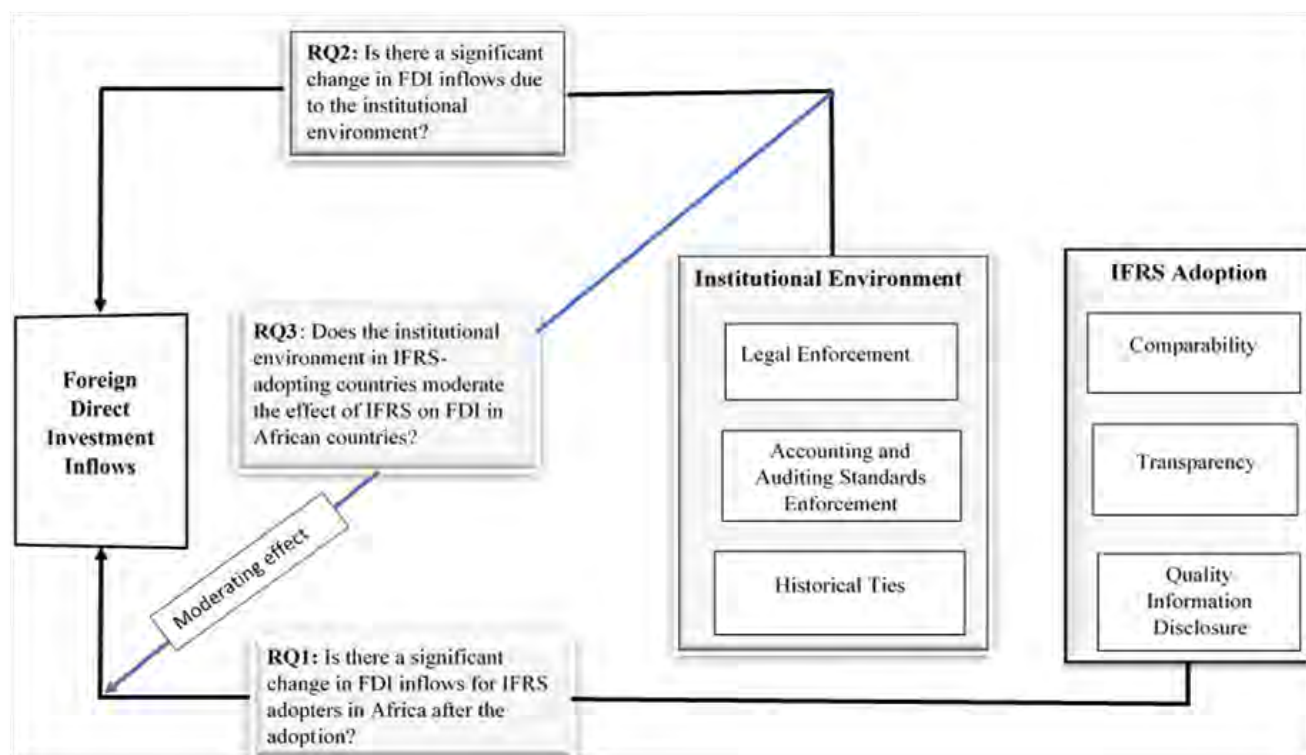
Although the common belief is that IFRS enhances the location advantages for adopting countries, studies such as those by Efiobi et al. (2014) and Nnadi and Soobaroyen (2015) provide contradictory evidence in relation to African countries. They indicate that the institutional environment is more critical than IFRS for attracting FDI inflows into African countries. The two studies highlight that the primary role of institutions is to provide a location advantage to attract foreign investment. Thus, the decision to adopt IFRS and the changes in accounting and disclosure systems should be accompanied by improvements in the country's institutions (Amiraslani et al., 2013). Several studies have identified different institutional factors, including the adoption of IFRS, as a determinant of FDI inflows (Chen and Yu, 2011; Chen et al., 2015; Owusu and Mohd Saat, 2017), but these studies did not determine which set of institutional factors after the adoption of IFRS can best support FDI inflows in different jurisdictions. It is, therefore, appropriate to investigate whether the presence of a strong or weak institutional environment is another possible determinant of FDI inflows. The expectation is that institutional factors such as legal enforcement, accounting standards enforcement, and historical ties create an institutional environment that can directly affect or moderate the flow of FDI after adopting IFRS.

Having discussed the theories that help to explain why the selected African countries adopted IFRS, the following section describes the conceptual framework on which the study is based.

5.3 THE CONCEPTUAL FRAMEWORK

The concepts used in this study are IFRS adoption, FDI inflows, and the institutional environment. It is conceptualised that countries adopt IFRS to be recognised as legitimate investment destinations on global markets. The adoption of IFRS is assumed to enable the countries to increase the transparency, comparability and disclosure quality of their financial reports, provide quality financial information and reduce information asymmetry between firm insiders and outsiders, thereby signalling to investors their ability to disclose quality financial information. FDI inflows are assumed to be attracted to a country by the effect of IFRS adoption in reducing information acquisition and processing costs. It is also assumed that the quality of institutions in IFRS adopting countries, measured in terms of legal enforcement, accounting standards enforcement, and historical ties, may create a location advantage by creating a conducive business environment for domestic and foreign investors.

Figure 5.1 The Conceptual Framework



Source: Author's formulation

The framework assumes that in answering research question 1 (RQ1), IFRS adoption, which promotes the comparability, transparency and quality of financial information, significantly affects FDI. Research question 2 (RQ2) assumes that the institutional environment, characterised by the effectiveness of legal and auditing and accounting enforcement, and historical ties, has a significant effect on FDI. The framework assumes, in answering research question 3 (RQ3), that the institutional environment has a moderating effect on the nexus between IFRS adoption and FDI inflows.

Based on this conceptual framework, the following section develops the models used to explain these relationships.

5.4 MODEL SPECIFICATION

The panel data employed in this study are analysed using an extended model, based on the model developed by Gordon et al. (2012). The first model (Gordon et al. 2012) serves as the benchmark model. The benchmark model includes independent variables identified in literature as determinants of FDI inflows. The first five independent variables in the model are

related to economic factors and include the GDP growth rate (with the symbol GDP), the exchange rate (EXCH), the real interest rate (IRR), stock market capitalisation (STMC), and inflation (INFL). The following four independent variables relate to institutional indicators deemed to attract FDI inflows (Gordon et al., 2012) and include: control of corruption (COC), regulatory quality (REQ), voice and accountability (VOICE), and the rule of law (ROL). The last two variables of the model represent the country and year. The dependent variable, FDI, represents the total FDI as a percentage of GDP. For all equations in this study, subscript i represents the i^{th} country, and subscript t represents the time period.

The Benchmark Model is the model of Gordon et al (2012):

$$FDI_{i,t} = \beta_0 + \beta_1 GDP_{i,t-1} + \beta_2 STMC_{i,t-1} + \beta_3 INFL_{i,t-1} + \beta_4 EXCH_{i,t-1} + \beta_5 INTR_{i,t-1} + \beta_6 COC_{i,t-1} \\ + \beta_7 VOICE_{i,t-1} + \beta_8 REQ_{i,t-1} + \beta_9 ROL_{i,t-1} + \sum \alpha_t * YEAR_t + \sum \Phi_i * COUNTRY_i + \epsilon_{i,t}$$

The first contribution the present study makes is extending the benchmark Gordon et al. (2012) model by adding an additional variable, IFRS adoption (ADOPT), to capture the direct effect of IFRS on FDI, whilst controlling for the other covariates. Second, the study replaces the institutional variables from Gordon's (2012) model by creating variables that capture the enforcement of auditing and accounting standards (AS_ENF), legal enforcement (LEG_ENF), and the colonial history of the African continent. The study uses four governance indicators in Gordon's (2012) model to create one variable that captures legal enforcement. The study averages the indicator values on voice and accountability, control of corruption, regulatory quality, and the rule of law, to create the variable legal enforcement (LEG_ENF), following Kurauone et al. (2021). In addition, the study extends the model by including two variables that capture the colonial history of African counties through historical ties: language origin (LAN) and legal tradition (LEG). As explained in the literature review in Chapters 2 and 3, the colonial legacy of African countries is an essential institutional factor that should be considered. Third, the study creates interaction variables that capture the indirect effect of the institutional environment on the association between IFRS and FDI inflows. All the variables are discussed in detail in section 5.4.1.

The first Model below is the basis for testing Hypotheses 1 (H_1) and Hypothesis 2 (H_2), associated with the first and second research questions. Model 1 is built from the following initial equation:

$$FDI = f(IFRS + IQ + Z)$$

This implies that FDI is influenced by the adoption of IFRS, the presence of a quality institutional environment (IQ), and other economic and country factors (Z). From the above equation, the Model is extended as follows:

Model 1

$$\begin{aligned} FDI_{i,t-1} = & \beta_0 + \beta_1 ADOPT_{i,t-1} + \beta_2 ISTMC_{i,t-1} + \beta_3 INFL_{i,t-1} + \beta_4 IEXCH_{i,t-1} + \beta_5 IRR_{i,t-1} + \beta_6 GDPG_{i,t-1} \\ & + \beta_7 LEG_{i,t-1} + \beta_8 LAN_{i,t-1} + \beta_9 LEG_ENF_{i,t-1} + \beta_{10} AS_ENF_{i,t-1} + \sum_{at} YEAR_{t-1} \\ & + \sum \Phi_i * COUNTRY_{i+\epsilon_{i,t}} \end{aligned}$$

Model 1 is used to test Hypothesis 1 and Hypotheses 2a, 2b, 2c and 2d.

The second research question (RQ2) seeks to determine whether the institutional environment is a determinant of FDI. Using the institutional variables created for this study, the benchmark model of Gordon et al. (2012) is extended to test Hypotheses 2a, 2b, 2c, and 2d using both the adopting and non-adopting samples. However, Globberman and Shapiro (2003) and Buchanan et al. (2012) suggest institutional indicators are highly correlated with each other, and thus it is quite difficult to use them in a single regression equation. As a result, the present study follows Sabir et al. (2019) and includes institutional factors one by one. Models 1a, 1b, 1c and 1d are used to test Hypotheses 2a, 2b, 2c, and 2d.

Model 1a - 1d

$$\begin{aligned} FDI_{i,t-1} = & \beta_0 + \beta_1 ADOPT_{i,t-1} + \beta_2 ISTMC_{i,t-1} + \beta_3 INFL_{i,t-1} + \beta_4 IEXCH_{i,t-1} + \beta_5 IRR_{i,t-1} + \beta_6 GDPG_{i,t-1} \\ & + \beta_7 Institutional factor_{i,t-1} + \sum_{at} YEAR_{t-1} + \sum \Phi_i * COUNTRY_{i+\epsilon_{i,t}} \end{aligned}$$

Research question three (RQ3) examines the moderating role of institutional factors on the effect of IFRS adoption on FDI inflows. This model uses the adopting sample and extends Model 1 by including an interaction term between institutional factors and IFRS adoption. The interactive term is the multiplicative variable between IFRS adoption and institutional factors. Agyei-Boapeah et al. (2020) have also used interaction terms in their study to capture the

indirect effect of institutional factors on firm value. The interaction terms test whether the institutional environment affects the extent to which IFRS adoption influences FDI inflows. However, as explained in relation to Hypothesis 2, the institutional factors used in creating the interaction terms are likely to be highly correlated. Thus, each interactive term will be tested using an individual regression equation. Models 2a, 2b, 2c, and 2d for testing Hypotheses 3a, 3b, 3c, and 3d are stated as follows:

Model 2a - 2d

$$FDI_{i,t} = \beta_0 + \beta_1 ADOPT_{i,t-1} * Institutional factor_{i,t-1} + \beta_2 GDPG_{i,t-1} + \beta_3 INFL_{i,t-1} + \beta_4 ISTMC_{i,t-1} + \\ B5IEXCH_{i,t-1} \beta_6 IRR_{i,t-1} + \sum \alpha_t * YEAR_t + \sum \Phi_i * COUNTRY_i + \epsilon_{i,t}$$

Table 5.1 below provides a detailed description of the variables used in this study and the data sources.

Table 5.1 Variable measurement and description

Variables	Measurement	Data source
FDI	$\frac{FDI}{GDP}$; where FDI is scaled by GDP and the FDI flow is the total equity capital, reinvestment of earnings, and other short- or long-term capital deflated by GDP.	World Bank, World Development Indicator database, 2019: https://databank.worldbank.org/source/world-development-indicators
ADOPT	Binary variable ranging from 0 to 1; equal to 1 if a country has adopted IFRS and 0 otherwise. Adopt means full adoption of IFRS as prescribed by the IASB.	IFRS Foundation: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/
IRR	The IRR is an interest rate that has been adjusted to remove the effects of inflation. It reflects the real yield for an investor. It represents a market factor that attracts FDI.	World Bank, World Development Indicator database, 2019: https://databank.worldbank.org/source/world-development-indicators
GDPG	The annual percentage growth rate of GDP at market prices using a constant local currency. This represents a market factor that attracts FDI.	World Bank, World Development Indicator database, 2019: https://databank.worldbank.org/source/world-development-indicators
ISTMC	$\frac{ISTMC}{GDP}$; is the natural log of stock market capitalisation. ISTMC is equal to the value of listed domestic shares divided by GDP. This represents a financial market development factor that attracts FDI.	World Bank, World Development Indicator database, 2019: https://databank.worldbank.org/source/world-development-indicators
IEXCH	IEXCH is the natural log of the actual, principal exchange rate, and is measured as local currency units relative to U.S. dollars. Exchange rate refers to the rate determined by national authorities, or the rate determined in the legally sanctioned exchange market. It is calculated as an annual average based on monthly averages (local currency units relative to the US Dollar). This represents a market factor that attracts FDI.	World Bank, World Development Indicator database, 2019: https://databank.worldbank.org/source/world-development-indicators

INFL	$CPI = \frac{\text{Cost of market basket in given year}}{\text{cost of market basket in base year}} \times 100$ It is measured as the weighted average prices of a basket of consumer goods and services. This represents a market factor that attracts FDI.	World Bank, World Development Indicator database, 2019: https://databank.worldbank.org/source/world-development-indicators
LEG_ENF	This is measured as the average of four governance indicators: the rule of law, control of corruption, voice and accountability, and regulatory quality. It is measured on a scale of 1 to 10, with 1 indicating the weakest and 10 indicating the strongest legal enforcement. This represents an institutional factor that attracts FDI.	World Bank, World Development Indicator database, 2019: https://databank.worldbank.org/source/world-development-indicators
AS_ENF	This variable measures the strength of financial auditing and reporting standards in a given country, compared with other countries in the same sample. It is measured on a scale of 1 to 7, with 1 indicating the lowest strength of Accounting and Reporting Standards and 7 indicating the highest SARS. This represents an institutional factor that attracts FDI.	World Bank, World Development Indicator database, 2017: https://govdata360.worldbank.org/indicators/h1a88ca92?indicator=694&viz=line_chart&years=2007,2017
LEG	Legal origin is a binary variable that takes the value 1 if a country has a common law system and zero otherwise. This represents an institutional factor that attracts FDI.	World Fact Book 2019: https://www.cia.gov/the-world-factbook/field/legal-system/
LAN	Language origin is a binary variable that takes the value 1 if a country has an Anglophone language and zero otherwise. This represents an institutional factor that attracts FDI.	World Fact Book 2019: https://www.cia.gov/the-world-factbook/field/legal-system/
Inst_quality	Institutional quality is a composite variable consisting of legal enforcement, accounting standard enforcement and historical ties (legal origin and language origin). It measures the overall quality of a country's institutional environment.	The variable is created using Principal Component Analysis in STATA.

Source: Author's formulation, based on literature

5.4.1 Definition and Measurement of Variables

The study uses Foreign Direct Investment Inflows as a percentage of GDP, denoted as FDI, as the dependent variable. IFRS adoption is the main explanatory variable, a dummy variable that takes on the value of one for IFRS adopters or post-adoption period and zeroes otherwise. There are four moderating variables: legal enforcement, which will be a proxy for shareholder and creditors' rights, denoted by LEGAL_ENFORCE. Accounting standards enforcement is a proxy for auditing and accounting regulation and compliance, denoted by AS_ENFORCE. Legal origin is a binary variable that takes the value one if a common law system applies in a country and zero otherwise, denoted by LEG. Language origin is a binary variable that takes the value one if a country is an Anglo-Saxon country or zero otherwise, denoted by LAN. The study employs five control variables: GDP growth (GDPG); inflation (INFL); the real interest rate (IRR); and stock market capitalisation (ISTMC) and the currency exchange rate (IEXCH) (refer to Table 5.1 above for a comprehensive list and sources for each of the variables).

5.4.1.1 Foreign Direct Investment Inflows

Many accounting and finance studies have employed FDI to measure the level of a country's economic growth (Beneish et al., 2015; Nnadi and Soobaroyen, 2015; Lungu et al., 2017; Owusu-Nantwi, 2019). FDI inflows are the value of inward direct investment made by foreign investors into the reporting economy. Although the countries used in this study are all developing countries in Africa, there is a lack of homogeneity in terms of size, population and economic potential. To ensure comparability of data, the study uses total FDI inflows deflated by the country's GDP to proxy the FDI inflows variable. This measure has been employed by past studies such as that of Beneish et al. (2015).

5.4.1.2 IFRS Adoption

The primary explanatory variable is IFRS adoption. ADOPT is a binary variable that takes the value of one from the year a country has adopted IFRS and zero otherwise. This study takes into account that different countries adopted IFRS on different dates. The IFRS adoption date is the date the country specifically adopted and implemented IFRS. Gordon et al. (2012); Lungu et al. (2017); Nejad et al. (2018) and Omotoso and Schutte (2020) employed the dummy variable to measure IFRS in their studies. Thus, this study adopts the same approach to achieve the first objective. Furthermore, the study splits the adopting sample into early adopters and

late adopters, following Daske et al. (2008). Early adopters are countries that adopted IFRS between 1996 and 2005, and late adopters are those that adopted IFRS from 2006 to 2018.

5.4.1.3 Moderating Variables

The study employs the variables legal enforcement, accounting and auditing enforcement, and historical ties as proxies for the institutional environment. In addressing research question two of the research, the institutional variables are used to determine the effect of the institutional environment on FDI inflows. In addressing research question three, the variables are used to determine the moderating effect of the institutional environment on the relationship between IFRS and FDI. Two composite variables are created (historical and institutional quality) using Principal Component Analysis (PCA).

Legal enforcement

The proxy for legal enforcement (LEG_ENF) is the average of four governance indicators: the rule of law, control of corruption, voice and accountability, and regulatory quality. Data for the four governance indicators are sourced from the World Bank World Development Indicators website. Studies such as Agyei-Boapeah et al. (2020); Balsmeier and Vanhaverbeke (2018); and Omotoso et al. (2022) have used World Bank data to investigate the effects of institutional quality on FDI, firm value, or capital market benefits. The variables range from -2.5 (the weakest) to a country score of +2.5 (the strongest). The variable was rescaled from 0 to 10 for improved interpretation. The averaging of world governance indicators has been used by prior studies such as Efiobi et al. (2014) and Kurauone et al. (2021). The four variables were used because they cover all aspects of governance or institutional factors in a country.

The control of corruption variable determines the ability of the country to put in place policies and institutions that can prevent and combat corrupt activities such as the misuse or the abuse of public office for private gain. Tanzi (2017) states that there are several media reports of revenue losses due to corruption by top officials and high-profile politicians in African countries such as Nigeria, the Democratic Republic of the Congo, Sierra Leone, Zimbabwe and others, which are rich in precious natural resources such as diamonds or oil. The rule of law determines the extent to which a country's rules and policies can protect property rights, the enforcement of contracts, and dealing with crime and violence, thus creating a conducive

business environment. The voice and accountability measure captures the degree of freedom of expression of citizens of a country, allowing citizens to be protected even if they engage in whistleblowing. Lastly, regulatory quality captures the ability of the government to formulate and implement sound policies and regulations that promote investment in a country. According to La Porta et al. (1998), if a country does not enforce its own rules and regulations, regulations applying in the context of financial reporting are unlikely to be effective. The expectation is that a country with a strong legal enforcement system will attract FDI inflows. By contrast, a country that does not have strong legal enforcement mechanisms in place may discourage investment opportunities.

Enforcement of accounting standards

The study uses the strength of financial auditing and reporting standards in a given country to proxy for auditing and accounting standards enforcement (AS_ENF). The study argues that where there is a lack of enforcement of accounting standards, the benefits of better information quality from applying stricter accounting standards may not be realised (Beiruth et al. 2017). La Porta et al. (1998) suggest that the enforcement of standards is as crucial as the standards themselves; thus, better enforcement directs positive changes in financial reports.

The AS_ENF variable is measured on a scale of 1 to 7, with 1 denoting the lowest and 7 the highest strength of auditing and financial reporting. Notable studies have used data from the World Bank Database (Boolaky et al., 2013; Kurauone et al., 2021). A strong auditing and financial reporting system in a country supports the disclosure of high-quality financial information, which increases transparency levels and accountability in a country (African Development Bank, 2013). A transparent business environment also encourages or attracts foreign investment. Other studies have used world governance indicators, such as the rule of law or regulatory quality to proxy accounting standards enforcement (Agyei-Boapeah et al., 2020; Louis and Urcan, 2012). However, the present study argues that the world governance indicators are too broad to capture the actual enforcement of accounting standards, without the guidance of a proper overseeing regulatory professional accountancy body.

Legal origin

Legal origin (LEG) is a binary variable that takes the value one if a country has a common law system and zero otherwise. The variable is determined by historical factors, where the African region is dominated by the French and British laws. Shima and Yang (2012) explain that colonisation influenced the culture of accounting systems through legal systems. Studies such as La Porta et al. (1998) use the legal origin variable to investigate the relationship between a country's legal origin and the protection of the rights of investors, and capital market development, and identified a significant relationship. The authors conclude that common law countries have better accounting systems and better protection of investors than code law countries.

Similarly, Globerman and Shapiro (2003) show that common law countries facilitate the development of capital markets and investment opportunities and, as a result, attract more FDI. Therefore, countries with legal systems rooted in English common law are more likely to be recipients of FDI. Legal systems have been directly associated with disclosure practices (Jaggi and Lowy, 2000), and variations in reporting incentives and earnings properties (Ball et al., 2000). In common law countries, information asymmetry is likely to be resolved by timely and greater public disclosures to shareholders (Shima and Yang, 2012). By contrast, communication in countries with a coded law system is more likely to be engaged in privately between political groups (Hwang et al., 2018). The expectation of the present study is that African countries that have a common law legal system can positively attract FDI inflows in their jurisdictions compared to other legal systems.

Language origin

Language origin (LAN) is measured by a binary variable that takes the value of one if the country has an Anglo-Saxon background, and zero otherwise. A country is classified as Anglo-Saxon based on meeting at least one of two requirements. First, the country should have English as its official language (Frank, 1979). The second is that it should have strong links with the UK or the USA, and that this is marked by a history of colonisation (Nobes, 1998). Several authors, such as Zeghal and Mhedhbi (2006) and Zehri (2013), have used this measure. Studies have mainly used language to capture culture (Luo and Shenkar, 2006). The present study follows Oh et al. (2011) and uses language as a historical variable to measure how past colonial

ties through a shared common language can influence the levels of FDI flowing into a country. Oh et al. (2011) assert that speaking a common language is important in attracting foreign investment. The present study anticipates that African countries using the Anglophone language can attract greater FDI inflows than countries with other language origins. Data is collected from the World Factbook (2020).

5.4.1.4 Control Variables

The study includes five control variables, in line with prior literature, to avoid biased results. Control variables included are GDP growth (GDPG), inflation (INFL), the real interest rate (IRR), the natural logarithm of a country exchange rate (IEXCH), and the natural logarithm of stock market capitalisation (ISTMC). These control variables are popular covariates included in FDI models in previous studies that focused on the determinants of FDI inflows into African countries (Asiedu, 2006; Efiobi, 2017; Nnadi and Soobaroyen, 2015; Omotoso et al., 2022).

Gross domestic product growth

Gross Domestic Product Growth (GDPG) is a proxy for the economic growth of a country. In this study, it is used to control for economic growth. GDP growth is measured by the increase in real GDP over a given period; the economic growth rate can be expressed as the annual percentage change in real GDP (McTaggart et al., 2011). It measures how fast the economy is growing. The importance of economic growth as a positive influence in attracting FDI inflows has been confirmed in numerous studies (Shima and Gordon, 2011; Samantha and Haiyun, 2017; Sokang, 2018; Gu and Prah, 2020). Kurauone et al. (2021) establish that with higher GDP growth, a country can pool resources to improve IFRS supportive infrastructure and introduce mechanisms that support the attraction of FDI. Zeghal and Mhedhbi (2006) show that developing countries with strong economic growth are likely to adopt IFRS. However, Mnif Sellami and Gafsi (2019) conclude that economic growth has a positive but statistically insignificant effect on adopting IFRS. Nonetheless, countries with poor economic conditions are adopting international standards to improve their reputation.

A high GDP growth signals the development of a country and the availability of development policies to support economic growth. It also signals a supportive business environment, financial market development, and the availability of infrastructure to support the business

community. Thus, international investors are more likely to be attracted to a country with a higher rate of GDP growth than a country with a low or negative GDP growth. The present study anticipates that GDP growth will positively affect FDI inflows. Data for GDP growth are obtained from the World Bank database.

Inflation

The consumer price index, measured as the increase in general prices of goods and services, is used as a proxy for inflation (INFL). This measure is commonly used in literature to capture the possible effects of macroeconomic stability (Akisik and Mangaliso, 2020; Gu and Prah, 2020; Nnadi and Soobaroyen, 2015). An inflationary environment is one with a general price increase that reduces the purchasing power or the real income. Studies have indicated that a high inflationary environment erodes purchasing power and negatively affects investment returns (Kurauone et al., 2021). Rising inflation also makes the assessment of profits unpredictable, thereby affecting investment decisions. Extant literature highlights the negative relationship between inflation and foreign investment (Nnadi and Soobaroyen, 2015; Akisik and Mangaliso, 2020; Gu and Prah, 2020). In their study, Akisik and Mangaliso (2020) conclude that higher inflation rates discourage investors, indicating increased macroeconomic instability. However, some studies have found a positive association between inflation and FDI inflows (for example, Obiamaka et al., 2011).

Yeboah and Akacs (2019) state that fluctuating inflation rates signal macroeconomic instability, which negatively impacts FDI inflows. The authors explain that this creates a more uncertain economic future and affects investors' confidence in the investee. Yeboah and Akacs (2019) further explain that a less volatile inflation rate may indicate some form of stability in the economy, leading to an increase in FDI inflows. Similarly, Gordon et al. (2012) emphasise that investors are attracted to countries characterised by economic stability because any form of instability introduces uncertainty that distorts investor perceptions about future profits or returns on their investment. In the present study, the expectation is that countries with high inflation rates attract fewer FDI inflows. Data for inflation are found on the World Bank website.

Exchange rate

The exchange rate is included in the analysis to capture the effects of the volatility of the currency and the resulting macroeconomic instability. The natural logarithm of the exchange rate (IEXCH) is used as a proxy for the exchange rate of a country. This measure was used by Jin and Zang (2013) and Chowdhury and Wheeler (2008) to capture and measure the international competitiveness of countries. Jin and Zang (2013) highlight that a volatile exchange rate signals macroeconomic instability in a country and, therefore, might negatively impact FDI inflows. Tweneboah Senzu and Ndebugri (2018), however, establish that a strong exchange rate relative to investing partners can discourage investment because it becomes expensive for foreign investors to invest in the host country. Tweneboah Senzu and Ndebugri (2018), indicate that a real depreciation of the domestic currency increases wealth for foreign investments relative to that of domestic investors.

An overvalued exchange rate is associated with foreign currency shortages, corruption, and a balance of payments crisis, all damaging FDI inflows (Rodríguez-Pose and Cols, 2017). High levels of exchange rate volatility can be disruptive to exports and investments. Al-Smadi (2018) argue that a depreciating currency should positively affect FDI inflows by reducing the cost of investment to foreign investors. However, Al-Smadi (2018) emphasises that investors should be aware that a real depreciation of the host country's currency may be associated with lower expectations of future profits when measured in terms of the investors' currency. Data for the real effective exchange rates are found on the World Bank website.

Stock market capitalisation

Stock market capitalisation measures the size of the stock market, and is equal to the value of listed domestic shares divided by GDP. In the present study, the natural logarithm of stock market capitalisation (ISTMC) is used as a proxy for the stage of development or size of the capital market in a country, and an indicator of investment growth of the stock market. Market capitalisation indicates the extent of economic growth in capital markets and is a signal to foreign investors of the development of the financial sector (Bayar and Gavrilitea, 2018). The size of a country's capital market is associated with the development of the financial sector and the attraction of more capital flows (Othman and Kossentini, 2015; Akisik and Mangaliso, 2020). Othman and Kossentini (2015) note that the existence of an effective financial system

also contributes to economic growth. The authors emphasise that investors are attracted to an existing and regulated market that is in a position to protect shareholders' rights. A country can adopt IFRS, but if the capital market does not have market participants, it signals to foreign investors a lack of confidence from both domestic and foreign investors in that particular capital market. Data for stock market capitalisation are found on the World Bank website.

Real interest rates

The real interest rate (IRR) is the rate charged or paid for the use of money, or the cost of borrowing. It captures the host economy's return on investment. A high interest rate in a host country is attractive to foreign investors. Capital follows higher returns, and thus it moves from regions with lower interest rates to regions with higher interest rates to maximise profit. An adopting country with a higher interest rate is likely to attract more FDI inflows (Gordon et al. 2012). The present study anticipates that a country with high real interest rates attracts more FDI inflows than a country with lower interest rates. Data on real interest rates are found on the World Bank website.

Based on the models developed for the present study, the following section explains the development of the hypotheses for the study.

5.5 DEVELOPMENT OF HYPOTHESES FOR THE STUDY

In this section, the hypotheses developed for this study are discussed, based on the effects of IFRS on FDI inflows and the moderating role of institutions on the relationship between IFRS and FDI inflows. There are arguments suggesting significant and positive FDI inflows after adopting IFRS, and arguments suggesting adverse or no effect on FDI inflows. There is also literature that argues that the impact of IFRS on FDI inflows is not homogenous, as it is affected by a country's institutions. As all of these views have merit, the effects of IFRS on attracting FDI inflows in the presence of a country's institutional environment are ultimately an empirical question.

5.5.1 IFRS Adoption

Table 5.2 demonstrates that the results of the effects of IFRS on FDI inflows established in prior studies have not been homogenous. Most studies have assumed that the capital market benefits of IFRS adoption are homogenous. Thus, if adopting IFRS promotes superior accounting practices and requires more disclosure, it is not clear whether African countries implement these standards in ways that make the accounting more informative. Thus, this study tests the following hypothesis:

H₁: IFRS adoption has a significant impact on FDI inflows.

Table 5.2: Summary of literature on the impact of IFRS adoption on FDI Inflows

Study	Countries Covered	Years Covered	Estimation Method	Summary of Findings
Marquez-Ramos (2008)	6 Developed economies	1999 – 2007	Fixed effects vector decomposition procedure	Positive: The adoption of a high-quality set of harmonised accounting standards fosters FDI inflows, since the improvement of accounting information, in turn, fosters transparency and comparability and reduces information asymmetry and unfamiliarity among agents in different countries.
Amiram (2012)	134 countries	1997 – 2006	Ordinary Least Squares regression	Positive: Accounting information plays a positive role in foreign portfolio investment decisions, as the use of IFRS improves the decisions of foreign investors by making the investment environment more familiar to them.
Gordon et al. (2012)	124 countries	1996 – 2009	Ordinary Least Squares and Difference-in-Difference estimations	Positive: IFRS is more significantly associated with FDI inflows in developing countries than in developed economies. A critical potential driver for adopting IFRS in developing economies is the need for foreign aid.
Efiobi et al. (2014)	42 African countries	2002 – 2012	Generalised Least Squares and Systems Generalised Method of Moments	Positive: IFRS provides a financial reporting framework that enhances transparency, reduces global information asymmetry, and reduces subsidiaries' monitoring and financial statement translation costs.
Beneish et al. (2015)	47 countries	2003 – 2007	Ordinary Least Squares estimation	Positive: The increase in foreign investment in non-adopting countries suggests that the benefits of mandatory IFRS adoption are more likely to reflect improved financial reporting quality rather than greater financial statement comparability.
Nnadi and Soobaroyen (2015)	34 African countries	1990 – 2014	Ordinary Least Squares estimation	Negative: The implementation of IFRS and its results in terms of IFRS-based information may involve a significant cost to the investor.
Houqe (2016)	New Zealand	1998 – 2013	Ordinary Least Squares estimation	Positive: The adoption of IFRS results in a reduction in the cost of capital, and increased FDI inflows.

Mhedhbi and Zeghal (2016)	31 developing economies	1987 – 2009	Panel regression analysis	Positive: The adoption of IFRS signals to national and international investors that national regulators make decisions to ensure the appropriate functioning of their markets.
Akpomi and Nnadi (2017)	48 African countries	1996 – 2011	Panel regression analysis	Positive: The adoption of IFRS will boost the flow of FDI inflows by increasing comparability.
Lungu et al. (2017)	26 emerging economies	1996 – 2014	Ordinary Least Squares and Difference-in-Difference estimations	Positive: Adopting countries are more likely to attract FDI inflows than non-adopters.
Owusu et al. (2017)	116 developing countries	1996 – 2013	Two-System Generalised Method of Moments	Insignificant: The adoption of IFRS does not influence the foreign investment inflows of the adopting country.
Kim and Ryu (2018)	Korea	2000 – 2013	Ordinary Least Squares estimation	Positive: The adoption of IFRS reduces the cost of capital.
Nejad et al. (2018)	10 Association of Southeast Asian Nations emerging economies	2001 – 2016	Least Squares Dummy Variable	Positive: The level of compliance with IFRS is an essential driver of FDI inflows and may lead to reduced future investment risk.
Mita et al. (2018)	18 developed economies	2003 – 2012	Ordinary Least Squares estimation	Positive: The adoption of IFRS improves the comparability of financial statements, attracting greater cross-border investment.
Manawadu et al. (2019)	4 South Asian emerging economies	2006 – 2015	Generalised Method of Moments	Moderating: IFRS moderates the relationship between FDI and conservatism. The adoption of IFRS reduces information asymmetry and results in increased FDI inflows.
Akisik et al. (2020)	49 African countries	2003 – 2017	Fixed effects and Generalised Method of Moments	Positive: IFRS plays a catalytic role between FDI inflows and growth. Increased transparency resulting from IFRS is more appealing to foreign investors.
De Moura et al. (2020)	5 Latin American countries	2004 – 2015	Multiple regression analysis	Positive: IFRS adoption enhances disclosure and comparability, which helps mitigate information asymmetry, thus increasing FDI inflows.

Golubeva (2020)	73 countries	2007 – 2014	Pooled Ordinary Least Squares	Positive: IFRS adoption is more significant in developed countries than in emerging economies.
Musah et al. (2020)	20 African countries	1980 – 2015	The panel regression model, General Least Squares panel	Positive: African countries that want to improve FDI inflows must enhance the quality of the reporting environment by adopting IFRS.
Gu and Prah (2020)	12 African countries	1996 – 2018	Ordinary Least Squares and General Least Squares estimations	Positive: Countries that have adopted IFRS experience higher FDI inflows than non-adopting countries. IFRS promotes the flow of FDI.
Mameche and Masood (2021)	6 emerging economies	1980 – 2017	Autoregressive Distributed Lag and Pooled mean group	Positive: In the short run, improving financial information quality through adoption significantly reduces information asymmetry, leading to an overall increase in FDI inflows. Negative: Contrary indication in the long run.
Siriopoulos et al. (2021)	6 Gulf Cooperation Council emerging economies	1996 – 2017	Fixed effects, random effects, and Generalised Method of Moments	Positive: The accounting system is a strong determinant that promotes FDI inflows. IFRS is an essential factor that encourages FDI inflows.
Omotoso et al. (2022)	15 developing economies	1994 – 2015	Fixed effects, random effects, and General method of moments	Positive: The adoption of IFRS is assumed to be an informational change that eliminates information barriers facing the users of financial statements.

Source: Author's analysis

5.5.2 The Institutional Environment

The summary of the literature dealing with the relationship between institutional factors and FDI inflows shown in Table 5.3 below lists the institutional factors used to capture the institutional environment and the varying results. Certain studies have relied mainly on the six world governance indicators, while other studies have used only one world governance indicator to proxy institutional quality or institutional environment. Although these studies have used various institutional indicators to proxy the institutional environment, they have not used institutional variables that capture the enforcement of accounting standards or historical ties. Thus, this study tests the following hypotheses:

H_{2a}: Legal enforcement has a significant association with FDI inflows.

H_{2b}: Auditing and accounting has a significant association with FDI inflows.

H_{2c}: Legal origin has a significant association with FDI inflows.

H_{2d}: Language origin has a significant association with FDI inflows.

Table 5.3 Summary of institutional variables used to proxy institutional quality

Institutional Variable	Study	Countries covered	Summary of findings
Legal enforcement	La Porta et al. (1998)	49 countries	The quality of enforcement positively influences investment decisions.
	Asiedu (2006)	22 African countries	Improvement in the reliability of the legal system has a positive effect on FDI inflows.
	Marquez-Ramos (2008)	6 developed economies	Common law countries protect outside investors more effectively than civil law countries.
	Gaio (2010)	38 countries	There is a positive association between the quality of legal institutions and the level of firms' earnings in countries with low investor protection.
World Governance Indicators Control of corruption Government effectiveness Political stability Regulatory quality The rule of law Voice and accountability	Nnadi and Soobaroyen (2015)	34 African countries	Institutional factors such as the rule of law, the legal system, and perceptions of the level of corruption in the country play a significant role in increasing FDI inflows in African countries.
	Gossel and Beard (2019)	33 Sub-Saharan African countries	FDI inflows are significantly attracted to quality institutions that control corruption, but are discouraged by the region's poor record of the rule of law and political stability.
	Ross et al. (2019)	8 African countries	Chinese FDI moved freely into African countries with a better institutional environment. Political stability and control of corruption are significant institutional predictors of FDI inflows. Regulatory quality, voice and accountability, and the rule of law are not significant predictors of Chinese investment flows into Africa.

	Owusu-Nantwi (2019)	10 South American countries	There is a significant and positive relationship between institutional quality and FDI inflows.
	Adegboye et al. (2020)	30 Sub-Saharan African countries	Institutional quality positively affects the level of FDI inflows in Sub-Saharan Africa. Institutional quality is a requirement for harnessing the FDI inflows.
	Bhasin and Garg (2020)	23 Emerging economies	Different aspects of the institutional environment may affect FDI inflows differently for emerging economies. The rule of law has a negative impact on FDI inflows. Regulatory efficiency has a positive impact on FDI inflows.
	Anwar and Iwasaki (2021)	5 BRICS countries	Normative institutions (consisting of norms, values, assumptions, and conceptions of the people in a country) negatively impact FDI inflows.
	Miao et al. (2021)	44 African countries	Institutional quality has a positive and significant association with FDI inflows. Institutional quality has a positive and significant effect on FDI inflows. Institutional improvements promote FDI inflows.
Global Competitiveness Indicators	Akisik (2008)	27 emerging economies	Institutional quality is strongly and positively associated with FDI inflows. A good institutional environment supported by an effective legal system is essential for attracting foreign investors.
	Dorożyński et al. (2020)	17 Central and Eastern Europe countries	Institutional quality is an essential stimulus in attracting FDI inflows in CEEE countries.
Economic Freedom of World Index	Uddin et al. (2019)	Pakistan	Legal structure and property rights strongly and positively affect FDI inflows. An effective regulatory framework for the credit market, labour market, and business, influence FDI inflow the most. Institutional

	Bashir et al. (2021)	5 BRICS and 4 MINT countries	quality has a positive association with FDI inflows in BRICS countries. Institutional quality has a negative association with FDI inflows in MINT countries.
World Development Indicators Corruption Ease of doing business Business freedom	Varma et al. (2020)	23 African countries	The institutional environment is a strong explanatory variable for Indian FDI inflows in Africa. Indian foreign investment in Africa is indifferent to the quality of the institutional environment. Corruption is not a significant explanatory variable.
Corruption	Asiedu (2006) Ibrahim et al. (2011) Peres et al. (2018)	22 African countries 31 countries 110 countries	A decline in corruption positively affects FDI inflows. As corruption risk declines, the volume of FDI inflows increases. African countries must improve their institutional environment to attract further FDI inflows. Institutional quality positively and significantly impacts FDI inflows in developed countries. The impact of institutional quality on FDI inflows is insignificant in developing economies. FDI inflows in developed economies can be increased by improving the institutional environment and providing a sound macroeconomic environment.

Contract Enforcement and Minority Investor Protection	Choi et al. (2016)	38 countries	Improvements in a country's institutional environment increase FDI inflows from the US, while improved minority investor protection discourages FDI inflows from the US.
	Contractor et al. (2020)	189 countries	Enforcement of contracts has a positive and statistically significant effect on FDI inflows.
	Contractor et al. (2021)	149 countries	Countries that have stronger regulations and institutional environments attract more FDI inflows.

Source: Author's analysis

5.5.3 The Moderating Role of the Institutional Environment

Table 5.4 below summarises the studies that have examined the moderating role of IFRS on FDI inflows, using various institutional factors to proxy the institutional environment. Some studies indicate that the institutional environment is complementary, while others note that it is substitutive. Studies in the Western world conclude that capital market benefits after IFRS adoption accrue to nations characterised by strong institutions (Wysocki, 2011; Amiram, 2012; Beneish et al., 2015; Beiruth et al., 2017; Pawsey, 2017; Sato and Takeda, 2017). These studies suggest that the institutional environment can be a moderating variable between IFRS adoption and FDI inflows, but did not actually investigate whether the institutional environment moderates the relationship between IFRS and FDI inflows. Studies that do examine the moderating role have primarily relied on the world governance indicators to proxy the institutional environment. Thus, the present study on selected African countries tests the following hypotheses:

H_{3a}: Legal enforcement significantly moderates the relationship between IFRS and FDI inflows.

H_{3b}: Auditing and accounting standards enforcement significantly moderate the relationship between IFRS and FDI inflows.

H_{3c}: Historical ties significantly moderate the relationship between IFRS and FDI inflows.

H_{3d}: The quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.

Table 5.4 Summary of institutional moderating variables on the association between IFRS and FDI

Moderating institutional variable	Study	Countries covered	Summary of findings
World Governance Indicators Control of corruption Government effectiveness Political stability Regulatory quality The rule of law Voice and accountability	Louis and Urcan (2012)	5 developed economies	There is an increase in FDI inflows in adopting countries where the government can implement sound regulations. In countries with poor regulatory implementation, the effect on FDI inflows is negative. The effect of IFRS on cross-border acquisitions is conditional on a country's ability to implement regulations.
	Efiobi et al. (2014)	92 countries	The institutional environment has a substitutive relationship with IFRS adoption in informing FDI flow.
	Owusu and Mohd Saat (2017)	116 developing countries	Quality institutions favourably moderate the relationship between IFRS and FDI inflows. The positive impact of IFRS adoption on FDI inflows is largely conditioned by country-level institutional quality.
Legal enforcement	Chand (2005)	Papua New Guinea and Fiji	A strong legal backing facilitates the implementation and enforcement of accounting standards and leads to greater capital market benefits.

Moderating institutional variable	Study	Countries covered	Summary of findings
	Daske et al. (2008)	26 countries	Capital market benefits occur only in countries where firms have more transparent incentives and strong legal enforcement.
	Chen et al. (2014)	30 countries	The positive relationship between FDI inflows and IFRS is stronger in countries with significant institutional differences, which emphasises the need for accounting information in decisions for cross-border investments.
	Laupe (2018)	58 countries	Countries with strong law enforcement attract capital market benefits after IFRS adoption because law enforcement guarantees investors transparency and corporate governance.
Auditing and accounting enforcement mechanisms	Chand (2005)	Papua New Guinea and Fiji.	The higher the level of professional expertise, the easier it is to implement the standards, and the higher level of compliance attracts investors. The higher the level of education and training, the easier the task of adopting and implementing IFRS will be.
	Preiato et al. (2013)	51 developed countries	There is a strong and positive association between accounting enforcement and capital market benefits.
	Brown et al. (2014)	39 developed countries	Differences in the country's institutional environment impact the extent to which benefits are realised from IFRS adoption.

Moderating institutional variable	Study	Countries covered	Summary of findings
	DeFond et al. (2019)	China	Auditing and accounting enforcement are important in securing capital market benefits after adopting IFRS. The weak institutional infrastructure in China's transitional economy hinders IFRS's intended goal of attracting FDI inflows through improved financial reporting quality.

Source: Author's analysis

5.6 SUMMARY

This chapter establishes the explanatory strength of the four theoretical bases (the new institutional theory, the information asymmetry theory, the signalling theory and the eclectic theory) for the present study, in explaining why the African countries selected for the study have adopted IFRS. The conceptual framework illustrating the variables and their inter-relationships is presented diagrammatically, together with an explanation. The econometric models developed to address the three research questions are set out, and explained. Finally the hypotheses for the study are stated and linked to the findings in literature.

The following chapter presents and discusses the findings of the various statistical tests carried out on the data.

CHAPTER 6

PRESENTATION AND DISCUSSION OF THE RESULTS

6.1 INTRODUCTION

This study examines the relationship between IFRS adoption and FDI inflows into African countries comprising the study sample, and tests whether a country's institutional environment influences the relationship between IFRS and the flow of FDI into an adopting country. The chapter starts by presenting descriptive statistics in order to provide basic information about the variables in the dataset. The results of the Pearson Correlation analysis, which is carried out as an initial test to check for relationships among variables, are then presented and discussed. The unit root test results are also presented, as the study employs panel data and the most common problem in panel data analysis is the non-stationarity of the data, which can lead to spurious regressions and wrong inferences. Having established the suitability of the data for the present research, the regression analyses are conducted using the SGMM technique to identify any significant association between the variables of interest. Section 6.5 provides the SGMM results for Model 1, consisting of Hypotheses 1, and Hypothesis 2 and the associated sub-hypotheses, and Model 2, consisting of Hypothesis 3 and the associated sub-hypotheses. A discussion of the results follows in the next section, which is structured according to the three research questions of the study. Finally, the results of the robustness tests, using the DiD estimation and the t-test of means are presented. The chapter concludes with a summary of the findings in the chapter.

This chapter focuses on the presentation of the data, the analysis, and the interpretation of the results, and aims to answer the following research questions and test the corresponding hypotheses:

RQ1: Is there a significant change in FDI inflows for IFRS adopters in selected African countries after the adoption?

H₁: IFRS adoption has a significant impact on FDI inflows.

RQ2a. Is there a significant change in FDI inflows due to the legal enforcement environment of the selected African countries?

H_{2a}: Legal enforcement has a significant association with FDI inflows.

RQ2b. Is there a significant change in FDI inflows due to the auditing and accounting enforcement environment of the selected African countries?

H_{2b}: Auditing and accounting enforcement has a significant association with FDI inflows.

RQ2c. Is there a significant change in FDI inflows due to the language origin of the selected African countries?

H_{2c}: Legal origin has a significant association with FDI inflows.

RQ2d. Is there a significant change in FDI inflows due to the legal origin of the selected African countries?

H_{2d}: Language origin has a significant association with FDI inflows.

RQ3a. Does the legal enforcement environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H_{3a}: Legal enforcement significantly moderates the relationship between IFRS and FDI inflows.

RQ3b. Does the auditing and accounting environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H_{3b}: Auditing and accounting standards enforcement significantly moderates the relationship between IFRS and FDI inflows.

RQ3c. Do the historical ties in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H_{3c}: Historical ties significantly moderate the relationship between IFRS and FDI inflows.

RQ3d. Does the institutional quality in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H_{3d}: The quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.

The following section presents the descriptive statistics.

6.2 DESCRIPTIVE STATISTICS

This section discusses the descriptive statistics relating to variables used in the study, for the period 1996 to 2018. Table 6.1 presents these descriptive statistics consisting of the number of observations, the mean, the standard deviation, and the minimum and maximum values.

Table 6.1 Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI	270	2.911	8.420	-5.007	16.824
ADOPT	270	0.364	0.481	0.000	1.000
INFL	269	17.884	9.913	-8.970	2444.970
IEXCH	261	5.003	2.522	-4.604	22.629
GDPG	270	5.075	8.383	-28.100	35.220
ISTMC	270	1.333	2.103	0.000	6.643
IRR	270	7.195	8.245	-34.743	34.954
LEG_ENF	270	-0.147	0.350	-1.312	0.653
AS_ENF	270	1.335	2.104	0.000	6.643
LAN	270	0.561	0.496	0.000	1.000
LEG	270	0.487	0.500	0.000	1.000
Inst_quality	270	-0.345	1.571	-1.653	3.053

Source: Author's analysis

Notes: This table presents descriptive statistics for explanatory, dependent, and control variables. **FDI** is the total foreign direct investment inflows as a percentage of the GDP; **ADOPT** is a dummy variable that takes the value 1 if a country has adopted IFRS and zero otherwise; **GDPG** is the gross domestic product growth rate; it is calculated as $(GDP_Q - GDP_{Q-1}) / GDP_{Q-1}$; **IRR** is the real interest rate, which is a country's lending rate adjusted for inflation as measured by the GDP deflator; **INFL** is the increase in the general prices of goods and services; **IEXCH** is the natural log of the actual, principal exchange rate, and is measured as local currency units relative to U.S. dollars; **ISTMC** is the natural log of stock market capitalisation, which is equal to the value of listed domestic shares divided by the GDP; **LEG_ENF** is the legal enforcement composite variable made up of control of corruption, regulatory quality, voice and accountability, and the rule of law; **AS_ENF** is the auditing and accounting standards enforcement composite variable which is made up of the capital regulation index and the strength of auditing and accounting standards enforcement index; **LAN** is a dummy variable with the value 1 if the country's language is Anglophone and 0 otherwise; **LEG** is a dummy variable with the value 1 if a country has a common law system and 0 otherwise; **Inst_quality** is a composite variable composed of LEG_ENF, AS_ENF, LAN, and LEG.

Table 6.1 reflects 270 observations from the dataset, except for INFL, with 269 observations, and IEXCH, with 261 observations. The results in Table 6.1 indicate the following with regard to the study sample:

- The average FDI inflow as a percentage of GDP over the study period 1996 - 2018 is 2.91%, with a maximum of 16.82%. The average FDI percentage is lower than that reported by Owusu-Nantwi (2019), which was based on a sample of developing countries, where the average FDI as a percentage of GDP was 3.125%, with a maximum of 54.70%. The result suggests that FDI inflows into the study sample of African countries are generally lower during the present study period compared to the 1996 to 2013 study period used by Owusu-Nantwi (2019) in his research. Owusu-Nantwi's study sample includes

developing countries from all over the world, which might not be a true representation of the African GDP growth rate.

- The statistics reflect an average inflation rate of 17.88%, showing rising inflation during the study period, which is higher than the 14% in the 2003 - 2017 study period as reported by Akisik and Mangaliso (2020).
- The average currency exchange rate has a mean of 5.00 and a maximum of 245, thus an improvement in the sample of African currencies when compared to the 2003 - 2017 study by Akisik and Mangaliso (2020), which reports a mean currency exchange rate of 7.45 and a maximum of 245.
- On average, GDP growth over the study period is 5.07%, slightly higher than the 4.5% reported by Musah et al. (2020) for the period 1980 - 2015, also using an African sample. This shows a moderate GDP growth for the sample of African countries.
- The mean of the stock market capitalisation rate is 1.33%, with a maximum of 6.64%, which is higher than the 0.313 (mean) and 2.940 (maximum) reported by Agbloyor et al. (2014) for the period 1990 - 2007.
- The average real interest rate mean for the sample is 7.19% with a maximum of 34.95%, which is slightly lower compared to the real interest rate being offered by other emerging countries, which has a mean of 9.47% and a maximum of 291.05%, as reported by Lungu et al. (2017) in their 1996 – 2014 study.
- The institutional indicator LEG_ENF has a negative mean (-0.147), reflecting a poor legal enforcement environment on average for the sample countries.
- The accounting standard enforcement has a positive mean (1.335), indicating the presence of accounting and auditing standards enforcement mechanisms (such as auditing and accounting standards adoption and implementation) in most jurisdictions in the study.
- For the dummy variable ADOPT, a minimum value of 0.00 indicates that IFRS has not yet been adopted, and a maximum value of 1.00 indicates full adoption of IFRS. The average level of IFRS adoption for all sample countries from 1996 - 2018 is 0.576. The value shows that the average adoption status for all sample countries during the study period is at a moderate level compared to the maximum value of 1.00. This is relatively higher than the 27% reported by Musah et al (2020) in their 1980 to 2015 study and the 17% by Gordon et al (2012) in their 1996 to 2009 study.
- The dummy variable for language origin shows an average of 56%, indicating that 56% of the sample has Anglophone as their official language.

- The dummy variable for legal origin reports an average of 49% suggesting that 49% of the sample has a common law system.
- Finally, the institutional quality variable shows an average of -0.345, which is an indication of a slightly lower institutional quality environment than the -0.234 reported by Owusu and Mohd Saat et al. (2017) in their 1996 to 2013 study.

The spread of the data from the mean is shown by the standard deviation. A wider spread from the mean suggests volatility in terms of the characteristics of the data. FDI indicates a wide spread from the mean with a standard deviation of 8.420, indicating early signs of uncertainty within the FDI investment community. Macroeconomic variables also show signs of high volatility, with standard deviations as high as 9.913 for inflation, 8.383 for GDP growth and 8.245 for the real interest rate. These indications of volatility are also reflected in the wide range of readings.

In Table 6.2, the means of the IFRS adopters and the non-adopters are compared.

Table 6.2 Foreign Direct Investment inflows for IFRS adopters and non-adopters

	Average FDI for IFRS adopters	Average FDI for non-IFRS adopters
1996 – 2004	2.810%	2.620%
2005 – 2018	4.130%	2.850%
Average change	1.320%	0.230%

Source: Author's analysis

Table 6.2 shows the change in the average FDI inflows as a percentage of GDP for both the adopting and non-adopting countries in the sample (refer to Appendix B for country inflows). The average FDI inflows for IFRS adopters before adoption (1996 – 2004) is 2.81%, and after adoption, the average FDI increases to 4.13%. The increase in average FDI inflows for non-adopters is only 0.23%, indicating that IFRS adopters in the sample attract 1.09% more inflows on average than non-adopters. The results indicate an upward trend in FDI into the sample of African countries, whether they are adopters of IFRS or non-adopters. This result does not, however, warrant a conclusion that it is IFRS adoption that is stimulating investment inflows into these adopting countries.

6.3 CORRELATION ANALYSIS

The correlation analysis is carried out as an initial test to check for relationships among variables. This provides preliminary evidence of any existing association among variables. The direction of the relationship between variables is explained in terms of negative signs, which implies that the variables move in the opposite direction (negatively correlated), and positive signs, which indicates that the variables move in the same direction (positively correlated). The strength of the relationship (whether positive or negative) lies between 0 and 1.

Table 6.3 provides the Pearson correlations for variables used in all regressions in the study. The variable of interest, ADOPT, correlates with most of the variables used in the study. The early signs of a positive correlation between IFRS and FDI indicate that these variables move in the same direction. The results suggest that African countries in the study sample have improved their FDI inflows, consistent with the anticipated benefits of adopting IFRS, and the findings of Owusu and Mohd Saat (2017), who also report a positive correlation between IFRS adoption and FDI inflows.

The correlation matrix shows early evidence of a positive relationship between institutional factors and FDI inflows. A positive correlation between FDI inflows and institutional variables such as auditing and accounting standards enforcement, language origin, and institutional quality (AS_ENF, LAN, and Inst_quality) provides preliminary evidence of institutional factors as determinants of FDI inflows. The correlation matrix shows a negative correlation between legal enforcement (LEG_ENF) and FDI inflows, an early indication that poor law enforcement systems can deter foreign investors. The negative mean value of -0,147 for legal enforcement in Table 6.1 indicates that legal enforcement systems are weak in a number of the African countries in the sample.

Regarding FDI inflows (FDI) and control variables, the correlation matrix indicates that almost all control variables correlate positively with FDI inflows and the ADOPT dummy variable. The correlation matrix also shows a high correlation between the institutional factors. There is a 0.974 correlation between institutional quality and legal enforcement, a 0.862 correlation between legal origin and language origin, a 0.532 correlation between legal enforcement and language origin, all showing signs of a high positive correlation. Institutional factors are tested individually in the regression models in section 6.5 to avoid multicollinearity problems.

Table 6.3: Pearson correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) FDI	1.000											
(2) INFL	-0.020	1.000										
(3) GDP	0.428	-0.071	1.000									
(4) LAN	0.072	0.065	-0.060	1.000								
(5) LEG	-0.048	0.076	-0.048	0.862	1.000							
(6) LEG_ENF	-0.421	-0.234	0.040	-0.532	-0.961	1.000						
(7) AS_ENF	0.564	0.116	-0.020	0.787	0.690	-0.666	1.000					
(8) IRR	0.022	0.024	0.041	0.225	0.261	-0.206	0.071	1.000				
(9) ISTMC	-0.177	0.075	-0.208	-0.247	-0.269	0.153	0.304	-0.140	1.000			
(10) IEXCH	0.032	0.244	0.064	-0.402	-0.345	-0.019	-0.192	-0.151	-0.287	1.000		
(11) Inst_quality	0.238	0.138	-0.055	0.801	0.934	-0.974	0.575	0.257	-0.104	-0.331	1.000	
(12) ADOPT	0.346	0.096	-0.053	0.495	0.396	-0.289	0.391	0.184	0.140	-0.250	0.326	1.000

Source: Author's analysis

Notes: This table presents correlations between explanatory, dependent, and control variables. **FDI** is the total foreign investment inflows as a percentage of the GDP. **GDPG** is the gross domestic product growth rate; it is calculated as $(GDP_Q - GDP_{Q-1}) / GDP_{Q-1}$; **ADOPT** is a dummy variable, which takes the value 1 if a country has adopted IFRS and zero otherwise; **IRR** is the real interest rate, which is a country's lending rate adjusted for inflation as measured by the GDP deflator; **INFL** is the increase in the general prices of goods and services; **IEXCH** is the natural log of the actual, principal exchange rate, and is measured as local currency units relative to U.S. dollars; **ISTMC** is the natural log of stock market capitalisation, which is equal to the value of listed domestic shares divided by the GDP; **LEG_ENF** is the legal enforcement composite variable made up of control of corruption, regulatory quality, voice and accountability, and the rule of law; **AS_ENF** is the auditing and accounting standards enforcement composite variable which is made up of capital regulation index and the strength of accounting and auditing standards enforcement index; **LAN** is a language variable which takes the value 1 if the country's language is Anglophone and 0 if Francophone; **LEG** is a legal system variable which takes the value 1 if common law and 0 if civil or code law; **Inst_quality** is a composite variable made of LEG_ENF, AS_ENF, LAN, and LEG.

6.4 UNIT ROOT TEST

The present study employs panel data. Time series analysis, as applies in the present study, requires stationary data because most time series models assume that each point is independent of another, and the most common problem in panel data analysis is the non-stationarity of the data (Choudhary and Bajaj, 2013), which can lead to spurious regressions and wrong inferences. Unit root testing uses the Levin-Lin and Chu (LLC) test and the Im-Pesaran and Shin (IPS) test. Table 6.4 below reveals that all the variables used in the study are stationary at either the level or the first-order difference level. Thus, the data properties in terms of their mean and variance are all constant over time. This does not mean that the values for each data point have been constant or are the same, but that the overall behaviour of the data used in this study is constant. Therefore, this qualifies the data to be used in the panel analysis applied in this study.

Table 6.4: Unit root test results

Variable	Test	Level	Panels	Adjusted t	P-value	Conclusion
FDI	LLC	Level	23 (27)	-13.038	0.000	Stationary
ADOPT	LLC	Level	23(27)	-2.685	0.000	Stationary
INFL	IPS	Level	23 (27)	-11.399	0.000	Stationary
IEXCH	LLC	1 st difference	22 (27)	-11.369	0.000	Stationary
GDPG	LLC	Level	23 (27)	-13.167	0.000	Stationary
IRR	IPS	1 st difference	15 (27)	-8.369	0.003	Stationary
ISTMC	IPS	1 st difference	15 (27)	-2.750	0.000	Stationary
LAN	LLC	Level	23 (27)	-35.543	0.000	Stationary
LEG	LLC	Level	15 (27)	-8.548	0.000	Stationary
LEG_ENF	IPS	1 st difference	15 (27)	-1.403	0.080	Stationary
AS_ENF	IPS	Level	15 (27)	-2.733	0.003	Stationary
Inst_quality	IPS	Level	15 (27)	-4.474	0.003	Stationary

Source: Author's analysis

Notes: This table presents the unit root test results for explanatory, dependent, and control variables. **FDI** is the total foreign investment inflows as a percentage of the GDP; **GDPG** is the gross domestic product growth rate; it is calculated as $(GDPQ - GDPQ-1)/GDPQ-1$; **ADOPT** is a dummy variable which takes the value 1 if a country has adopted IFRS and zero otherwise; **IRR** is the real interest rate, which is a country's lending rate adjusted for inflation as measured by the GDP deflator; **INFL** is the increase in the general prices of goods and services; **IEXCH** is the natural log of the actual, principal exchange rate, and is measured as local currency units relative to U.S. dollars; **ISTMC** is the natural log of stock market capitalisation, which is equal to the value of listed domestic shares divided by the GDP; **LEG_ENF** is the legal enforcement composite variable made

up of control of corruption, regulatory quality, voice and accountability, and the rule of law; **AS_ENF** is the auditing and accounting standards enforcement composite variable which is made up of the capital regulation index and the strength of accounting and auditing standards enforcement index; **LAN** is a language variable which takes the value 1 if the country's language is Anglophone and 0 if Francophone; **LEG** is a legal system variable, which takes the value 1 if common law and 0 if civil or code law; **Inst_quality** is a composite variable made of **LEG_ENF**, **AS_ENF**, **LAN**, and **LEG**.

6.5 REGRESSION ANALYSIS

Having established the suitability of the data for the present research, the regression analyses are conducted using the SGMM techniques to identify any significant association between the variables of interest. The present section presents the results of the regression analyses, with a discussion of the results of the regression analyses in section 6.6 below.

Table 6.5 below provides the estimation results for empirical Model 1 and Model 2. The SGMM estimation model is employed for both models, and the results are presented in the table. Model 1 is used to test Hypotheses 1 and 2, while Model 2 is used to test Hypothesis 3. Panel A presents the results of models 1, 1a, 1b, 1c, and 1d for Hypotheses 1 and Hypotheses 2a to 2d for Hypothesis 2. Panel B presents the results of models 3a to 3d for Hypotheses 3. Hypothesis 1 assumes a significant direct relationship between IFRS adoption and FDI, and Hypothesis 2 assumes a significant direct relationship between the institutional factors and FDI. Hypothesis 3 assumes that the institutional environment moderates the relationship between IFRS and FDI inflows (whether positively or negatively). The study assumes that institutional factors are “highly” correlated. This assumption is confirmed by the Pearson correlation matrix in section 6.3 (see Table 6.3). The Pearson correlation matrix reveals that all the institutional variables have a coefficient of more than 0.5.

There are 270 observations under the SGMM estimation. The autoregressive <AR>1 and <AR>2 post-estimation test confirms no autocorrelation in Models 1 or 2. This is indicated by the <AR>1, which is between 0.000 and 0.021 for Model 1 in all five columns, and between 0.000 and 0.005 for Model 2 in all four columns (all less than 0.05%). Furthermore, <AR>2 is between 0.260 and 0.950 for Model 1 in all five columns and between 0.462 and 0.990 for Model 2 in all four columns. These findings indicate the robustness of the models. The post-estimation results of both models are not surprising, as previous studies that have used the SGMM in similar studies have reported a lower AR (1). For example, Omotoso et al. (2022) reported an AR (1) of 0.00 in both models.

The present study does not include all the institutional indicators in one regression but regresses institutional variables individually. This type of analysis has been used in several studies that examine the relationship between institutional factors and FDI inflows (Kurul, 2017; Owusu and Mohd Saat, 2017; Sabir et al., 2019; Nam et al., 2020). The present study runs individual regressions for each institutional factor shown in Table 6.5 columns (1) to (5). The present study will only consider significance at the 5% level when interpreting and discussing the results, anything above that is considered to be insignificant.

Table 6.5: SGMM regression analysis results for Model 1 and Model 2

Variables	Panel A					Panel B			
FDI	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
GDPG	0.078*** (0.027)	0.118*** (0.678)	0.102*** (0.027)	0.114*** (0.028)	0.115*** (0.028)	0.119** (0.048)	0.127** (0.050)	0.130*** (0.050)	0.123** (0.047)
ISTMC	0.559 (0.392)	0.720 (0.129)	0.128 (0.356)	0.102 (0.350)	0.102 (0.350)	0.344** (0.141)	0.350** (0.155)	0.366** (0.175)	0.229 (0.196)
IEXCH	-0.841 (0.525)	0.003*** (1.846)	1.442*** (0.580)	1.602*** (0.061)	1.602*** (0.601)	0.539*** (0.196)	-3.877*** (1.417)	-4.026*** (1.430)	-4.380*** (1.326)
IRR	0.018* (0.011)	0.344 (0.010)	0.015 (0.107)	0.014 (0.010)	0.014 (0.010)	0.018* (0.017)	0.018* (0.017)	0.023** (0.017)	0.041** (0.017)
LEG	-	0.861 (0.110)							
LAN	3.792* (2.172)		0.861** (0.369)						
LEG_ENF	-1.522 (1.818)			1.868** (1.081)		16.091** (6.709)	15.086** (7.607)	17.396** (7.167)	4.788** (1.930)
AS_ENF	0.252*** (0.081)				0.291*** (0.110)	1.345** (0.570)	2.199** (1.188)	2.590** (1.188)	24.509*** (4.059)
Historical						5.276** (2.512)	19.378** (8.429)	23.040*** (7.155)	0.154 (0.180)
Inst_quality						13.323*** (4.928)	22.717*** (8.258)	25.175*** (8.038)	14.922*** (2.106)
LEGENF x ADOPT						-4.903*** (0.762)			
ASENF x ADOPT							0.259** (0.103)		
Historical x ADOPT								4.893*** (1.556)	
Instquality x ADOPT									-3.756** (1.899)
ADOPT	0.105** (0.160)	0.856* (0.519)	0.856* (0.519)	0.856* (0.519)	0.856* (0.519)				

Variables	Panel A					Panel B			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
FDI									
Constant	1.116*** (1.175)	1.594** (1.075)	-0.322*** (0.998)	-0.394* (1.002)	1.161** (0.768)	1.607* (1.827)	0.376*** (1.544)	0.605** (1.382)	-0.473** (1.990)
Observations	270	270	270	270	270	270	270	270	270
AR (1)	0.004	0.021	0.000	0.000	0.005	0.004	0.005	0.005	0.000
AR (2)	0.950	0.785	0.930	0.260	0.848	0.845	0.990	0.462	0.785

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: STATA

Notes: This table presents the SGMM regression analysis results for explanatory, dependent, and control variables. **FDI** is the total foreign investment inflows as a percentage of the GDP; **GDPG** is the gross domestic product growth rate; it is calculated as $(GDPQ - GDPQ_{-1}) / GDPQ_{-1}$; **ADOPT** is a dummy variable, which takes the value 1 if a country has adopted IFRS and zero otherwise; **IRR** is the real interest rate which is a country's lending rate adjusted for inflation as measured by the GDP deflator; **INFL** is the increase in the general prices of goods and services; **IEXCH** is the natural log of the actual, principal exchange rate, and is measured as local currency units relative to U.S. dollars; **ISTMC** is the natural log of stock market capitalisation, which is equal to the value of listed domestic shares divided by the GDP; **LEG_ENF** is the legal enforcement composite variable made up of control of corruption, regulatory quality, voice and accountability, and the rule of law; **AS_ENF** is the auditing and accounting standards enforcement composite variable, which is made up of the capital regulation index and the strength of accounting and auditing standards enforcement index; **LAN** is a language variable which takes the value 1 if the country's language is Anglophone and 0 if Francophone; **LEG** is a legal system variable, which takes the value 1 if common law and 0 if civil or code law; **Inst quality** is a composite variable made of **LEG_ENF**, **AS_ENF**, **LAN**, and **LEG**.

6.5.1 Model 1 Results

Panel A presents the results for Models 1, 1a, 1b, 1c, and 1d. Model 1 as formulated in section 5.4 of chapter 5 predicts that IFRS adoption has a direct effect on FDI inflows:

$$\begin{aligned} FDI_{i,t-1} = & \beta_0 + \beta_1 ADOPT_{i,t-1} + \beta_2 ISTMC_{i,t-1} + \beta_3 INFL_{i,t-1} + \beta_4 IEXCH_{i,t-1} + \beta_5 IRR_{i,t-1} + \beta_6 GDPG_{i,t-1} \\ & + \beta_7 LEG_{i,t-1} + \beta_8 LAN_{i,t-1} + \beta_9 LEG_ENF_{i,t-1} + \beta_{10} AS_ENF_{i,t-1} + \sum_{at} \alpha_t * YEAR_{t-1} \\ & + \sum \Phi_i * COUNTRY_i + \epsilon_{i,t} \end{aligned}$$

The model also predicts that FDI is influenced by the adoption of IFRS, the presence of a quality institutional environment, and other economic factors. Therefore the model regresses ADOPT against FDI inflows whilst controlling for institutional and economic factors.

Model 1a to 1d as presented in section 5.4 of chapter 5 predicts that institutional factors have a direct impact on FDI inflows. The model is formulated as follows:

$$\begin{aligned} FDI_{i,t-1} = & \beta_0 + \beta_1 ADOPT_{i,t-1} + \beta_2 ISTMC_{i,t-1} + \beta_3 INFL_{i,t-1} + \beta_4 IEXCH_{i,t-1} + \beta_5 IRR_{i,t-1} + \beta_6 GDPG_{i,t-1} \\ & + \beta_7 Institutional_{i,t-1} + \sum_{at} \alpha_t * YEAR_{t-1} + \sum \Phi_i * COUNTRY_i + \epsilon_{i,t} \end{aligned}$$

The model regresses each institutional variable against FDI inflows, whilst controlling for adoption and economic factors.

Table 6.5 reveals that for the variable of interest ADOPT, the regression result confirms the Pearson correlation analysis findings in Table 6.3 and shows a positive association between IFRS and FDI inflows. The relationship is statistically significant at a 5% significance level. The result indicates that African countries in the study sample that adopt IFRS record improved inflows of FDI. The result confirms the assumptions on which the first hypothesis of the study is based, that there is a significant association between IFRS adoption and FDI inflows. Therefore, the study accepts hypothesis H₁.

6.5.1.1 Legal Enforcement

The first institutional variable, legal enforcement (LEG_ENF) in Model 1a, presented in column 4 of Table 6.5, shows a significant and positive association with FDI inflows at a 5% significance level. The result confirms the assumptions on which Hypothesis 2a of the study is

based, which predict a significant positive association between legal enforcement and FDI inflows. Thus, the study accepts the research hypothesis, H_{2a} . The result indicates that African countries in the study sample, with legal enforcement systems in place, enjoy improved FDI inflows. This finding differs, however, from that in Table 6.3, where the variables legal enforcement and FDI inflows are negatively correlated (-0.421) and the mean value of -0.147 in Table 6.1. The mean value of -0.147 indicates that most of the sample countries generally have poor legal enforcement systems.

6.5.1.2 Auditing and Accounting Standards Enforcement

The next institutional variable of interest is accounting and auditing standards enforcement (AS_ENF), tested using Model 1b, with the result presented in column 5 of Table 6.5. The regression analysis results show a positive and significant association between FDI and accounting and auditing enforcement systems. The relationship is statistically significant at the 5% level. This confirms the assumptions on which Hypothesis 2b is based, that auditing and accounting enforcement mechanisms have a strong and significant association with the flows of FDI into the African countries in the research sample. The result suggests that compliance with auditing and accounting standards by firms in a country signals transparency and comparability of the information disclosed, which appeals to investors as a conducive business environment. Therefore, the study accepts the research hypothesis, H_{2b} .

6.5.1.3 Legal Origin

The third institutional variable is legal origin (LEG), tested using Model 1c, with the result presented in column 2 of Table 6.5. The result indicates an insignificant association between legal origin and FDI. This result suggests that having a common law legal system does not directly translate into improvements in FDI inflows in the study sample. The result does not confirm the assumptions on which Hypothesis 2c is based, which predict that legal origin significantly affects FDI inflows. Therefore, the study fails to accept the research hypothesis H_{2c} , and fails to reject the Null Hypothesis, which predicts no association between legal origin and FDI inflows. The result suggests that having a common law legal system does not necessarily result in an enabling environment for FDI for the countries in the study sample.

6.5.1.4 Language Origin

Model 1d in column 3 of Table 6.5 shows the result of the institutional variable language origin (LAN). The result indicates a positive association between language origin and FDI inflows, significant at the 5% level. The result confirms the assumptions on which Hypothesis 2d is based, which predict that language as a factor based on cultural and historical ties positively and significantly influences the levels of FDI. The result indicates that a language that is common to investors and the investee country is important. The positive correlation is also confirmed by the Pearson correlation matrix in section 6.3. The results suggest that countries in the study sample speaking an Anglophone language create an environment that attracts investors. IFRS was developed in an Anglo-Saxon country and the familiarity and culture proximity could explain the positive correlation. The study therefore accepts the research hypothesis, H_{2d} .

6.5.2 Model 2 Results

Panel B in Table 6.5 presents the results of Models 2a, 2b, 2c, and 2d for Hypotheses 3a to 3d. The model regresses the institutional interaction term (institutional moderator) with FDI, whilst controlling for economic variables. The model is presented in section 5.4 of Chapter 5 as follows:

$$FDI_{i,t} = \beta_1 ADOPT_{i,t-1} * Institutional factor_{i,t-1} + \beta_2 GDPG_{i,t-1} + \beta_3 INFL_{i,t-1} + \beta_4 ISTMC_{i,t-1} + \beta_5 IRR_{i,t-1} + \beta_6 IEXCH_{i,t-1} + \sum \alpha_t * YEAR_t + \sum \Phi_i * COUNTRY_i + \epsilon_{i,t}$$

The study tests the indirect effect of institutional factors on the relationship between IFRS adoption and FDI inflows. Hypothesis 3 of the study assumes that the quality of the institutional environment indirectly and positively impacts the benefits of IFRS adoption. The study follows the approach of Agyei-Boapeah et al. (2020) to test these hypotheses by creating interaction terms. The interaction term is the multiplicative of the institutional and IFRS adoption variables (institutional variable x ADOPT).

Firstly, the study creates two composite variables: historical ties and institutional quality. The historical ties variable is a composite variable consisting of two dummy variables to measure the combined effect of historical ties on African countries' FDI inflows. Using Principal Component Analysis (PCA), the variable combines legal and language origins. In addition,

using the PCA, institutional quality is a composite variable created by combining the three institutional factors (legal enforcement, historical ties, and auditing and accounting standard enforcement). The PCA is a multi-variable statistical method that constructs an orthogonal variable set, principal components, to obtain the most important information from several variables of interest. PCA reduces the dimensionality of the data and retains most of the variation in the dataset.

The indirect effect in this study only considers the intervening role of the moderating variables (institutional factors) on the impact of IFRS adoption on FDI inflows. Following Efiofi et al. (2014), if there is a positive and significant relationship, it is assumed that IFRS will attract more FDI inflows. A negative relationship implies that the institutional variable has a substitutive effect on IFRS in explaining FDI inflows. The study tests individual interaction terms (ASENF x ADOPT; LEGENF x ADOPT and Historical x ADOPT) to determine which interaction terms impact FDI inflows the most.

6.5.2.1 Legal Enforcement as a Moderating Variable

The first interaction variable of interest is the legal enforcement moderator. Hypothesis 3a assumes that in the presence of a legal enforcement system, IFRS adoption influences the flow of FDI in African countries. The result of Model 2a, in column 6 of Table 6.5, exhibits a significant and negative association between the legal enforcement moderator and FDI inflows at a 1% level. The result suggests that, after adopting IFRS, weak legal enforcement systems in the study sample of African countries negatively influence the inflow of FDI into these countries. The result is consistent with the expectations of Hypothesis 3a. Therefore, the study accepts Hypothesis 3a and rejects the Null Hypothesis. The results are interesting because in column 4 of Table 6.5, the variable legal enforcement has a positive and significant association with FDI inflows. The generally negative correlation between legal enforcement and FDI inflows has, however, been indicated by the Pearson correlation matrix in Table 6.3. In addition, the mean value of legal enforcement reflected in Table 6.2 is also negative, indicating a generally poor legal enforcement environment for the sample countries.

6.5.2.2 Enforcement of Auditing and Accounting Standards as a Moderating Variable

For the second variable, the coefficient of the accounting and auditing enforcement moderator is positive and statistically significant at the 5% level, which suggests that the effect of IFRS adoption on FDI inflows is substantially higher in the sample of African countries with a greater commitment to the enforcement of accounting and auditing standards. The result is consistent with the expectations of the study's third hypothesis, which predicts a significant impact of accounting and auditing standard enforcement systems on the relationship between IFRS and FDI inflows. The positive correlation between IFRS and FDI is confirmed by the Pearson correlation matrix in Table 6.3. In addition, accounting and auditing standards enforcement has a positive mean in Table 6.1, generally indicating a favourable accounting and auditing enforcement system in the sample countries. Therefore, the study accepts Hypothesis 3b.

6.5.2.3 Historical Ties as a Moderating Variable

The next interaction variable of interest is the historical ties moderator. The regression analysis shows a positive and significant association between the historical ties of African countries in the study sample and the flow of FDI into these jurisdictions. The coefficient of the historical ties variable is significant and positive at the 1% level, which suggests that the effect of IFRS adoption on FDI inflows is substantially higher in African countries in the study sample that have Anglo-Saxon historical ties. The assumption is that investors are more confident in African countries with Anglo-Saxon attributes. The result is consistent with the expectation of Hypothesis 3b, which predicts a significant association between African historical ties and the relationship between IFRS and FDI inflows. The result suggests that after adopting IFRS, historical ties can create an environment that is attractive to foreign investors. The study therefore accepts Hypothesis 3c.

6.5.2.4 Institutional Quality as a Moderating Variable

The last institutional variable is the institutional quality moderator. The coefficient of Instquality x ADOPT is negative and statistically significant, suggesting that the quality of institutions does not have an effect on FDI inflows into the study sample of African countries, after the adoption of IFRS. The result is consistent with the hypothesis, which assumes that the quality of an African country's institutional environment can significantly influence the association between IFRS and FDI inflows, whether positively or negatively. The study

therefore accepts Hypothesis 3d, and rejects the Null Hypothesis. The results suggest that adopting IFRS alone is insufficient to attract FDI inflows into a country when its institutional environment is weak. The Pearson correlation matrix in Table 6.3 shows a positive correlation between institutional quality and FDI inflows, indicating that generally an environment characterised by a high institutional quality indicator should be in a position to attract FDI. However, according to the present study's dataset, the institutional quality index for the sample country is poor with a negative mean of -0.345 as shown in Table 6.1, supporting the negative association found by the SGMM.

6.5.3 Control Variables

The study employs five macroeconomic variables as control variables. Control variables are used in quantitative studies to limit the influence of confounding and other extraneous variables so that a study can establish a correlational relationship between variables of interest. This is the approach of Gordon et al. (2012), who confirm that macroeconomic variables directly influence FDI. The present study controls for GDP growth, inflation, the real interest rate, the exchange rate, and the stock market capitalization, to avoid spurious results on the effects of institutional factors and IFRS adoption on FDI inflows.

6.5.3.1 Gross Domestic Product Growth

The results provide evidence of a positive association between the control variable GDP growth (GDPG) and FDI at the 1% level in Model 1 in Table 6.5, and the 5% level in Model 2. Therefore, these results suggest that GDP growth significantly and positively affects FDI in the study sample of African countries, and this indicator has rightfully been controlled for in this current study. Improvements in a country's economic growth rate may therefore encourage more FDI inflows into that country. The results indicate that investors prefer countries characterised by economic growth. Furthermore, economic growth signals production dynamics and a well-organised production and money market (Akisik et al., 2020). The positive association is also confirmed by a positive mean of 5.003 in Table 6.1 and a positive correlation between FDI and GDPG of 0.428 shown by the Pearson correlation matrix in Table 6.3.

6.5.3.2 Real Interest Rate

After controlling for GDP growth, the study controls for the real interest rate variable (IRR) that captures the host country's return on investment. The results show a positive association between IRR and FDI, but only at the 10% level, in Model 1 in Table 6.5. However, in all the models in Panel B, interest rates significantly and positively impact FDI inflows at between a 1% and 5% level, indicating the importance of returns on investment in the adopting countries. The positive correlation between interest rate and FDI is also confirmed by the Pearson correlation matrix in Table 6.3, with a positive correlation of 0.022.

An environment that offers high investment returns signals a conducive business environment for investors willing to take a business risk (Gordon et al., 2012). Furthermore, these authors conclude that higher investment returns give foreign investors an opportunity for business growth. Therefore, the present study concludes that interest rates positively affect FDI inflows in the study sample of African countries and provide an advantage for both the adopting and non-adopting countries.

6.5.3.3 Stock Market Capitalisation

The variable stock market capitalisation (ISTMC) positively affects FDI inflows at a 5% level in Model 2, but is insignificant in Model 1. The variable is an indicator of the stock market or financial market development. This result confirms that stock market capitalisation has a material effect on FDI in the study sample after adopting IFRS, but it has no significant effect before adopting IFRS.

6.5.3.4 Exchange Rate

The last control variable, the country's exchange rate (IEXCH), reveals a negative association between a country's exchange rate and FDI inflows. The results are statistically significant at 5% in both Model 1 and Model 2. The result suggests that the country's exchange rate does not translate directly into improvements in FDI inflows into the countries in the study sample. However, the Pearson correlation matrix in Table 6.3 shows that generally a country's exchange rate has a positive correlation with FDI inflows. Intuitively this seems to be correct

as a weak exchange rate favours investors whose investment return, expressed in the local currency, is higher.

6.6 DISCUSSION OF THE FINDINGS OF THE SGMM REGRESSION ANALYSIS

The results of Model 1 presented in section 6.5 indicate that IFRS adoption is important for the African countries in the study sample, and the recent adoption of the standards by most northern and western African countries appears to be vindicated. The results indicate that African IFRS adopters attract more FDI inflows than non-adopters. Therefore, the results of testing Hypothesis 1 provide evidence that IFRS adoption strongly influences FDI in the countries in Africa forming part of the study sample. Models 1a, 1b, 1c, and 1d provide results for Hypothesis 2, dealing with the impact of institutional factors on FDI inflows. The results show that of the four institutional variables used in this study, three (legal enforcement, auditing and accounting standards enforcement, and language origin) directly affect FDI inflows at differing significance levels, and one, legal origin, has no direct effect on FDI inflows. Therefore, the study establishes a direct relationship between FDI inflows and three institutional factors, indicating that institutional factors significantly influence FDI inflows into the African countries forming part of the study sample. Models 2a, 2b, 2c, and 2d provide results for Hypothesis 3. The study tests the indirect effect of institutional factors on the relationship between IFRS adoption and FDI inflows, by testing the moderating role of institutional factors in the FDI inflows and IFRS adoption nexus. The results indicate that institutional factors moderate the relationship between IFRS and FDI in the African countries in the study sample.

The following section discusses the impact of IFRS adoption on FDI inflows.

6.6.1 The Effect of IFRS Adoption on Foreign Direct Investment Inflows

The main objective of the present study is to examine the impact of IFRS adoption on FDI in Africa. The results of the study indicate that IFRS adoption in the sample of African countries in the present research improves FDI inflows into these countries; thus, it appears that African countries that have adopted IFRS attract more FDI than non-adopters. The result is consistent with the findings of several studies in developing and developed countries (Marquez-Ramos, 2008; Gordon et al., 2012; Akpomi and Nnadi, 2017; Mita et al., 2018; Golubeva, 2020). The result also agrees with the findings of Gordon et al. (2012), Gu and Prah (2020), and Siriopoulos et al. (2021), whose studies also report a positive association between IFRS

adoption and FDI. A few studies report a negative association between IFRS and FDI inflows. Owusu and Mohd Saat (2017) find an insignificant effect of IFRS on FDI using a mixed sample of developing and non-developing countries. They emphasise that IFRS on its own does not affect the amount of inflows flowing into a country. Golubeva's (2020) finding indicates that developing countries attract less FDI after adoption than developed economies. Golubeva adopted the approach that, because of the stable economic policies that characterise developed countries, these countries are likely to attract more foreign capital inflows because of the homogenous nature of their economies. The study by Nnadi and Soobaroyen (2015) reports a negative and statistically significant association between FDI inflows and IFRS using an African sample. The authors emphasise that adopting IFRS in Africa can be costly and adopting it without an adequate supporting institutional environment will not deliver the expected capital market benefits.

The robust SGMM results of the present study, however, provide evidence that African countries in the study sample that have adopted IFRS attract more FDI inflows than non-adopters. This supports the significant association between IFRS and FDI inflows found in several studies in the literature, but uses an exclusively African sample. This further substantiates the role of IFRS as a significant determinant of FDI inflows into African countries.

6.6.2 Theoretical Confirmation

Based on signalling theory, the results of the present study imply that African countries are adopting IFRS as an international accounting standard to signal to investors in other countries that firms within their jurisdictions follow a global accounting standard that provides for the disclosure of quality information. In terms of the signalling theory, adopting IFRS signals to capital markets and industry that companies in the adopting country are willing to disclose the relevant information based on internationally accepted accounting principles. The results suggest that an increase in FDI inflows after the adoption is due to the image projected by the adoption of IFRS and adopting countries become good investment destinations.

The findings of the present study appear to confirm the theory that adopting IFRS reduces information asymmetry. In line with the information asymmetry theory, adopting IFRS results in the disclosure of quality information due to the reduction in information asymmetry, the

ability to ensure the quality of the information disclosed, and the reduction in informational risk. This suggests that countries that have adopted IFRS are in a position to disclose quality information for use by foreign investors that is comparable and transparent, resulting in the reduction in information acquisition and processing costs on the part of investors, and thus lower investment costs. This is confirmed by Omotoso et al. (2022), who use the decision-usefulness theory. These authors emphasise that adopting IFRS is an informational change that eliminates information barriers facing the users of financial information. By adopting IFRS, African countries replace their unfamiliar local country standards with a single accounting standard, which could result in reduced information acquisition and processing costs on the part of investors who also use IFRS in their jurisdictions. The benefit of this is ultimately an increase in capital market participation by foreign investors. Prior studies find evidence that where accounting standards other than IFRS adopted in a country do not regulate the disclosure of accounting information, there is greater investment risk emanating from information asymmetry (Marquez-Ramos 2008; Efiobi et al. 2014).

The findings of the present study are therefore consistent with the signalling theory, and the information asymmetry theory, but also with the new institutional theory. The new institutional theory posits that institutional legitimisation is a significant factor influencing IFRS adoption. Countries gain the legitimacy to participate in the global market because of the adoption of IFRS, and their consequent ability to disclose and provide international investors with quality financial information. This suggests that an adopting country becomes an attractive destination for foreign investors, and FDI inflows into that country increase.

6.6.3 The Effects of the Institutional Environment on Foreign Direct Investment Inflows

The second objective of this study is to examine the impact of institutional factors on the inflow of FDI into African countries. The study results show that of the four institutional factors in the study that capture the institutional environment, three have an impact on FDI. Their individual effect on the flows of FDI is, however, different.

6.6.3.1 Legal Enforcement

For the variable legal enforcement, the result shows a significant and positive association with FDI. Several studies have found the same positive association between legal enforcement and FDI inflows. For example, in their study, Gossel and Beard (2019) establish a positive reaction

from FDI inflows when countries can effectively control corruption, strengthen their institutions and implement development and economic policies more attractive to foreign investors. A study by Contractor et al. (2021) finds a positive association between legal enforcement and FDI inflows. Contractor et al. (2021) explain that the availability of strong laws protecting property rights signal effective institutional support offered by the government to foreign investors.

The results of the present study contradict those of Bhasin and Garg (2020), who establish a negative association between legal enforcement and FDI inflows. They argue that strict rules adversely affect investors who deliberately intend to invest in emerging economies because of their weak laws, norms and values. Also, Varma et al. (2020) identify an insignificant association between legal enforcement and FDI in Africa, stating that investors are indifferent to the institutional environment of the host African country. Varma et al. (2020) suggest that a foreign investor from a country with a tradition of corruption and weak enforcement of contracts may not be as discouraged by a flawed legal system as an investor from a country with an ideal legal enforcement system.

Africa is often characterised by high levels of corruption and organised crime, and it can be assumed that the availability of a capable and strong legal enforcement system would assist in mitigating these high levels of corruption and organised crime, which are costly to investors. The study of Gossel and Beard (2019) confirms that countries that can effectively control corruption, strengthen their institutions, and implement developmental and economic growth policies are significantly more attractive for FDI inflows. The ability of governments to enforce their national laws to prevent corruption and organised crime, can provide assurance to investors of the safety of their investments and property rights, thus safeguarding the interests of both domestic and foreign investors.

According to Zaidi and Paz (2015), a country that has a strong legal enforcement system is able to punish directors, regulators or auditors who do not comply with specific policies instituted by the country. This demonstrates that a country that is already characterised by strong legal enforcement systems assures investors of its ability to enforce international standards so that foreign investors are well-informed before making investment decisions. Shahzad et al. (2019) confirm that strong legal enforcement mechanisms cut transaction cost by eliminating additional costs brought about by corruption and organised crimes.

In line with prior studies, the present study provides evidence that legal enforcement is an important institutional factor influencing the levels of FDI inflows into a particular country, confirming that legal enforcement positively affects FDI inflows into the African countries in the study sample.

6.6.3.2 Auditing and Accounting Enforcement

The second institutional factor is auditing and accounting enforcement, which shows a significant and positive association with FDI inflows at a 1% level. The result indicates that FDI inflows improve in countries with strong auditing and accounting systems. The result of the regression analysis is consistent with the assumptions of the research hypothesis and contributes to the discussion of the importance of enforcing auditing and accounting standards as an institutional factor (Sunder, 1997; Kothari, 2000; Hope, 2003; Boolaky et al., 2013). In their study, Borgi and Mnif (2021) conclude that enforcement of auditing and accounting standards is crucial in improving compliance levels across African countries. When a country exhibits high compliance levels, it reduces the levels of information asymmetry and signals to investors the disclosure of quality and valuable financial information. Compliance with auditing and accounting standards also results in comparable and transparent information across borders. The results of the present study indicate that in an environment with strong adherence to and enforcement of accounting standards, investors will be more confident to invest in these jurisdictions.

The results of the regression analysis indicate that the standard of auditing and financial reporting is an integral component of institutional transparency relevant to businesses, investors and governments. A country characterised by a strong auditing and accounting enforcement system can provide firms with incentives to provide relevant information to enable sound and informed economic decisions. This also implies that the probability of companies disclosing misleading or incorrect financial information or manipulating financial statements is reduced in the presence of strong accounting and enforcement systems. As a result, this gives investors assurance and confidence in the quality of the information disclosed by firms in a particular country.

6.6.3.3 Language Origin

The results of testing language origin in this study indicate that, in the sample of countries in the present research, an Anglophone language as a shared common language of business, supports the flows of FDI into an African country. The result is consistent with the assumptions of the research hypothesis and prior studies, including Feng et al. (2019), who confirm that FDI flows tend to be higher between countries that share a common official language. Therefore, speaking a common language with potential investors is important in attracting FDI inflows. A shared language between the Western investing countries and African investee countries is also likely to improve investors' trust, thus also reducing information acquisition and processing costs. Therefore, this study provides evidence that countries using an Anglophone language as the language of business attract more FDI inflows than countries using a Francophone language. Language origin therefore directly affects the attraction of FDI inflows into the study sample of countries in Africa.

6.6.3.4 Legal Origin

Regarding the last institutional factor, legal origin, the study results for the sample of countries in the present research indicate that legal origin does not significantly impact the flow of FDI into African countries. This contradicts prior studies that reported a significant and positive association between IFRS adoption and legal origin (Marquez-Ramos, 2008; Uddin et al., 2019; Glaister et al., 2020). These studies all agree that countries with a common law system attract significantly higher FDI inflows than civil law countries. On the other hand, the present study's results are consistent with the results of the study of Feng et al. (2019). These authors find an insignificant relationship between FDI inflows and the common law legal system, establishing that FDI investors do not pay special attention to a country's legal system.

The non-significant association between legal origin and FDI inflows could imply that investors from different countries have varying degrees of tolerance for the host country's legal environment. Hewko (2002) explains that investors are generally insensitive to the nature of the host country's legal system, and that their perceptions and expectations of the country's legal system may be significantly affected by factors such as nationality or investment orientation. Hewko (2002) identifies the most important factor attracting foreign investors as profitable business opportunities and that this was obvious and more pronounced during the colonial era when many foreign investors established their presence despite the primitive and

underdeveloped legal systems that characterised African countries. Thus, in the presence of good business opportunities, Hewko (2002) concludes that investors are willing to factor the lack of an efficient legal system into their risk analysis.

The results of the present study therefore indicate that a country's legal origin has little or no bearing on whether the countries in the study sample attract FDI inflows.

6.6.3.5 Summary of Institutional Factors

The present study indicates that institutional factors have a meaningful influence on FDI inflows into the study sample of African countries. The results of the present study also indicate that amongst the four institutional factors employed in this study, accounting and auditing standards enforcement is the most significant at 1%, followed by language origin and legal enforcement at the 5% level. Boolaky et al. (2013) emphasised that enforcing auditing and accounting standards is an integral component of institutional transparency that is relevant for investors. African countries with strong auditing and accounting systems therefore signal a high level of governance and transparency in their business dealings, giving investors assurance and confidence that their investment interests are protected. Regarding legal enforcement, Contractor et al. (2020) acknowledge that the availability of strong laws protecting property rights signals effective institutional support offered by the government to foreign investors. African countries with strong legal enforcement systems are therefore in a position to provide strong legal backing for the implementation of investor protection policies, resulting in higher compliance with the policies, which may attract investors.

Sharing similar cultural backgrounds, like language, contributes to building relations between investors and investees (Feng et al., 2019). Therefore, language as an institutional factor directly and significantly impacts the flow of investment into the African region. The present study emphasises the importance of language for FDI inflows into African countries included in the study sample, and as a component of a country's institutional framework. These results imply that African countries in the study sample that use an Anglophone language are positioned to attract more FDI inflows than countries speaking other languages. The results suggest that the language of business in Africa can significantly influence the flows of FDI into an African country.

The association between FDI inflows and legal origin for the sample of countries in the present study is not significant. As described above, this may be due to the indifference of investors into African countries to the legal origins of these countries.

The findings in the present study are consistent with the new institutional theory and the OLI paradigm. The OLI paradigm posits that the host country's business environment is a major location advantage because it establishes where firms will choose to locate their businesses. It suggests that a country with quality legal, auditing and accounting enforcement systems becomes an attractive destination for foreign investors. Investors are in search of understandable financial information to make informed decisions, and the enforcement of auditing and accounting standards gives firms an incentive to disclose quality financial information. An effective legal, auditing and accounting enforcement environment can enhance the locational attractiveness of the host country.

The results of the present study can also be explained by the new institutional theory, which is concerned with how an organisation may establish legitimacy in the setting of a particular institutional environment. The results indicate that historical ties help the African countries in the study sample to gain legitimacy in the view of foreign investors who wish to invest in these countries, as historical ties in the form of a shared language and similar legal systems reduce the uncertainty associated with economic exchanges between investors and investees. In turn, this increases the trust between the investment-seeking country and the investor.

6.6.4 The Moderating role of the Institutional Environment on the IFRS and FDI Nexus

The third objective of this study is to examine the effect of aspects of the institutional environment on the relationship between IFRS adoption and FDI inflows. Models 2a, 2b, 2c, and 2d in Panel B in Table 6.5 present the results of Hypotheses 3a, 3b, 3c, and 3d.

6.6.4.1 Legal Enforcement as a Moderating Factor

The first moderating institutional factor is legal enforcement. The results for Model 2a indicate that the legal enforcement system in the countries forming part of the study sample negatively affects the relationship between IFRS adoption and FDI inflows. This seems to bear out the finding reflected in Table 6.1 that, on average (a mean value of -0,147), the countries in the study sample have weak legal enforcement systems. The Pearson correlation matrix in Table

6.3 also established a generally negative correlation between legal enforcement and FDI, whereas in column 4 of Table 6.5, the variable legal enforcement has a positive and significant association with FDI inflows. However, the result is consistent with the assumption on which Hypothesis 3a is based.

These conflicting results reflect the conflicting findings in earlier studies. Several studies find a significant positive association (Chand 2005; Zaidi and Paz 2015). Daske et al. (2008), however, conclude that capital market benefits occur only in countries where firms have incentives to be more transparent and where legal enforcement is strong. This demonstrates that poor legal enforcement systems result in the risk of companies disclosing biased financial reports, which pose an investment risk to investors. Similarly, Laupe's (2018) research, involving a sample of developing and developed countries, establishes that countries with poor legal enforcement systems attract fewer capital inflows after adopting IFRS because they lack law enforcement systems that can guarantee investors' transparency and corporate governance. The study by Defond et al. (2019) reports that China's investment inflows did not increase after IFRS adoption. The authors attribute these results to China's weak legal enforcement environment that compromises the intended motivation of adopting IFRS to attract FDI inflows through improved financial reporting.

The results of the present study suggest that in a country characterised by poor legal enforcement systems this can negatively influence the effect of IFRS adoption on FDI inflows. The identification of this adverse effect lends support to previous studies (Nnadi and Soobaroyen, 2015; Akpomi and Nnadi, 2017; Omotoso et al., 2022). In a similar African study, Nnadi and Soobaroyen (2015) determine that the legal system and perceptions of the level of corruption in the country play a significant role in FDI inflows into African countries after adoption. The present study's results suggest that the success of IFRS adoption is seen both as a result of its implementation and its enforcement. Attracting FDI inflows, therefore, is influenced by the adopting country's ability to enforce its national rules and regulations, including implementing and enforcing IFRS. The present results also illustrate the application of the OLI paradigm, which holds that the primary role of institutions is to provide a location advantage to attract FDI inflows.

6.6.4.2 Accounting Standards Enforcement as a Moderating Factor

The result of testing the moderating role of accounting standards enforcement on the IFRS and FDI nexus indicates that the effect of IFRS adoption on FDI inflows into the sample of African countries in the present research is substantially higher in countries with a greater commitment to enforcing auditing and accounting standards. This implies that enforcing IFRS standards is important in achieving financial reporting benefits. The result aligns with the basic assumption of Hypothesis 3b and the literature. Albu et al. (2020) conclude that auditors are an essential mechanism for securing IFRS compliance in emerging economies, given the relative weakness of other enforcement mechanisms. In a similar study, Preiato et al. (2015) report a positive and strong association between accounting enforcement and capital market benefits, using a sample of developed economies. It can be concluded that standards need to be enforced so that the financial information that is disclosed is relevant and useful for investors to make informed decisions.

The results of the present study provide evidence that a country in the study sample with a strong auditing and accounting system can facilitate informational transparency through the disclosure of quality accounting information, which allows for easy comparison across borders. Researchers such as Stainbank and Taurigana (2016) have reported the lack of monitoring and enforcement mechanisms in African countries as a substantial obstacle to the proper implementation and enforcement of IFRS. In their study, Tunyi and Ntim (2016) conclude that the value relevance of accounting information is a function of the quality of accounting regulation, but also depends on the institutional mechanisms in place to develop and enforce the rules. The results of the present study contribute to the argument that auditing and accounting enforcement mechanisms are essential in securing capital market benefits in African countries, after adopting IFRS, and suggest that the mere adoption of IFRS without the enforcement mechanisms, auditing functions, and disciplinary procedures for non-compliance, will not bring about the intended capital market benefits. A country with strong auditing and accounting enforcement mechanisms is therefore better placed to protect shareholders against managers who intend to manipulate financial information.

African countries have been reported by the Global Barometer (2019) as having high rates of corruption and organised crime (Pring and Vrushu, 2019). These crimes negatively impact on investment returns and discourage investors from investing in these jurisdictions. Most recently

organised auditing and accounting crimes have been reported in African countries such as South Africa, Zimbabwe, and Nigeria. Serious cases, including the Steinhoff case in South Africa, the Tongaat Hulett scandal in Zimbabwe, and the Cadbury (Nig) Plc case in Nigeria, resulted from the misrepresentation of financial information by managers. Thus, to address these crimes that are costly to investors, conducting effective audits and producing regular, timely, and more transparent information can mitigate information asymmetry.

6.6.4.3 Historical Ties as a Moderating Factor

The results of the present study indicate that the effect of IFRS adoption on FDI inflows in the sample of African countries in the present study is substantially higher in countries that share historical ties with their former colonists. This would be based on a shared language (Anglophone or Francophone) and a shared legal system (common law or civil law). Zeghal and Mhedbi (2006) report that countries previously colonised by the British speak an Anglophone language. Moreover, IFRS originated in an Anglo-Saxon environment, which indicates the link between language and the adoption of IFRS. Degos et al. (2019) report that African countries' language of business and legal systems emanate from their past colonial history, resulting in many African countries adopting accounting standards similar to those of their former colonisers in order to maintain strong trade relations. As with prior studies, the results of the present study indicate that sharing a common language and legal system as part of a shared colonial history can create a sense of familiarity for foreign investors, reducing the uncertainty associated with economic exchanges between the investor and the investee.

Liou and Rao-Nicholson (2017) confirm that historical ties between African countries and their former colonists resulted in the widespread use of the colonisers' language and legal systems, which can reduce the cost of investment and can translate into an increase in FDI inflows. Investors are likely to invest in these African countries because the shared language may promote mutual trust between investors and investees. Thus, the present study's results indicate that a country in the study sample with Anglo-Saxon attributes that adopted IFRS is in a position to signal to foreign investors the ability of its companies to disclose financial information that meets investors' needs.

The results of the present study confirm the findings in the *EY Africa Attractiveness Report* (EY, 2018), which notes that most FDI inflows into Africa from existing investors can be

attributed to historical ties. For example, France remains a key investor in Francophone regions in Africa (UNCTAD, 2018). The implication of the present study is that the strength of colonial relations is built on a shared language and legal system, which in the business world can enhance shared financial information between jurisdictions through the increased comparability of this information. The resultant benefit may translate into lower information processing costs and reduced capital costs on the part of investors. The findings of this study indicate that African countries in the study sample with Anglo-Saxon historical ties enjoy the investment benefits of adopting IFRS.

6.6.4.4 Institutional Quality as a Moderating Factor

For the variable institutional quality, the results of this study indicate that adopting IFRS does not translate directly into an improvement in FDI inflows into the African countries in the study sample. It has been found that African countries are characterised by weak institutions (Tunyi and Ntim, 2016). The results of the present study are consistent with the assumptions on which Hypothesis 3d is based, and the literature (Owusu and Mohd Saat, 2017; Boolaky et al., 2020; Omotoso et al., 2022). Emphasising the importance of the institutional environment, Albu et al. (2020) report that the institutional environment is closely related to the strategic investment decisions of investors and the performance of emerging economies. In their study on developing countries across the globe, Owusu and Mohd Saat (2017) conclude that the significant impact of IFRS adoption on FDI is conditioned mainly by country-level institutional quality. Boolaky et al. (2020) and Owusu and Mohd Saat (2017) suggest that African countries characterised by weak institutions would benefit from IFRS by improving the quality of the institutional environment.

Data from international organisations, such as the World Bank and Transparency International (World Bank, 2019), suggest that when compared to Western nations, African countries are generally characterised by poor governance. This is supported by the often relatively high levels of corruption, political instability, low regulatory quality, lack of accountability and general ineffectiveness of government institutions across several African countries (McFerson, 2009; Mastruzzi et al., 2010). Following DeFond et al. (2019), whose results show that poor institutional quality or a weak institutional infrastructure impairs the goal of adopting IFRS in order to attract FDI, the present study perceives the institutional quality in the African countries in the study sample to be low, as shown in Table 6.1 with a negative mean of -0.345. Thus, the

effect of poor institutional quality on FDI inflows is a likely reduction of investment flows after adoption.

IFRS is a principle-based standard that allows professionals to apply their value judgment in interpreting and applying the standards (Collins et al., 2012). The danger is that adopting IFRS, which is based on principles, can create room for managers and directors to misrepresent information to mask fraudulent schemes. The lack of adequate monitoring mechanisms provides an institutional environment for this to occur. It also perpetuates information asymmetry, with managers and directors having an information advantage over investors, resulting in a risk in investing in African countries. Countries with a poor institutional environment signal a poor investment climate to their potential and existing investors, resulting in an adverse effect on FDI inflows.

It can be speculated that poorly regulated institutions also make it costly to invest in these jurisdictions due to the potential risk of insider trading, corrupt activities, misrepresentation of financial statements, and non-disclosure of certain information. All of this increases information asymmetry for the foreign investor. The result is that the cost of doing business in such environments becomes relatively high.

The results of the present study contribute to extant literature dealing with the importance of institutional quality in African countries (Efiobi, 2014; Owusu and Mohd Saat, 2017; Balsmeier and Vanhaverbeke, 2018; Agyei-Boapeah et al., 2020). Efiobi et al. (2014), using three governance indicators to proxy institutional quality, establish that the institutional environment positively affects the relationship between IFRS adoption and FDI inflows. In line with other studies, the present study contributes to Nnadi and Soobaroyen's (2015) argument that adopting IFRS by African countries is not enough on its own, as it needs to be supported by a strong institutional environment.

The results of the study support the claim that institutional quality is critical in enhancing the capital market benefits of IFRS adoption. African political, social, legal, and economic environments differ from those of the developed world. Lassou et al. (2019) argue that the continent is characterised by civil wars, hyperinflationary environments and a lack of adequate infrastructure, all of which are important determinants of FDI inflows. Adopting IFRS alone, it is clear, cannot compensate for the damage that has been and still is being caused by the lack

of a supportive and strong institutional environment. Assuming that IFRS will benefit Africa as it does in Western countries characterised by developed economic, social, and political systems, is misplaced.

Moreover, it appears that the pressure put on African countries to adopt IFRS by international financiers in their quest for foreign investment only provides a “window-dressing” opportunity for these countries in an attempt to attract foreign investments. The lack of supporting institutional frameworks in African countries undermines their ability to attract foreign investment and sustain a long-term relationship with foreign investors.

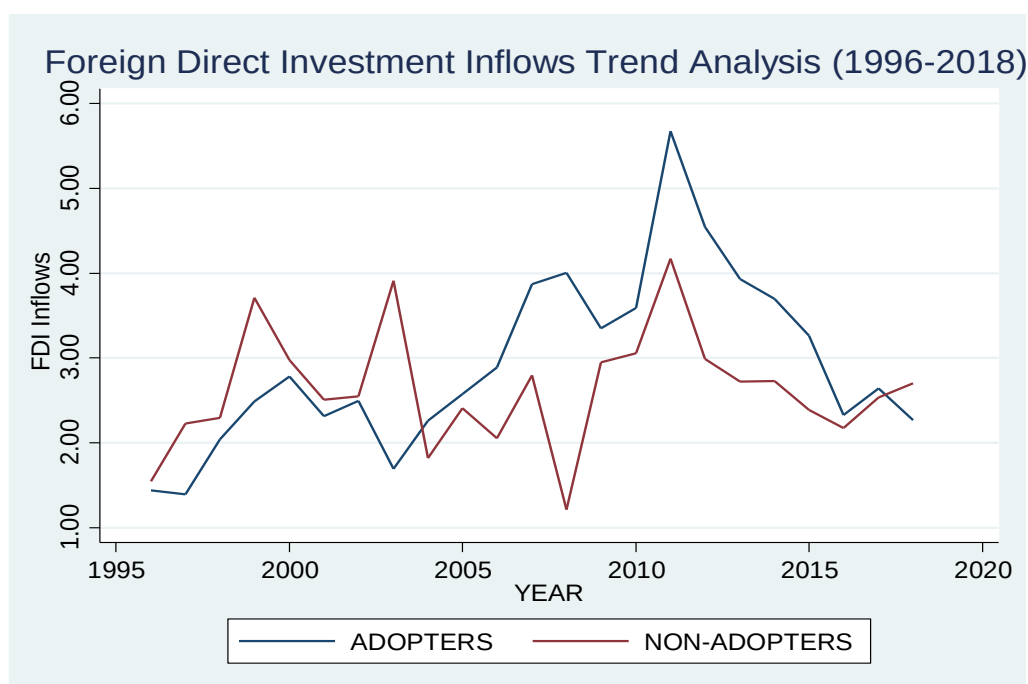
6.7 ROBUSTNESS TESTS

The chapter thus far has focused on the SGMM estimation technique; however, the SGMM inferences do not consider the effect of time on FDI inflows and the selection bias across groups. Over time, foreign investments may increase due to attractive foreign investment policies being implemented by African countries, such as the 2005 “Look East policy” in Zimbabwe and the Protection of Investment Act, 22 of 2015, in South Africa. The two policies may attract foreign investors by providing legislative protection and promoting investment. The study, therefore, employs the difference-in-difference (DiD) analysis to address the potential biases arising from comparisons between the IFRS adopters and non-adopters that could have been caused by attractive economic policies or differences in economic conditions.

6.7.1 Difference-in-Difference Estimation

The first assumption of the DiD estimation that a study should fulfil is the parallel trend assumption. The DiD requires that, in the absence of “treatment”, in this case, the adoption of IFRS, the difference between the treatment group (IFRS adopters) and control group (non-adopters) is constant over time. Figure 6.1 below shows the trend analysis on FDI for both the adopters and non-adopters.

Figure 6.1: Foreign Direct Investment inflows trend analysis for sample countries



Source: Author's analysis

Figure 6.1 depicts the trend of FDI inflows from 1996 to 2018. There was generally an increase in FDI inflows for both the adopting and non-adopting countries before 2005. The indication is that FDI inflows for the adopting sample (blue line) increased sharply after 2005 (the internationally recognised IFRS adoption date) compared to the non-adopting sample. In that sense, the trend analysis in Figure 6.1 satisfies the DiD parallel trend assumption. Before 2005, both IFRS adopters' and non-adopters' FDI inflows are fluctuating. However, after 2005 (the treatment year), the inflows for IFRS adopters increased sharply, while those for the non-adopting countries increased for a while, then started decreasing around 2008 and then increased sharply but at a lower rate when compared to the increase in the adopters' FDI flows. However, the graph depicts a decrease in FDI inflows for both adopters and non-adopters after 2012. The graph indicates that after 2005, FDI inflows for the adopting countries have not shown signs of a constant increase. The fluctuations in FDI inflows could possibly be attributed to the global financial crises during that same period. For example, Allen and Giovannetti (2008) acknowledge that the global financial crisis of 2008 exerted a substantial effect on foreign investment inflows.

Tables 6.6A, 6.6B, and 6.6C below present the DiD results. The aim is to determine whether there are significant differences in inflows between IFRS adopters and non-adopters between the pre-adoption and post-adoption periods.

Table 6.6A: A standard difference-in-difference analysis

	Pre-IFRS	Post-IFRS	Difference
IFRS Adopters	2.243	3.719	1.838
Non-Adopters	4.080	2.655	1.063
Did			2.901
P-value	0.222	0.221	0.095*

Source: STATA

*** $p < .01$, ** $p < .05$, * $p < .1$

Note: IFRS adopters are countries that adopted IFRS between 1996 and 2018. Non-adopters are countries that had not adopted IFRS between 1996 and 2018. Pre-IFRS is the period between 1996 and 2004, and post-IFRS is the period between 2005 and 2018.

The standard DiD model shown in Table 6.6A suggests that, on average, the FDI for IFRS adopters increased by 2.90% more than that of non-adopters. This result is statistically significant at just less than a 10% level. Thus, the study fails to reject Hypothesis 1 under the DiD estimate. A significance level of 10% is, however, not strong enough to make valid conclusions, and this could result in a conclusion that IFRS impacts FDI, when it might not have an effect. In reality, this could have been caused by other economic, social or political factors. To arrive at a more accurate inference, the study applies the bootstrapping DiD.

Table 6.6B: A bootstrapped difference-in-difference analysis (with bootstrapped standard errors)

	Pre-IFRS	Post-IFRS	Difference
IFRS Adopters	2.243	3.719	1.838
Non-Adopters	4.080	2.655	1.063
Did			2.901
P-value	0.050*	0.001***	0.003***

Source: STATA

*** $p < .01$, ** $p < .05$, * $p < .1$

The bootstrapped DiD runs hypothesis testing on the treatment and control populations and then compares the t-test statistic. In other words, the estimation exposes the control group to the treatment, which in this case is IFRS adoption, and compares the p-values of the treatment and control group. Table 6.6B provides evidence of a higher significance level after bootstrapping the standard errors at a 1% level. This implies that after adopting IFRS, the

adopting sample attracts 2.90% more FDI inflows when compared to the non-adopting sample. This result confirms prior studies (Gu and Prah, 2020).

Table 6.6C: Kernel propensity-score matching difference-in-difference analysis

	Pre-IFRS	Post-IFRS	Difference
IFRS Adopters	2.203	3.719	0.470
Non-Adopters	1.734	2.139	1.580
Did			1.110
P-value	0.477	0.006***	0.003***

Source: STATA

*** $p < .01$, ** $p < .05$, * $p < .1$

The SGMM estimation is affected by selection bias across groups. The African adopting and non-adopting samples may be prone to group differences. African countries are dynamic and characterised by cultural, religious, and colonial differences. These differences can lead to differences in the type of investors that invest in these regions, or the level of investment risk the investors are willing to take in each country. For example, most SADC countries (Zimbabwe, Zambia, Botswana and South Africa) were colonised by the British, and most northern and west-African countries (Senegal, Burkina Faso and Benin) were colonised by the French or the Belgians. These differences may contribute to the type of investors attracted to these African jurisdictions.

Moreover, religious differences may also be a group selection bias. Most northern and west-African countries follow an Islamic religious system that differs from the SADC religious system, mainly influenced by Christianity. These differences may affect how these countries disclose or enforce investment policies in their jurisdictions. Selection bias across groups can also occur if the sample countries change investment policies over time. For example, Zimbabwe introduced the Indigenous Policy [Chapter 14:33] of 2008 and the South African Black Economic Empowerment Act, 53 of 2003, was promulgated, which may attract or discourage investments in these jurisdictions. Given this, the study employs the Kernel propensity score matching to minimise the selection bias.

Table 6.6C above presents the same 1% significance level results as the bootstrapping DiD. The three estimations show that the average FDI inflows for IFRS adopters in the research sample are higher when compared to non-adopters. Therefore, it appears that adopting IFRS affects these African countries' FDI inflows positively. This demonstrates that IFRS adopters

attract more inflows than non-adopters after adopting IFRS, even after controlling for cultural, religious, and economic policy differences. The positive effect of IFRS on FDI inflows confirms the findings in earlier studies that, post-IFRS adoption, IFRS-adopting countries attract more foreign investment inflows than non-adopting countries (Gordon et al. 2012; Amiram 2012; Beneish et al., 2015; Lungu et al., 2017; Omotoso et al., 2022).

6.7.2 Summary: Difference-in-Difference Analyses

The results of the DiD estimates confirm the SGMM results. Adopting IFRS reduces information asymmetry, thus reducing information acquisition and processing costs. As a result, IFRS becomes a determinant of FDI inflows. The results in Tables 6.6A, 6.6B, and 6.6C reflect a significant increase in FDI inflows for IFRS adopters and provide evidence that firms in IFRS-adopting countries become attractive foreign investment destinations as a result of adopting internationally recognised accounting standards, which create confidence and assurance regarding financial disclosures in these jurisdictions. The results confirm a prior study by Hlel et al. (2020), who apply the signalling theory and conclude that adopting and implementing IFRS can positively signal greater quality and transparency of financial reports disclosed in a particular country.

The results of the DiD analyses indicate that, when comparing the inflows of FDI after controlling for time and other covariates, adopting IFRS as an international accounting policy results in an average increase in FDI for the adopting countries in the research sample, regardless of their economic and political environment. This is an essential contribution from the three DiD estimations in this study, as they account for all possible group dynamics but still find significant FDI inflow differences. The results indicate that investors are attracted to locations with accounting information quality. This makes accounting standards (IFRS) an essential component of a nation's institutional structure (Chen and Yu, 2011). If implemented, IFRS can provide investors with quality accounting information that reflects a country's corporate transparency.

6.7.3 T-tests of Means

Next, the study tests the impact of IFRS adoption on the adopting sample. This is an additional test to check whether adopting IFRS by the countries in the research sample contributes to changes in the adopters' average FDI inflows.

6.7.3.1 Comparison of Weighted Means

Table 6.6 only reports on the dependent variable as it seeks to establish the differences in inflows between the pre-and post-adoption period. The t-test of means is conducted on all the variables, both the independent and dependent variables. Using the adopting population, the study employs a t-test of means on the weighted average inflows between the pre-adoption and the post-adoption period to assess the significance of the differences in the flows between the two periods. Table 6.7 below presents the results of the t-test of means.

Table 6.7: T-test of means for the adopting countries

Variable	Pre-adoption Mean	Post-Adoption Mean	Mean Difference	P-value	% of change
FDI	2.168	3.341	1.1725	0.005***	33%

Source: STATA

The results in Table 6.7 above reveal that the differences in inflows between the post-adoption and the pre-adoption period are statistically significant at the 1% level. The results indicate that before adopting IFRS, the average FDI inflow of the study sample was 2.168%; after its adoption, the average FDI inflow increased to 3.341. The results indicate that African adopters in the research sample benefit from adopting IFRS, as their FDI inflows increase after adoption. The results further confirm the positive association between IFRS adoption and FDI established by the SGMM estimate and the positive effects of IFRS adoption on IFRS adopters using the DiD estimation.

This confirms prior studies that compare FDI inflows for the adopting countries in the pre-and post-adoption periods (Omotoso et al. 2022; Mita et al. 2018; Musah et al. 2020). African countries that have adopted IFRS experience improved FDI inflows due to the improved quality of their reporting environments. Furthermore, after adoption, an adopting country can enhance the comparability of its financial statements, thus resulting in the disclosure of financial

statements that convey enough relevant information for foreign investors to make informed economic decisions.

6.7.3.2 The Influence of Timing

The study further attempts to establish whether, amongst IFRS adopters, the timing of adoption influences the levels of FDI inflows. This will further clarify whether the benefits of adoption are affected by the timing of adoption (early adoption or late adoption). The study, therefore, performs an additional test to test the alternative explanation that the benefits of IFRS are influenced by when a country adopted IFRS. A t-test of means between the pre-adoption and post-adoption periods is performed for the early and late adopter samples. The study follows that of Tawiah and Gyapong (2021) who employed the t-test of means to assess how IFRS impacts the audit fees of early adopters *versus* late adopters. The t-test analysis allows the study to distinguish whether any improvements in disclosure quality are due to IFRS adoption as required by law (adoption after 2005 is seen as mandatory adoption) or simply the result of the signalling effect of early adoption, as suggested by Daske (2006). The intuitive assumption behind this analysis is that firms that commit early to IFRS are those that perceive that there are net benefits of adoption.

To assess this, the study introduces a separate indicator variable for country-year observations of countries that report under IFRS ahead of 2005 (official and recognised IFRS adoption date). Following Daske et al. (2008), this study distinguishes between early adopters and late adopters depending on when the country officially adopted IFRS as its national reporting standard. This study defines early adoption as adoption that happened on or before 2005 and late adoption as adoption that occurred after the official mandatory adoption date of 2005, but on or before 2018. The rationale is that 2005 is the official adoption date recognised by the IASB (IASB, 2010). Most studies have also benchmarked 2005 as the official adoption year (Shima and Yang, 2012; Barth et al., 2018). This study employs the weighted average model to evaluate the changes in FDI inflows between the early and late IFRS adopters of adopting countries by comparing the FDI inflows in the pre-adoption period against the inflows in the post-adoption periods of the adopting samples. The sample countries adopted IFRS on different dates; thus, their average contribution to the FDI post-adoption is also different. Therefore, using the weighted average model allows the study to account for the differences in inflows due to the different adoption dates. To make valid inferences, the study conducts a t-test of means to

check if the differences in means are significant between the early adopters and the late adopters in the pre-and post-adoption periods.

Table 6.8: Assessment of the changes in FDI among African IFRS adopters

Variable	Pre-adoption Mean	Post-Adoption Mean	Mean Difference	P-value	% change
Early Adopters	3.007	3.842	0.835	0.009***	26%
Late Adopters	2.925	3.574	0.649	0.541	22%

Source: STATA

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 6.8 above depicts the t-test for equality of means of the study's dependent variable (FDI) between the sampled countries. The means are presented for the IFRS pre-adoption period and the IFRS post-adoption period. The mean difference is used to assess the changes in FDI. Table 6.8 shows a mean of 3.007 and 3.622 for the pre-and post-adoption periods, respectively, for the early IFRS adopters, while the mean difference between the two periods for the early IFRS adopters was 0.835, representing a 26% increase in FDI into the early adopting countries after the adoption of IFRS. The early adopters have a p-value of 0.009, indicating that the increase in FDI in the early adopting countries is statistically significant at 1%. Table 6.8 reports a mean of 2.925 and 3.574 for the late IFRS-adopting countries, while the mean difference between the two periods was 0.649, representing a 22% increase in FDI in the late-adopting countries. Late adopters have a p-value of .540, indicating a statistically insignificant increase in late-adopting countries.

These findings indicate increased FDI inflows for the early adopters of IFRS even after the 2005 adoption date. By contrast, countries that adopted IFRS after 2005 experienced a smaller increase in FDI. The implication is that early adopters attracted more FDI inflows than late adopters. The evidence of increased inflows concurs with Daske et al.'s (2008) firm-level study that reports a larger increase in firm value for the early adopters than for late adopters. At country level, therefore, early adopters in African countries in the study sample exhibit higher levels of FDI inflows when compared to late adopters. This suggests that early adoption allows countries to signal their commitment to transparent and comparable financial reporting, thereby attracting FDI into their jurisdictions.

Moreover, the differences in the adoption timing also provide new insights into the effect of IFRS adoption on FDI between early and late adopters. The robustness checks confirm the positive impact of IFRS on FDI inflows into the study sample of countries in the African region. Increased inflows further substantiate the results for IFRS adopters compared to non-adopters. In addition, the increased inflows for the adopting sample are also revealed in the post-adoption period, indicating that adoption improved the attractiveness of African adopters after the adoption as well. Furthermore, the results relating to early adopters of IFRS in African countries in the study sample substantiate the capital market benefits of signalling to investors a country's ability and willingness to disclose relevant and quality financial statements that are useful in making an informed investment decision.

6.8 SUMMARY

Table 6.9 below provides a summary of the findings of this chapter

Table 6.9: Summary of findings

Research Questions	Research Hypotheses	Findings	Supporting empirical studies	Supporting theory	Decision
RQ1: Is there a significant change in FDI inflows for IFRS adopters in the selected African countries after the adoption?	H₁: IFRS adoption has a significant association with FDI inflows.	There is a significant and positive association between IFRS and FDI inflows into Africa.	Marquez-Ramos (2008); Gordon et al. (2012); Akpomi and Nnadi (2017); Mita et al. (2018); Golubeva (2020)	The new institutional theory, information asymmetry theory and signalling theory.	The study rejects the Null Hypothesis and accepts the Research hypothesis H ₁ .
RQ2a. Is there a significant change in FDI inflows due to the legal enforcement environment of the selected African countries?	H_{2a}: Legal enforcement has a significant association with FDI inflows.	There is a significant and positive association between legal enforcement and FDI inflows.	Gossel and Beard (2019); Ball 2006; (2020); Asiedu (2006); Gaio (2010); Varma et al. (2020)	OLI paradigm and the new institutional theory.	The study rejects the Null hypothesis and accepts the Research Hypothesis H _{2a} .
RQ2b. Is there a significant change in FDI inflows due to the auditing and accounting enforcement environment of the selected African countries?	H_{2b}: Auditing and accounting enforcement has a significant association with FDI inflows.	There is a significant and positive association between auditing and accounting standards enforcement with FDI inflows.	Borgi and Mnif (2021); Sunder (1997); Kothari (2000); Hope (2003); Boolaky et al. (2013)		The study rejects the Null Hypothesis and accepts the Research Hypothesis H _{2b} .
RQ2c. Is there a significant change in FDI inflows due to	H_{2c}: Legal origin has a significant	There is no significant association between	Feng et al (2019); Hewko (2002)		The study rejects the Research Hypothesis H _{2c} .

Research Questions	Research Hypotheses	Findings	Supporting empirical studies	Supporting theory	Decision
the language origin of the selected African countries? RQ2a. Is there a significant change in FDI inflows due to the legal origin of the selected African countries?	association with FDI inflows. H2d: Language origin has a significant association with FDI inflows.	legal origin and FDI inflows. There is a significant and positive association between language origin and FDI inflows.	Feng et al. (2019); Levin and Cross (2004); Oh et al. (2011); Camfferman and Zeff (2018); Mhedhbi and Zeghal (2016)		The study rejects the Null Hypothesis and accepts the Research Hypothesis H_{2d}.
RQ3a. Does the legal enforcement environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries? RQ3b. Does the auditing and accounting environment in African IFRS-adopting countries moderate the effect of IFRS on FDI	H3a: Legal enforcement significantly moderates the relationship between IFRS and FDI inflows. H3b: Auditing and accounting standards enforcement significantly moderates the relationship between IFRS and FDI inflows.	There is a significant and negative association between FDI inflows and the legal enforcement moderating variable. There is a significant and positive association between the auditing and accounting enforcement moderating variable and FDI inflows.	Daske et al (2008); Defond et al (2019); Laupe (2018); Akpomi and Nnadi (2017) Albu et al. (2020)Preiato et al (2015); Tunyi and Ntim (2016); Stainbank and Tauringana (2016)	The new institutional theory, the information asymmetry theory, the signalling theory, and the OLI paradigm.	The study rejects the Null Hypothesis and accepts the Research Hypothesis H_{3a}. The study rejects the Null Hypothesis and accepts the Research Hypothesis H_{3b}.

Research Questions	Research Hypotheses	Findings	Supporting empirical studies	Supporting theory	Decision
inflows in selected African countries? RQ3_c. Do the historical ties in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries? RQ3_d. Does the institutional quality in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?	H_{3c}: Historical ties significantly moderate the relationship between IFRS and FDI inflows. H_{3d}: The quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.	There is a significant and positive association between FDI and inflows and the moderating variable of historical ties. There is a significant and negative association between the institutional quality moderating variable and FDI inflows.	Degos et al. (2019); Zeghal and Mhedbi (2006); EY Africa Attractiveness Report (2018) Owusu and Mohd Saat (2017); Boolaky et al. (2020); Omotoso et al. (2022); Efiobi et al. (2014); Agyei-Boapeah et al. (2020); Balsmeier and Vanhaverbeke (2018)		The study rejects the Null Hypothesis and accepts the Research Hypothesis H_{3c}. The study rejects the Null Hypothesis and accepts the Research Hypothesis H_{3d}.

Source: Author's analysis

The first hypothesis tested whether there is a significant association between IFRS adoption and FDI inflows into the selected African countries. The second hypothesis tested whether there is a significant association between institutional factors and FDI inflows into Africa. Lastly, the study tested whether institutional factors moderate the effects of IFRS adoption on FDI inflows into the selected African countries.

A preliminary data check was carried out, and descriptive statistics were presented. The data was checked for stationarity using the Levin-Lin-Chu and Im Pesaran unit root tests. Multicollinearity was tested using the Pearson correlation matrix. Regression tests were run on nine models using the GMM estimate, and the autoregressive <AR>1 and the <AR>2 post-estimation confirmed no autocorrelation.

The results indicate that IFRS adoption significantly impacts FDI inflows for the sample countries. This is consistent with prior studies. Therefore, the study rejects the Null Hypothesis and accepts the Research Hypothesis that IFRS adoption has a significant impact on FDI inflows. For the second objective, the findings reveal that legal enforcement, accounting and auditing enforcement, and language origin as institutional factors significantly affect FDI inflows. However, legal origin has an insignificant effect on FDI inflows. Therefore, the study accepts Research Hypotheses 2a, 2b, and 2d, and fails to accept Hypothesis 2c. Regarding objective 3, the study finds that the moderating factors of legal enforcement, historical ties, auditing and accounting enforcement and institutional quality significantly influence the association between IFRS adoption and FDI inflows. Therefore, the study rejects the Null Hypotheses and accepts the Research Hypotheses 3a, 3b, 3c, and 3d.

Robustness tests were carried out using the DiD estimation and the t-test of means on the pre-adoption and post-adoption periods and the samples of early adopters and late adopters. The two estimations confirmed the SGMM findings of a significant association between IFRS adoption and FDI inflows.

The next chapter, Chapter 7, provides a conclusion to this study.

CHAPTER 7

CONCLUSION

7.1 INTRODUCTION

The previous chapter focused on the data analysis and interpretation of the findings, thus addressing the research questions. The present chapter provides a summary of the study and the conclusions drawn from the study's findings. Recommendations are made, based on the study findings. The study's main objective was to determine whether IFRS adoption significantly affects FDI inflows into the selected African countries, and whether the institutional environment influences the impact of IFRS adoption on FDI inflows. The chapter first presents the structure of the study, and the following section discusses the contributions of the study. Recommendations relating to matters to be considered by FDI investors, based on the findings, are made, and the limitations of the study are then discussed. Areas for future study are suggested, and the chapter ends with some concluding remarks.

The study answered the following research questions and tested the corresponding hypotheses:

RQ1: Is there a significant change in FDI inflows for IFRS adopters in selected African countries after the adoption?

H₁: IFRS adoption has a significant impact on FDI inflows.

RQ2_a. Is there a significant change in FDI inflows due to the legal enforcement environment of the selected African countries?

H2_a: Legal enforcement has a significant association with FDI inflows.

RQ2_b. Is there a significant change in FDI inflows due to the auditing and accounting enforcement environment of the selected African countries?

H2_b: Auditing and accounting enforcement has a significant association with FDI inflows.

RQ2_c. Is there a significant change in FDI inflows due to the language origin of the selected African countries?

H2_c: Legal origin has a significant association with FDI inflows.

RQ2a. Is there a significant change in FDI inflows due to the legal origin of the selected African countries?

H2d: Language origin has a significant association with FDI inflows.

RQ3a. Does the legal enforcement environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3a: Legal enforcement significantly moderates the relationship between IFRS and FDI inflows.

RQ3b. Does the auditing and accounting environment in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3b: Auditing and accounting standards enforcement significantly moderate the relationship between IFRS and FDI inflows.

RQ3c. Do the historical ties in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3c: Historical ties significantly moderate the relationship between IFRS and FDI inflows.

RQ3d. Does the institutional quality in African IFRS-adopting countries moderate the effect of IFRS on FDI inflows in selected African countries?

H3d: The quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.

7.2 STRUCTURE OF THE STUDY

This section presents a summary of the study.

Chapter 1 introduces the topic, discussing the background to the study. The chapter identifies and discusses the research problem, together with the contribution the study makes. Three research questions and nine hypotheses are set out. The conceptual framework of the study is briefly discussed, and the theoretical framework underpinning the study is explained. The research design adopted to address the research questions is outlined.

Chapter 2 focuses on contextualising the study within the African continent by reviewing the literature on the development of international accounting standards and the adoption of

international accounting standards in Africa. The literature review indicates that Africa had its own accounting systems, deeply rooted in the African social systems, before colonisation. During colonisation, however, Africa was forced to adopt the accounting systems of its colonists. This resulted in African countries using Western accounting systems in order to maintain trade relations with their former colonists. In addition, after colonisation, most African states were left aid-dependent, and the financial aid from international financiers came with specific conditions, such as the adoption of international accounting standards. The adoption of IFRS, a Western standard, by African countries has its own problems. The IFRS standards were designed in the Western developed world, while most African countries are classified as less developed or underdeveloped, characterised by less developed capital markets, weak or poor institutions, and unstable political environments. The literature shows that because of the differences between developed and less developed economies, a standard designed for a more developed economy may not be entirely suitable for a less developed economy. The universal approach by the IASB might not produce the intended capital market benefits in Africa.

Chapter 3 presents a literature review on the role of IFRS in promoting FDI inflows into African countries that have adopted the standards. The main objective of the chapter is to discuss and motivate the variables to be tested in the study, in order to answer the research questions. While there are conflicting results from the studies reviewed, it appears that the overwhelming findings are that the adoption of IFRS supports FDI inflows, but that this depends on a sound institutional environment in the adopting country. Literature has emphasised the importance of the institutional environment as a possible determinant of FDI inflows and the impact of the institutional environment on the relationship between IFRS and FDI inflows. The basis for the strength of the institutional environment is identified as having appropriate legal systems that offer investor protection, the positive role of cultural proximity, and the compliance with and enforcement of accounting standards. The sparse literature dealing with the moderating role of the institutional variables on the IFRS adoption nexus with FDI inflows is identified, illustrating the need for these variables to be tested in African countries. Limitations of prior research are discussed, substantiating the need for the present research.

Chapter 4 describes the research design and methodology for the study. The study situates itself within the post-positivist paradigm; therefore, it does not claim to establish an absolute truth that is universally applicable. The ex-post facto research technique is confirmed to be relevant

for the present study, and a deductive approach to test the nine hypotheses developed in Chapter 5. A quantitative approach is utilised, because of its ability to statistically test the relationship between variables. The study focuses on 26 African countries, purposively selected for specific reasons. Annual data covering the period 1996 to 2018 is collected from internationally recognised databases. The chapter explains that preliminary information about the data set is obtained, using descriptive statistics, including the Pearson Correlation analysis, and that the SGMM estimation that is found to be the most appropriate estimation technique is used to test the nine hypotheses because of its ability to address endogeneity of the data. Robustness tests are described using the DiD estimation and the t-test of means that are found to be the most suitable techniques to avoid making conclusions based on inconclusive evidence.

Chapter 5 provides a detailed discussion of the theoretical framework, the conceptual framework, the model specification, and the hypotheses development for the study. The new institutional theory, the information asymmetry theory, the signalling theory and the OLI paradigm underpin the study. As indicated by the literature, the adoption of IFRS by most African states can be attributed to the new institutional theory as countries adopt IFRS to seek legitimacy to participate in global markets. The adoption of IFRS also reduces information asymmetry for potential investors through improved comparability, transparency and disclosure. The reduction in information asymmetry translates into a reduction in processing and translation costs. Furthermore, adopting IFRS assists firms to signal their ability to disclose quality financial information to potential investors.

The literature also indicates that after the adoption of IFRS, a supporting institutional environment must exist for countries to benefit from the adoption. The OLI paradigm theorises that investors need a conducive business environment to be willing to take the investment risk. The institutional environment is therefore an important determinant of FDI inflows. There is inconclusive evidence in literature on whether IFRS directly affects FDI inflows, the institutional environment directly affects FDI inflows into Africa, or whether the institutional environment influences the relationship between IFRS and FDI inflows. Based on this gap in the literature, the present study develops nine hypotheses to test these relationships.

Two models are developed to test the nine hypotheses, based on the Gordon et al. (2012) model, which was developed to determine the economic and institutional determinants of FDI inflows. The first model, adapted from Gordon et al. (2012) for the present research tests Hypothesis 1,

and assumes that there is a direct positive relationship between IFRS adoption and FDI inflows, and between the institutional environment and FDI inflows. This model extends the Gordon et al. (2012) model by including the variable ADOPT in the model. Model 2 tests Hypothesis 2, which assumes an indirect effect of the institutional environment on FDI inflows. This model extends the Gordon et al. (2012) model by including a moderating variable (interaction term) in the model. From these two models, the hypotheses for the present study are developed, and linked with findings in the literature.

Chapter 6 presents and discusses the findings of the study. The first hypothesis tests the impact of IFRS adoption on FDI inflows into the selected African countries. The results indicate that IFRS adoption significantly and positively impacts these FDI inflows, thus accepting Hypothesis 1. These results are consistent with literature, the new institutional theory, the information asymmetry theory and the signalling theory. The second hypothesis tests the effects individually of the legal enforcement, auditing and accounting enforcement systems, legal origin, and language origin, on FDI inflows into these countries. The results indicate that legal enforcement, auditing and accounting enforcement systems and language origin significantly impact the inflow of FDI, whilst legal origin has no significant impact on FDI inflows. Hypotheses 2a, 2b, and 2d are therefore accepted, and Hypothesis 2c rejected. The finding of a significant impact of the institutional environment on FDI inflows is consistent with the new institutional theory and the eclectic theory. The third hypothesis tests the moderating effect of the institutional environment on the relationship between IFRS adoption and FDI inflows. The results indicate that legal enforcement, historical ties, auditing and accounting enforcement, and institutional quality significantly moderate the relationship between IFRS adoption and FDI inflows. However, the impact of the institutional moderators varies, with some having a positive moderating effect (historical ties and auditing and accounting enforcement), and some a negative moderating effect (legal enforcement and institutional quality). The study therefore accepts Hypotheses 3a, 3b, 3c and 3d. These results are consistent with the new institutional theory, the information asymmetry theory, the signalling theory and the eclectic theory. The table below provides a summary of the findings:

Table 7.1 Summary of hypotheses results

Hypothesis	Assumed relationship	Actual relationship	Hypotheses therefore....
H ₁	IFRS adoption has a significant impact on FDI inflows.	Positive and statistically significant.	Accepted
H _{2a}	Legal enforcement has a significant association with FDI inflows.	Negative and statistically significant.	Accepted
H _{2b}	Auditing and accounting enforcement has a significant association with FDI inflows.	Positive and statistically significant.	Accepted
H _{2c}	Legal origin has a significant association with FDI inflows.	Positive and statistically insignificant.	Rejected
H _{2d}	Language origin has a significant association with FDI inflows.	Positive and statistically significant.	Accepted
H _{3a}	Legal enforcement significantly moderates the relationship between IFRS and FDI inflows.	Positive and statistically significant	Accepted
H _{3b}	Auditing and accounting enforcement significantly moderate the relationship between IFRS and FDI inflows.	Positive and statistically significant.	Accepted
H _{3c}	Historical ties significantly moderate the relationship between IFRS and FDI inflows.	Positive and statistically significant.	Accepted
H _{3d}	The quality of a country's institutional environment significantly moderates the relationship between IFRS and FDI inflows.	Negative and statistically significant.	Accepted

Source: Author's analysis

7.3 CONTRIBUTIONS OF THE STUDY

The study makes both empirical and practical contributions to the field of research, dealing with the effect of the adoption of IFRS in Africa.

The present research contributes to the literature regarding IFRS adoption and the effects of the institutional environment in African (developing) countries in several ways. First, it addresses an information gap by investigating the effects of IFRS adoption on FDI inflows and the moderating role of the institutional environment on the IFRS and FDI nexus. The study provides a new understanding of the effect that IFRS adoption, as an international accounting standard, has on accounting information quality, which assists foreign direct investors to make rational investment decisions. The study confirms that IFRS adoption significantly and positively influences FDI inflows, but the quality of the institutional environment can influence the direction of the impact of IFRS on FDI inflows. This advances the scope of knowledge that examines the relationship between IFRS and FDI investment in Africa.

Second, the study contributes to knowledge by exploring different institutional factors that can be used to capture the diverse African institutional environment. The study creates a historical tie variable to capture the effects of the historical ties developed during the colonial era on the FDI and IFRS nexus. The results of the study indicate that historical ties after IFRS adoption enhance the flow of FDI into African countries due to the trust emanating from shared colonial ties. The incorporation of the effects of cultural or historical ties on capital market benefits after adoption advances the scope of knowledge in accounting and finance studies.

Third, the study extends the Gordon et al. (2012) model to capture the moderating effect of the institutional environment on the effects of IFRS adoption on FDI inflows. The study creates an interaction term to capture the effect of the moderating variable. The model can be employed in studies examining the indirect effect of the institutional environment on capital market benefits after IFRS adoption.

Overall, the results of the present study suggest that FDI decisions are shaped by both the adoption of IFRS and a country's institutional environment. Furthermore, this study contributes to the literature by creating indicators for legal enforcement, accounting and auditing enforcement, and historical ties, rather than the institutional environment being proxied by

world governance indicators. These indicators focus on the governance of institutions and the role of African colonial history and the accounting profession in the institutional environment of the sample of African countries.

Lastly, the study's results illustrate the relevance of the new institutional theory, the information asymmetry theory, the signalling theory and the eclectic theory. The need to gain legitimacy in order to participate in global markets is a probable reason for the adoption of IFRS by African countries in the study sample. Furthermore, the adoption of IFRS by these countries is likely to have resulted in a reduction in information asymmetry. The reduction in information asymmetry would necessarily translate into the reduction in information acquisition and processing costs on the part of the investors. In addition, the adoption of IFRS signals the ability and willingness of firms in the adopting countries to disclose quality and relevant information. The institutional environment of the adopting country can create a supportive environment for conducting business for investors, and thus a locational advantage. All four theories are credible explanations for the findings of the present study.

7.4 IMPLICATIONS FOR FDI INTO AFRICAN IFRS ADOPTING COUNTRIES

The present study confirms the importance for the investment community of the adoption of IFRS by African countries and the effect of the quality of the institutional environment of the host country on the FDI investment decisions. Thus, the present study's findings have important decision-making implications for investments of FDI into African countries. The research findings indicate that the adoption of IFRS by African countries can reduce information asymmetry for investors. Thus, the resultant effect should translate to a reduction in investors' information acquisition and processing costs, which translates to reduced costs of investment and higher expected investment returns.

The impact of the institutional environment on FDI as established in the present research suggests that investors into African countries need to consider the institutional environments in the jurisdictions in which they intend to invest. The direct effects of the institutional environment on FDI inflows as identified suggest that the institutional environment is a direct determinant of FDI inflows, which can either positively or negatively affect the cost of investment in African countries. Therefore, countries with a strong institutional environment should be able to provide access to a business environment that protects the property rights of

investors and promotes the ease of doing business, mitigating investment risks due to corruption and organised crime. Therefore, the implication is that the decision by African countries to adopt IFRS should be undertaken as something other than a stand-alone strategy but in tandem with institutional reforms aimed at improving the quality of institutions.

The findings of the present research on the moderating role of the institutional environment suggest that investors investing in African countries need to consider the institutional environment that supports IFRS accounting systems. African countries that are in a position to implement efficient auditing and accounting standards enforcement systems in their jurisdictions should be in a position to provide quality and reliable accounting information useful for investment decisions. Thus, strong auditing and accounting standards enforcement mechanisms are an essential institutional factor to be considered when investors are considering investing in African jurisdictions.

7.5 LIMITATIONS OF THE RESEARCH

Several limitations should be considered in evaluating the contributions and implications of this study. First, there is a limitation in relation to the sample size of 26 out of 54 African countries, compared to prior studies assessing the capital markets effect of IFRS adoption in a multi-country setting. The current study is also limited in terms of the period (1996 – 2018). Furthermore, using only a non-randomly selected sample prevents the generalisation of results to other developing countries.

Second, although several essential control variables are included in this study, additional control variables that prior research has shown to impact FDI inflows, such as economic policies or taxes, were not included in this study. Another possible factor to consider is whether countries have entered into Double Tax Treaties with their former colonisers. The presence of such a treaty may be a source of comfort to investors. In addition to potential variables identified in the literature, there are other global events that would probably have influenced the inflow of FDI into African countries, such as the various global financial crises occurring during the study period.

Third, the use of legal origin and language origin as proxies for historical ties may not capture all aspects of these ties. African colonial history is broad and diverse. Thus, using two

indicators may limit the results of the present study. Other indicators such as religion, for example, could be used to capture the historical and colonial past. In addition the lack of a comprehensive model for measuring changes in FDI inflows is another limitation of this study. Replicating the Gordon et al. (2012) model has inherent risk. The researcher did not have access to the actual files or econometric software used by Gordon et al. (2012). Therefore, this study might have misinterpreted a certain approach or technique in respect of the data analysis. In addition, the statistical analysis was limited to the SGMM and the DiD techniques and did not include other possible analytical techniques. One such technique is Gravity Models, which are usually carried out on cross-section data. However, cross-sectional methods lead to biased results because they do not control for heterogeneous trade and investment relationships. For example, the impacts of historical and cultural links on FDI inflows observed in this study are difficult to quantify using gravity models.

The validity of the secondary data could not be confirmed, which also poses a risk for the study. However, despite these limitations, the study provides a contribution that can be used to understand the effect of IFRS adoption on FDI inflows into Africa.

7.6 SUGGESTIONS FOR FUTURE RESEARCH

Future research examining the impact of IFRS adoption could focus on the 17 African countries that adopted IFRS after 1 January 2019 using OHADA countries (the non-adopting sample of the present study). Researchers could investigate whether investment inflows have changed for these countries post-adoption. This will be an interesting area of study, as it will shed light on the impact of IFRS compared to other domestic or regional accounting standards like OHADA. In addition, future research could increase the sample size and include more variables.

Another area of future research could be a comparative study of African countries and other developing countries outside Africa, for instance, Latin America, to see whether the benefits of IFRS vary across countries or regions.

There is a need to examine the impact of IFRS on FDI inflows over several decades and to use a population of all African countries to ensure that the results are generalisable.

The present study only includes historical ties, legal systems and accounting and auditing enforcement systems as indicators of the institutional environment. There is a need to examine the effects of culture and religion, as well as other potential factors, as institutional environment indicators, and how differences in these factors could impact the strength of institutional quality and its effect on the IFRS and FDI nexus.

This study has opened up further discussion on the impact of Africa's colonial past on accounting standards. Future research could further investigate the benefits of IFRS adoption by tracing the FDI inflows to the investor country to examine if colonial or historical ties have influenced FDI inflows into African countries from their former colonists.

7.7 CONCLUDING REMARKS

Several studies such as those by Nnadi and Soobaroyen (2015) and Efiobi et al. (2014), have argued that IFRS adoption alone cannot bring the intended capital market benefits in African countries. The studies have called for a deeper analysis of the effect of the institutional environment on the association between IFRS adoption and FDI. This study is a response to the call. Using data from a sample of countries in Africa that have already adopted IFRS, despite having an economic, cultural, institutional, and historical background different from the advanced economies, this study indicates that the institutional environment in these countries if weak can adversely affect the flow of FDI into these jurisdictions. The findings of this present study are consistent with recent research showing that a country's institutional environment influences macroeconomic benefits and improves the information environment in such a way that IFRS benefits are concentrated in countries with strong institutional environments.

Finally, it is suggested that there is a need for the IASB to consider that the universal approach to accounting standard setting may not take into account the differences in institutional environments in countries across the globe.

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APPENDICES

Appendix A: Capital market status in Africa

Country	Founded	Listings
Algeria	1997	5
Angola	2016	0
Botswana	1989	44
Cameroon	2001	2
Cape Verde	2005	0
Cote d' Ivoire	1998	39
Egypt	1883	265
Gabon	2003	0
Ghana	1990	37
Kenya	1954	64
Lesotho	2016	0
Libya	2007	7
Malawi	1995	14
Mauritius	1988	170
Morocco	1929	81
Mozambique	1999	0
Namibia	1992	47
Nigeria	1960	223
Rwanda	2008	8
Seychelles	2012	39
Somalia	2015	2
South Africa	1887	388
Sudan	1994	54
Swaziland	1990	10
Tanzania	1998	25
Tunisia	1969	56
Uganda	1997	17
Zambia	1994	29
Zimbabwe	1948	64

Appendix B: FDI inflows into Africa as a percentage of GDP

Country Name	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Benin	-0.62	0.54	0.46	0.25	-0.36	0.46	-0.46	0.20	-0.66	-0.13	-0.18	1.70	0.49	-0.19	0.56	1.51	2.53	2.88	3.05	1.32	1.11	1.58	1.36
Botswana	1.47	1.99	1.99	0.67	0.99	0.56	7.50	5.57	4.36	4.24	4.80	4.52	4.76	2.03	1.71	1.91	1.02	0.45	3.29	2.79	0.94	1.62	1.69
Cameroon	0.65	1.13	0.93	0.71	0.54	0.73	0.67	0.82	1.47	1.49	1.20	2.99	1.85	1.82	3.34	2.68	1.10	0.95	1.00	1.21	1.93	2.90	1.19
Gabon	-5.01	-2.15	2.96	1.92	5.47	-2.00	0.02	1.53	4.04	3.40	2.59	5.26	4.45	5.25	3.65	6.17	3.94	1.84	6.94	0.29	8.87	8.80	8.18
Ghana	1.73	1.19	2.24	3.16	3.33	1.68	0.96	1.79	1.57	1.35	3.11	5.57	9.47	9.11	7.85	8.26	7.98	5.14	6.14	6.46	6.21	5.39	4.44
Guinea	0.61	0.46	0.50	1.83	0.33	0.06	1.02	2.29	2.69	3.57	2.96	6.14	5.48	1.36	0.00	14.09	7.93	0.00	-0.84	0.61	18.83	5.59	2.98
Guinea-Bissau	0.38	4.27	2.13	0.33	0.19	0.10	0.85	0.84	0.36	1.48	3.02	2.69	0.76	2.28	3.09	2.28	0.67	1.88	2.74	1.77	1.21	1.16	1.37
Equatorial Guinea	161.82	12.08	74.12	24.84	14.77	64.38	17.90	27.76	7.73	9.36	4.65	9.51	-4.02	10.89	16.76	9.25	4.40	2.66	0.77	1.77	0.48	2.50	3.02
Kenya	0.90	0.47	0.19	0.40	0.87	0.04	0.21	0.55	0.29	0.11	0.20	2.28	0.27	0.27	0.39	3.09	2.45	1.81	1.20	0.88	0.63	1.64	0.83
Mali	0.98	2.76	0.33	0.90	2.04	6.03	-0.32	1.54	1.56	2.57	2.15	2.53	2.72	6.34	3.48	4.29	3.20	2.33	1.00	2.10	2.54	3.65	2.74
Mauritius	0.83	1.32	0.29	1.14	5.70	-0.60	0.66	1.08	0.21	0.64	1.52	4.18	3.78	2.81	4.30	3.76	5.05	2.42	3.56	1.85	3.10	3.62	3.25
Malawi	0.69	0.56	0.69	3.30	1.49	1.12	0.17	2.05	3.10	3.82	0.89	2.81	3.67	0.79	1.39	10.15	-0.15	8.18	9.89	4.51	2.13	1.01	0.78
Namibia	3.23	2.19	2.48	1.32	5.01	10.66	4.41	1.32	3.38	5.38	7.63	7.57	8.72	9.27	2.52	6.42	7.99	6.45	3.58	7.40	3.35	2.18	1.71
Niger	0.36	0.83	-0.07	0.06	0.70	0.92	0.28	0.55	0.65	1.14	0.85	1.73	3.88	8.62	10.15	12.16	8.92	7.04	7.58	5.47	2.90	3.03	3.64
Nigeria	0.98	0.86	0.55	1.69	1.64	1.61	1.96	1.91	1.37	2.83	2.06	2.19	2.41	2.90	1.67	2.18	1.55	1.09	0.86	0.63	0.85	0.64	0.20
Rwanda	0.16	0.14	0.36	0.08	0.39	0.94	0.08	0.22	0.32	0.27	0.92	2.02	1.98	2.09	3.53	1.63	3.52	2.99	3.81	1.90	3.22	2.96	3.80
Senegal	0.21	2.96	1.09	2.45	1.36	0.69	1.18	0.99	1.37	1.53	2.48	2.51	2.70	2.05	1.69	1.90	1.56	1.65	2.04	2.30	2.48	2.80	3.67
Sierra Leone	0.07	0.21	0.02	0.08	6.13	0.90	0.83	0.62	4.22	5.50	3.12	4.42	2.12	4.50	9.25	32.30	19.00	8.73	7.48	5.98	3.77	11.12	6.13
Eswatini	1.35	-0.89	9.68	6.35	5.22	1.90	6.49	-2.74	2.51	-1.44	3.68	1.08	3.21	1.84	3.06	2.05	0.54	1.78	0.58	0.78	0.70	-1.31	0.67
Chad	2.46	2.87	1.24	1.60	8.29	26.88	46.28	25.98	10.55	-1.49	-3.75	-3.72	4.48	4.04	2.93	2.32	4.69	4.02	-4.85	5.11	2.42	3.63	4.10
Togo	0.15	0.82	0.70	0.96	3.54	4.90	3.39	2.16	3.54	4.21	3.89	2.34	1.53	1.37	3.65	18.82	3.14	4.25	1.18	6.17	-0.77	1.38	-2.54
Tanzania	2.31	2.05	1.40	4.06	3.46	4.04	2.80	2.09	2.65	5.08	2.16	2.66	4.95	3.28	5.66	3.55	4.54	4.57	2.83	3.18	1.74	1.76	1.70
Uganda	2.00	2.79	3.19	2.34	2.59	2.59	2.99	3.06	3.72	4.11	6.46	6.66	5.05	3.35	2.04	3.21	4.41	3.79	3.25	2.28	2.14	2.61	3.21
South Africa	0.50	2.26	0.36	0.99	0.64	5.37	1.15	0.40	0.27	2.26	0.21	1.98	3.13	2.31	0.88	0.90	1.06	2.05	1.52	0.44	0.68	0.54	1.38
Zambia	3.53	4.82	5.60	4.76	3.38	3.54	7.11	7.08	5.85	4.28	4.83	9.42	5.24	4.53	8.53	4.73	6.79	7.49	5.56	7.45	3.16	4.28	1.55
Zimbabwe	0.95	1.58	6.94	0.86	0.35	0.06	0.41	0.07	0.15	1.79	0.73	1.30	1.17	1.09	1.02	2.44	2.04	1.95	2.43	2.00	1.67	1.75	3.96

