

## Chapter 32

# The Effect of International Financial Reporting Standards Adoption on Foreign Direct Investment and the Economy

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### ABSTRACT

*This chapter examines the effect of International Financial Reporting Standards (IFRS) adoption on Foreign Direct Investment (FDI) and Ghanaian economy. It is a cross sectional survey study, with the population consisting of both Preparers and Users of financial statements. Stratified Random sampling method was adopted to gather primary data. Findings showed that IFRS has been adopted in Ghana and it is perceived that IFRS implementation promotes FDI inflows and economic growth. This study recommends all stakeholders to have full implementation to reap benefits of the IFRS and principle - based standards. The implication is that preparers need to work on their skills and expertise gap through training and development and to ensure that these standards are included in the academic and professional curricula. Moreover, regulatory bodies should monitor and enforce these standards but where local content is needed, convergence should be the solution.*

### 1. INTRODUCTION

The importance of international accounting practice studies has grown over the past few years in order to meet economic agent demands and to facilitate international business practices. It is essential to understand that international accounting convergence is an important topic for capital market regulators, investors, markets, governments and all others who deal with financial information of public companies. This brings out the importance of accounting as being an essential fiscal tool for various economic agents. The merit of international accounting convergence lies in its ability to minimize negative effects resulting

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from diversity of accounting practices in different countries (Cordeiro, Couto, & Silva, 2007). In such a scenario, the introduction of International Financial Reporting Standards (IFRS) for listed companies in many countries around the world is viewed as one of the most significant regulatory changes in accounting history (Daske, Hail, Leuz, & Verdi, 2008).

This research constitutes an extension of the study conducted by Zeghal and Mhedhbi (2006) who concentrated on the major factors that influence the adoption of IAS by the developing countries. However seeing the considerable rising number of emerging countries intending to apply the IFRS and with the accelerated processes over the years ranging between 2008 and 2015 this chapters' contribution consists mainly of testing the effect of IFRS on two parameters: FDI and economic growth.

The adaptation of International Financial Reporting Standard has become a hot topic globally after a series of arguments. Although there are still different schools of thought endlessly arguing in favour of individual countries, why and how to adopt IFRS, the academic and business community begin to look further into IFRS empirically today. One of the hot topics is whether countries will benefit economically or not if they adopt IFRS. This problem is being expounded and discussed widely by scholars but failed to reach agreement globally. It is pity that there are few empirical literatures about the relationship between the adoption of IFRS and foreign direct investment and the economy. The aim of this chapter is to investigate the interaction between IFRS, foreign direct investment and the Ghanaian economy. This chapter contributes to the literature on IFRS by answering two questions: (i) is there any significant relationship between the adoption of IFRS and FDI? (ii) how does FDI inflow affect economic growth in Ghana? The remainder of this chapter proceeds as follows. The second section provides literature review and develop hypothesis. Third section describes the research design and the data. Fourth section reports the empirical results and fifth section concludes

## **2. LITERATURE REVIEW**

### **2.1 Background**

Internationalization of economic trade and globalization of businesses is on the ascendancy. Consequently, financial statements prepared according to a nation's local accounting system may hardly meet the needs of investors, business partners, financiers and decision-makers who are conversant with international standards. Meanwhile, developing and emerging markets are the target of the world's leading industries that are operating in the saturated western countries. To better undertake their activities in developing countries; they must adopt international accounting standards that suit needs (Zeghal & Mhedhbi, 2006). Foreign investment is a major boost to the economies of developing countries. An investor may demand vivid and comprehensible financial information from a firm. This underscores the reason why developing countries must adopt International Accounting Standards (Zeghal & Mhedhbi, 2006).

To bridge the gap between accounting standards among countries, the International Accounting Standards Committee (IASC) was founded in 1973 by a group of professional accounting practitioners with an attempt to formulate a uniform and global accounting standards that would aim at reducing the discrepancies in international accounting principles and reporting practices. In this light, the International Accounting Standard (IAS) was proposed which has actively been championing the uniformity and standardization of accounting principles over two decades now. Meanwhile, in April 2001, the International Accounting Standards Board (IASB) took over the setting of International Accounting Standards

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