

# The Influence of IFRS Adoption on FDI and Economic Growth: Evidence from Nigeria

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**Abstract** This research study analyzes the influence of the adoption of International financial reporting standards (IFRS) on foreign direct investments (FDI) inflows and economic growth in Nigeria. Institutional quality indicators are incorporated into the study to assess their mediating impact on the relationship between the independent and dependent variables. FDI inflows and economic growth are used as dependent variables in the study, while the independent variable is IFRS adoption. Time series data spanning from 2004 to 2022 is used to obtain the research findings. Multivariate analysis of covariance (MANCOVA) is used to test for the difference in FDI inflows and economic growth during the pre-IFRS and post-IFRS adoption periods. Mediating analysis indicated a significant positive effect of IFRS adoption on economic growth, with institutional variables influencing the relationship. Based on the research findings of this study, IFRS adoption positively contributes to economic growth by fostering the private domestic businesses and investments within the country. While, a negative influence of IFRS adoption on FDI inflows was revealed in the study findings with institutional quality factors playing a significant mediating role. This study supports the view that though IFRS adoption is expected to foster FDI inflows, in countries with weak institutional qualities its influence proves to be minimal. Adequate disclosures under IFRS are essential for promoting transparency, a critical factor currently lacking in many Nigerian companies. Further, IFRS is aimed at enhancing the value relevance of accounting information thereby ensuring international comparability, providing quality financial information and allowing both foreign and domestic investors rely on financial statements in making investing and economic

decisions. However, the findings of this study prove that IFRS adoption in Nigeria has not been successful in bringing value relevant financial information. Therefore, it is vital to establish solid institutional and corporate governance structures to enforce compliance with IFRS in financial statement preparation, reflecting actual company earnings and financial performance to encourage increase in FDI inflows and economic growth.

**Keywords** IFRS Adoption, FDI Inflows, Economic Growth, MANCOVA

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## 1. Introduction

International financial reporting standards (IFRS) have proven to foster integrity accountability, and reliability of financial structure as well as corporate governance [1]. The demand for consistent financial reporting and accounting standards has grown as a result of international expansions, enabling cross-border capital transfers. IFRS serves as a worldwide accounting standard that harmonizes financial reporting, and as such assists international businesses operating across borders to improve the consistency of accounting information, hence, increasing comparability and dependability of accounting information across international borders [2]. Furthermore, in boosting foreign trade and investments across country borders the adoption of IFRS has also proved to substantially reduce information asymmetries and costs [3].

Nigeria in particular, along with other African nations, is unable to use domestic funds to fund all of their domestic

investments. Most of the government budgets are deficit driven. Capital flows and investments from around the world are used to finance these trade and current account imbalances [4]. In addition, the economic growth of the nation is plagued with political unrest, rapid population expansion, faulty social structures and high levels of corruption [5]. Hence, FDI inflows are important and vital to the Nigerian economy to foster economic expansions and growth. In order to attract FDI inflows, a strong financial reporting system that generates accurate and credible accounting information is necessary to enable international investors assess risk in relation to potential returns [6]. However, World bank statistics indicates that FDI inflows to Nigeria have decreased since the implementation of IFRS in 2012.

Nigeria's adoption of IFRS is part of the government's economic reform and initiative aimed at boosting FDI inflows and economic growth. Hence, studying the implications of the adoption of IFRS on the Nigerian economy is crucial for this reason.

Many studies have been carried out to investigate the consequences of IFRS adoption, with some of the studies concentrating on the corporate aspect [1], [7]. While other researchers have probed into the effects of IFRS adoption on cross border investments in terms of FDI [8], [9], [10]. And some other researchers have focused on the economic aspect in terms of gross domestic product [11], [12], [13]. According to previous researches, adopting IFRS increases a country's appeal and viability for FDI, which increases its inflow of FDI and economic growth [14]. The current study is driven by the theory that Nigeria's adoption of IFRS may diverge from the worldwide trend and aims to shed light on a broader range of IFRS's effects on the economy as a whole, as regards to FDI inflows and Nigeria's economic growth [15]. This study also investigates into the role that the quality of institution and governance structures play in effectiveness of IFRS in promoting Nigerian FDI inflows and economic growth. Therefore, this study is a valuable contribution to the body of research on IFRS, FDI inflows, and economic growth.

Although empirical studies have separately explored the links between the adoption of IFRS and FDI inflows, as well as the relationship between IFRS and economic growth, the role of institutional quality in this context within Nigeria has yet to be thoroughly examined. The study aims to determine if there have been any notable shifts in Nigeria's level of foreign direct investment inflows and economic growth following the implementation of IFRS. Also, this research investigates whether the adoption of IFRS has had a substantial impact on the volume of foreign direct investment inflows and economic growth of Nigeria while controlling for institutional quality.

This study differs from prior studies in threefold. First, unlike prior studies that focused on the single aspect of the economy in relation to either FDI inflows [16], [17] or economic growth [13], [18], this study synthesizes these two major aspects of the economy. Hence, the study

approach provides a holistic review of how the adoption of IFRS influences both FDI inflows and economic growth as essential components in the Nigerian economy. We argue that though FDI inflows and economic growth are interconnected, there is a possibility that IFRS adoption affects them differently. Therefore, even if one aspect of the economy experiences growth due to IFRS adoption, the other may face challenges.

Secondly, the current study assesses how institutional quality variables, such as regulatory quality and political stability, play a role in mediating the effects of IFRS adoption on FDI and economic growth in Nigeria. Thirdly, we conduct an analysis of the pre- and post-IFRS periods in relation to FDI inflows and economic growth in Nigeria over an extended timeframe to determine the long-term relationship between these variables, while also controlling for institutional quality.

This introduction serves as section one of the paper's five sections. In the second section, the conceptual, theoretical, and empirical literature is reviewed. Section three of the paper presents the methodology, while section four contains the results, findings and discussions. The paper's conclusions, and recommendations are presented in section 5.

## 2. Review of Related Literature

### 2.1. Conceptual Framework

#### 2.1.1. International Financial Reporting Standard (IFRS)

IFRS are created by the International Accounting Standards Board (IASB) as a collection of worldwide accounting standard that outlines how specific kinds of transactions and other occurrences should be represented in financial statements. These accounting standards offer guidelines for the creation and presentation of financial statements across different countries [19]. The gradual adoption of IFRS in many countries lowers and eliminates the costs of obtaining information for decision-making. IFRS supports investors in global markets and promotes foreign capital inflows into the nations that implement them. Increased disclosure improves accounting quality, capital market efficiency and in turn the flow of foreign investments. Furthermore, IFRS has proven to significantly reduce information asymmetry, uncertainty and estimation risk [20]. Efforts to harmonize and internationalize financial reporting in response to the demands of national integration and the global market gave rise to IFRS. The notion of comprehensive income, the principle-based methodology, and the fair value orientation are among the characteristics of IFRS [19].

Adoption of IFRS has the advantage of saving capital market investors' costs which are associated with processing and reviewing financial information. Additionally, IFRS encourages accountants and financial

report auditors to become familiar with a single set of worldwide accounting standards rather than a variety of regional accounting standards [21]. Notably, the adoption of IFRS, facilitates financial statement uniformity and comparability between nations and enterprises, which eases the work of investment analysts [22], [19]. Furthermore, one of the primary objectives of IFRS is to attract foreign investors in addition to liberalizing the capital market generally. Nonetheless, there have been critics who argue against the implementation of IFRS, particularly for developing nations [15], [23].

Research indicates that adopting IFRS yields greater economic benefits in economies with established institutional quality. Countries with solid institutions experience more advantages from IFRS in attracting FDI inflows compared to those with weaker corporate governance and institutional structures [24]. Further, it has been stated that the unpredictability of the political and economic landscapes in many emerging nations, along with their underdeveloped institutions, could make it more difficult to successfully apply IFRS. In the sense that the harmonization of reporting by the IFRS may not align completely with the distinct characteristics of countries that fall under the category of developing or less developed. Additionally, the diverse enforcement practices and policies of IFRS in various countries contribute to the differing levels of accounting quality observed globally [25]. The absence of timely loss recognition and concerns surrounding earnings management have emerged as a negative consequence of adopting IFRS in Nigerian companies [26]. Studies indicate that adopting IFRS can facilitate income smoothing as a strategy for earnings management across different countries [16]. Further, some scholars argue that adoption of IFRS has resulted in decline in accounting quality and has notably compromised the autonomy of countries by limiting their control over accounting standards [26]. Additionally, research shows that the transition from GAAP to IFRS has led to significant reduction in the value relevance of intangible assets [27].

### 2.1.2. Background to International Financial Reporting Standard (IFRS) in Nigeria

Prior to the adoption of International Financial Reporting Standards (IFRS), financial reporting in Nigeria was governed by the Nigerian Accounting Standards, regulated by the Nigerian Accounting Standards Board (NASB). Nigerian accounting standards aligned with International Financial Reporting Standards (IFRS) on January 1, 2012, enhancing the country's regulatory framework [28]. Nigeria adopted IFRS to address the inadequate quality and quantity of financial disclosures that existed prior to this implementation [29].

To facilitate the transition, the NASB implemented a phased approach, requiring publicly traded companies and entities of significant public interest to fully adhere to IFRS by January 1, 2012. Small and medium-sized businesses

were given until January 2014 to adopt IFRS [30]. The initiative was established with the primary objective of promoting uniformity, enhancing international comparability, and ensuring transparency in financial reporting. Such measures were aimed to attract increased foreign direct investment (FDI) and support sustainable economic growth within the nation. However, enforcement agencies and financial regulatory bodies have been minimally engaged in facilitating the transition to IFRS as its major financial reporting language [31]. Research indicates that Nigeria's readiness to implement IFRS transparently is still unclear, despite the official adoption [31]. Nigeria has been characterized by weak institutional quality, which has influenced the country's overall affairs [32]. The quality of institutions has been linked to the success or failure of IFRS in attracting foreign direct investment (FDI) inflows and fostering economic growth [15]. By focusing on strengthening these institutions, Nigeria could unlock its full potential for development and investment. According to indicators provided by World bank, since the adoption of IFRS in 2012, Nigeria has experienced a gradual decline in foreign direct investment (FDI) inflows through 2024. This trend highlights an opportunity to investigate the specific contexts influencing these changes. While IFRS is expected to enhance FDI inflows, the resultant benefits appear to be highly contextual. Despite the negative correlation identified between IFRS and FDI inflows, Nigeria has successfully sustained economic growth.

### 2.1.3. Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is regarded as a vital channel for both direct technology distribution and a significant means of technical transfer due to the lack of funding in less developed nations [33]. A business in which a foreign investor controls ten percent or more of the common stock or voting power of an incorporated business or the equivalent of an unincorporated business is classified as a foreign direct investment (FDI) enterprise [34]. Accordingly, FDI is expected to enhance economic growth by facilitating the transfer of technologies. Due to FDI, modern technology developed in advanced economies through research and development is transferred to the host countries. Advanced technologies are transmitted to domestic business through foreign investors present in the host country. This technological advantage aids in promoting the growth of local businesses as well as the growth in the host economy. Also, FDI facilitates the flow of resources from the foreign investor to the host country. FDI helps a host nation's economy by providing capital that would not otherwise be accessible to promote that country's economic growth.

To foster FDI inflows into the host country, governments around the world have implemented IFRS [19]. However, regulatory quality, political stability, government effectiveness, rule of law, voice and accountability have proven to increase FDI inflows as institutional quality

indicators [24]. Also, the level of prevalence of institutional quality indicators in the host country matters in attracting FDI inflows. This means that the implementation of IFRS in a country does not necessarily guarantee high inflows of FDI. However, the presence of strong institutional quality enhances the effect of IFRS in increasing FDI inflows in the host country.

#### 2.1.4. Economic Growth

Economic growth measures the yearly increase or rise in the output of goods and services. A country is deemed to have experienced economic growth when its Gross National Product (GNP) exceeds its previous level [35]. The Gross domestic product (GDP) and Gross National Product (GNP) calculate an economy's total output and total revenue for a specific time period. A consistent rise in the output of goods and services is referred to as economic growth, indicated by the GDP (Gross Domestic Product) per capita calculation [36]. GDP is calculated by summing the value of all generated goods and services [37]. Economic growth is necessary because a stagnant economy increases the budget deficit. It is also socially vital since it reduces social tension brought on by rising unemployment and deteriorating living standards [38].

According to the theory of growth, with the help of IFRS adoption, an increase in accounting transparency fosters cross border and foreign direct investments [39]. Consequently, FDI significantly influences economic growth through knowledge transfer, with technical advancement being viewed as an endogenous component [40]. However, other factors play significant roles in economic growth apart from FDI. Macroeconomic variables and institutional quality structures also play a significant role in the state of economic growth of a country [41], [42]. Apart from FDI inflows, institutional quality factors including regulatory quality, political stability, government effectiveness, and rule of law of a country play a significant role in the level of economic growth of a country [41]. These governance factors have also proved to affect the effect of IFRS on the increase or decrease of a country's economic growth [11]. Based on these prior research findings, institutional quality variables are included in the conceptual framework for this study.

## 2.2. Theoretical Review

There are numerous studies that address IFRS as a means of promoting FDI inflows as well as economic growth in the body of existing literature on emerging market nations [12,43]. In literature, FDI inflows have been proven to be a source of capital flows across nations, aids in the facilitation of tech spillovers, employment creation and increased productivity and efficiency internationally [17]. Asheghian [44] emphasized that domestic investment, and foreign direct investment are key drivers of economic growth. This notion supports the view that economic growth results from a structure's internal activities which

then attracts external benefits [45], which is in line with endogenous Growth Theory, proposed in 1965. Long-term economic growth that is endogenous is propelled by forces internal to the economic system, usually those regulatory and institutional factors in charge of developmental progress and technology. And as such, the internal factors of institutional quality such as the levels of regulatory quality, government effectiveness, political stability and rule of law are paramount in attracting FDI inflows which in turn influence the level of economic growth in any country [11]. These internal structures can be used alongside IFRS in standardizing domestic business operations and reassuring domestic and foreign investors which in turn ensure economic growth. The endogenous growth hypothesis views growth as a component of innovation advancement represented in this study by IFRS adoption. The adoption of IFRS as part of a country's internal regulatory structure can aid in attracting FDI while sustainably increasing economic growth rates through innovation interchange, dispersion, and overflow effects, which are perceived as growth accelerators in endogenous regions [46].

On the one hand, some scholars argue that there is no significant positive relationship between FDI and economic growth [40]. While other scholars, are of the view that FDI plays a crucial role in enhancing a nation's economic growth [18]. However, the contingency theory posits that IFRS adoption would only be profitable if the standards were adjusted to the local environment [47]. Nonetheless, literature in this field of study indicates that the ability of FDI to improve the economy is mostly dependent on a number of elements distinct to each nation. Economic and institutional variables frequently function as mediators in the relationship between FDI and economic growth [48, 49]. This supports the Dunning's Eclectic Paradigm. This theory explains that FDI is driven by investors seeking efficiency, expanding markets and those in search of optimum resources. The theory places strong emphasis on the host country's overall policy structure in terms of trade openness, favorable regulations and infrastructures. Consequently, the adoption of IFRS tends to increase the locational appeal of compliant countries to international investors due to its ability to foster accounting quality, understandability and reliability.

Hence, it is more likely that a country with high business opportunities, standardized regulatory or institutional structures, lower FDI costs and standardized financial reporting will attract more FDI than other countries without.

Harmonized accounting data resulting from the adoption of a common set of standards is typically viewed as advantageous since it would lessen information asymmetry between the various stakeholders, allowing the financial markets to allocate resources more effectively [47]. According to the Information Asymmetry theory, one major factor contributing to information asymmetry for international investors is variations in national accounting rules and procedures [50]. As information asymmetry and

agency costs tend to decrease, the adoption of IFRS is expected to send a positive signal to investors due to the higher disclosure standards and improved quality of financial reporting that result from it [51]. In support of Information Asymmetry theory, research studies overtime have discovered that host nations with strong institutions quality in terms of regulatory quality and political stability are more appealing for FDI flows to multinational corporations [9], [19], [52]. Also, with the implementation of IFRS, domestic investments are also fostered due to uniformity in the preparation of financial statements. These also help in promoting economic growth by the movement of private capital within the domestic or local markets [53]. Nonetheless, endogenous growth theory claims that FDI is more productive than domestic investments due to the fact that FDI encourages the integration of new technology into the host country.

### 2.3. Empirical Review

#### 2.3.1. IFRS adoption and FDI

Previous research on the relationship between IFRS and FDI has produced conflicting results [14], [15], [19], [43]. [1] and [14] report a positive and significant relationship between IFRS adoption and FDI. This implies that adopting IFRS will help countries improve the quality of their reporting environment, which will increase FDI inflows [54]. While, [15], [19], [43] indicate a negative relationship between IFRS adoption and FDI. With the negative association between FDI and IFRS adoption, researchers are of the view that FDI inflows are declining even after the implementation of IFRS based on their study conclusions. They explain that IFRS adoption alone does not ensure FDI influx [15], [23].

Lungu [43] investigated into impact of IFRS adoption on FDI particularly in European emerging countries. The study made use of Ordinary least square and Pearson correlation methodology in analyzing secondary data collected based on the period from 1994 to 2014. Macroeconomic variables were included as control variables for their research model specification. The results of their research indicated that countries who adopted IFRS received higher FDI inflows than countries without IFRS. Also, Owusu et al. [52] investigated whether FDI inflows to developing nations that have embraced IFRS outperform those to non-adopting nations. The study also looked at how institutional quality at the national level influences the relationship between FDI inflows and the adoption of IFRS. Panel data from 116 developing nations were used in the study. The relationship between the variables was examined using the effective two-step System Generalized Method of Moments (GMM). The findings of the research showed a positive relationship between IFRS adoption and FDI inflows in the countries that adopted IFRS. However, the study's findings also indicated that the volume of FDI inflows to developing nations is not impacted by the implementation of IFRS alone.

Musah et al. [54] looked at how FDI inflows into Africa were affected by the introduction of IFRS. This study sampled just African nations that have adopted IFRS in order to ascertain if the adoption has boosted FDI inflows, in contrast to earlier studies that sampled both adopting and non-adopting countries. In order to accomplish this goal, a sample of 20 African nations that have implemented IFRS from 1980 to 2015 was taken. Macroeconomic factors such as GDP, trade openness, public debt, and population growth were included as control variables. Using correlation and regression analysis, the findings showed that adoption of IFRS has a favorable and significant impact on foreign direct investment inflows into Africa. Conversely, there was a strong and positive correlation between FDI and population growth, government debt, and an open economy. Also, the researchers concluded that the adoption of IFRS has a favorable impact on the flow of foreign direct investments (FDIs). Akpomi and Nnadi [55] using a sample of 48 African nations, probed into the relationship between IFRS and FDI. Fixed effect model for the regression was used to arrive at the research findings. The research results proved that there is a positive and significant effect of IFRS adoption on FDI. Additionally, the findings also proved that regulatory quality serves as a motivator for IFRS standard compliance. Furthermore, the researchers believed that improved regulation increases trade openness and transparency, which will reinforce the impact of IFRS adoption on FDI flow.

Jinadu et al. [1] investigate if Nigerian FDI has been considerably impacted by the implementation of International Financial Reporting Standards (IFRS). The study primarily looks into the opinions of those who write annual reports and those who utilize them in listed companies in Nigeria that have implemented IFRS. Structured questionnaires were distributed and analyzed to arrive at the research results. Regression techniques were employed for data analysis. The results showed a positive and significant relationship between FDI and the adoption of IFRS. The outcome additionally demonstrated the noteworthy influence of international investors on listed companies that have implemented IFRS in Nigeria. With the aid of Generalized method of moments and panel fixed effects methodology, Akisik and Mangaliso [14] researched into the relationship between IFRS and FDI flows and their influence on economic growth of selected African countries. The researchers particularly focused on greenfield investments, mergers and acquisitions as specific types of FDI. Their research findings noted a positive relationship between the adoption of IFRS in the African countries and the types of FDI flows in the study. Their study also uncovered a positive relationship between adoption of IFRS and economic growth.

Despite the widespread perception that IFRS adoption promotes foreign direct investment (FDI) and trade, Nnadi and Soobaroyen [15] offer evidence to the contrary for the African countries. They discover that institutional structures like the legal system and the degree of corruption

have a greater impact on the rise in FDI in these nations than the adoption of IFRS, underscoring the essential role that a nation's institutional and legal framework play. The results of Nnadi and Soobaroyen [15] study support the idea that implementing IFRS is insufficient to achieve the benefits that the prior studies suggest. On the same side of findings, Tsegba, et al. [19] researched into the relationship between IFRS adoption and FDI flows into anglophone west African countries. The study was based on ten years. Secondary data collected from world bank and world governance indicators were analyzed using panel regression analysis. The research findings indicated that there is no significant effect of IFRS adoption on FDI inflows. Also, in Nigeria specifically, the results showed a negative relationship between IFRS adoption and FDI inflows. The researchers noted that FDI inflows into Nigeria notably reduced after the adoption of IFRS.

In the same vein, Udofia [23] using a structured questionnaire as the data collection tool, examined the effects of IFRS implementation on cross-border investment, including Foreign Portfolio Investment (FPI) and FDI in Nigeria, between 2007 and 2016. The study used independent t-test analysis and Levene's test, two inferential statistical techniques, together with content analysis. The study's findings showed that the volume of FDI and FPI inflows were more during the pre-adoption era than they were during the post-adoption period. As a result, a negative relationship between IFRS adoption and FDI was connoted in the research findings. Based on the research findings, the analysis revealed that a number of other factors that were not taken into account in the study affect cross-border investment in Nigeria rather than the adoption of IFRS alone having a sole impact on it. Leykun [24] also found a negative effect of full IFRS adoption on FDI inflows. The scholar explained that macroeconomic factors including infrastructure, trade openness and human capital had the most influence in attracting FDI to Sub Saharan African Countries.

The positive association between FDI and IFRS adoption was consistent with the findings of [1], [54]. However, some academics, such as Tsegba et al. [19] and Udofia [23], discovered that IFRS implementation does not encourage foreign direct investment.

### 2.3.2. IFRS Adoption and Economic Growth

With the aid of accounting, accurate information is provided to ensure informed decisions in terms of allocating resources amongst alternative investment opportunities [22]. Opong and Aga [56] supported the view that IFRS adoption encourages economic growth in developing countries. The researchers made their investigation based on the period between 2005 to 2014. The study covered both developing and developed countries. The researchers concluded that IFRS plays a more significant role in developing countries than developed countries in the European Union. Also, Ajibade et al. [12] investigated into the effects of IFRS adoption on

economic growth using paired sample t-test. The data collected was based on the period between 2000 to 2016 focusing on manufacturing gross domestic product as the dependent variable. The results of their analysis showed a significant difference in economic growth between the pre and post IFRS adoption periods. Based on these, the researchers discovered a significant positive relationship between IFRS adoption and economic growth.

Owusu et al. [11] found evidence that strong institutional and governance factors moderate the IFRS-economic growth link. Their research discovered that countries that adopt IFRS have faster economic growth than non-adopting countries. Using panel data for the years between 1996 and 2013 for developing countries. The efficient two-step system generalized methods of moment (GMM) estimation technique was used in this study. These findings are line with the findings of Akisik and Mangaliso [14]. The research results of Owusu et al. [11] also support the notion that the implementation of IFRS leads to the increase in economic growth into the host country. Similarly, Elhamma [10] sought to evaluate the impact of IFRS adoption on economic growth after the Covid-19 pandemic. They used panel data spanning from 2017 to 2020. Data were gathered and analyzed using the fixed effect estimating technique along with Generalized Least Squares. The study discovered a positive impact of IFRS adoption on economic growth. However, they also discovered that the pandemic contributed to reducing the increasing effect of IFRS on economic growth.

On the other side of findings, Abdullaeva et al. [13] assessed the relationship between IFRS adoption and economic growth in transition economies. The research was based on the period between 2005 to 2018. GDP was used as the dependent variable in the study. While political stability, voice and accountability, corruption, education rate and rule of law among others were used as control variables. Difference in difference model was utilized in arriving at the research results. The results of the study indicated a negative but insignificant relationship between IFRS and economic growth. Moreover, Ugwu and Okoye [57] carried out a research on the effects of FDI on economic growth during the period of post adoption of IFRS. Their research findings in Nigeria indicated that post adoption of IFRS, FDI inflows was not significant in increasing economic growth. The researchers agreed that rather than depending just on the adoption of IFRS to attract foreign direct investment (FDI) and promote development, countries should also consider other elements that would foster FDI and economic growth, such as institutional characteristics and infrastructure.

Furthermore, Avwokeni [48] examined the effect of IFRS adoption on gross domestic product as well as corporate social disclosure in Nigeria. It was discovered that IFRS adoption reduces gross domestic product. The researcher contends that, while not significantly, the adoption of IFRS lowers a nation's national income numbers. A number of scholars have studied how IFRS

affect GDP as a proxy for economic growth in their works. Most seems to agree that IFRS have an impact on economic growth, however there has been disagreement about the exact nature and extent of this impact due to inconsistent findings across various studies. On the positive side of findings, [11], [12], [14], [52], [56] conducted research on the influence of IFRS on economic growth in several countries and discovered a positive correlation between IFRS and economic growth. In contrast, [13], [57], [58] discovered a negative association between IFRS and economic growth. Based on the variations in prior research findings, the following hypothesis is developed:

**Hypothesis 1:** There are significant differences in both FDI inflows and economic growth between the pre-IFRS and post-IFRS periods in Nigeria.

**Hypothesis 2:** IFRS adoption positively influences FDI inflows.

**Hypothesis 3:** IFRS adoption positively influences Economic growth.

**Hypothesis 4:** The influence of IFRS adoption on FDI inflows and economic growth is mediated by institutional quality factors in Nigeria.

### 3. Materials and Methods

#### 3.1. Data and Empirical Strategy

The study used time series data to determine the effect of IFRS adoption on FDI inflows and economic growth in Nigeria. According to Daske and Gebhart [6] the impacts of IFRS might not be evident in the short term but more obvious in the long run. Based on this the study covers the year from 2004 to 2022. The research period was divided into two parts: pre-IFRS and post IFRS. The pre-IFRS period spanned from 2004 to 2011 when Nigerian Accounting Standards were in effect. Nigeria first adopted IFRS in 2012, marking the beginning of the post-IFRS period, which covers 2012 to 2022. The dependent variables include FDI inflows measured as net FDI inflows and economic growth measured with Gross domestic product. The main independent variable is IFRS adoption measured as a dummy variable to represent the period from 2004 to 2011 as pre-IFRS adoption and period after the adoption of IFRS from year 2012 to 2022 as post-IFRS adoption. The study includes two institutional quality indicators including regulatory quality and political stability which were sourced from the world governance index. These institutional quality indicators were used as covariates with direct relations to FDI flows and Gross domestic products. The World Governance Index measures institutional qualities and traits that range from around -2.5 (weak) to 2.5 (strong) governance performance. Time series data on net FDI inflows, economic growth and institutional quality indicators based on the period between 2004 and 2022 was collected from world bank indicators and analyzed. In accordance to the time series data, the

existence of two dependent variables and dummy variables, descriptive statistics and multivariate analysis of covariances methodologies are adopted.

#### 3.2. Multivariate Analysis of Covariance (MANCOVA)

Multivariate analysis of covariance (MANCOVA) is utilized because this study involves multiple dependent variables and the goal of the research is to define the level of relevance of one variable over another in order to determine the interaction between variables. The purpose of this study is to determine how important independent variables including IFRS adoption and other covariates relate to dependent variables through their interaction. The Pillai's trace, also known as the Pillai-Bartlett trace,  $V$ , and its significance level are utilized. This multivariate test is thought to be the most dependable [59]. The query "Is each effect significant?" is addressed by this, or "For at least one of the dependent variables, is each effect significant?" and accepts values between "0" and "1". The greater the Pillai's trace, the more significant and important the given effect is to the model.

In order to model relationships between dependent and independent variables, the standard regression model typically uses quantitative data. There are times when qualitative data may be assumed to have an impact on the dependent variable and, as such, need to be included in the regression model. This can be accomplished by using dummy variables, which have values of 0 or 1, respectively, denoting the existence or absence of that characteristic. Accordingly, this is the case in this study, as IFRS adoption is represented as a dummy variable. The dummy variable makes it possible to quantitatively evaluate how the qualitative variable affects the dependent variable. Multivariate Analysis of covariance (MANCOVA) is regression that combine dummy and quantitative variables. The MANCOVA models offer a way to statistically manage the effects of quantitative regressors, also known as covariates or control variables [59]. Hence, this study conducts multivariate analysis using a general linear model in the statistical package for the social sciences (SPSS) to examine the effects of pre and post-IFRS on FDI inflows while establishing institutional factors as covariates.

#### 3.3. Model Specification

To examine the data and put the theories to the test, multivariate analysis is used. The models under Multivariate Analysis of covariance (MANCOVA) included in this study use foreign direct investments and economic growth as dependent variables. The models of this study built on the model of Leykun [24] though economic growth is added here to get a better understanding of the effect of IFRS adoption in relation to the economy. Equation 1 indicates the first model, which examines the relation between the presence of pre and post IFRS adoption and net FDI inflows. The interaction terms

to investigate the potential for the covariates to interact with IFRS adoption in determining FDI inflows are also addressed by the first model:

$$LNFDI = \beta_0 + \beta_1PREIFRS + \beta_1POSTIFRS + \beta_1PS + \beta_1RQ + \varepsilon. \quad (1)$$

Where FDI = foreign direct investment, PS = political stability and RQ = Regulatory quality. The second model examines the relation between pre-IFRS, post-IFRS adoption and economic growth proxied by GDP. Equation 2 also indicates interactive terms to investigate the potential for regulatory quality and political instability to interact with the adoption of IFRS in determining FDI inflows. Model 2 is specified as follows:

$$LNGDP = \beta_0 + \beta_1PREIFRS + \beta_1POSTIFRS + \beta_1PS + \beta_1RQ + \varepsilon \quad (2)$$

Where GDP = Gross domestic product.

## 4. Results and Research Analysis

### 4.1. Descriptive Statistics

Table 1 contains the results of the descriptive statistics for the selected variables of this study. The mean, standard deviation, minimum and maximum values are provided in Table 1. Between 2004 to 2011, FDI inflows had a mean value of .7189. The descriptive statistics showed significant variations in FDI, with a standard deviation of 0.2624. The results indicated that the average FDI inflows before the adoption of IFRS in 2012 was higher than post

IFRS. Standard deviation for FDI also indicated a higher value post IFRS than pre IFRS adoption. Therefore, it can be concluded that compared to the pre-IFRS period, the post-IFRS period is marked by greater fluctuations in the FDI. Low mean values in FDI inflows post IFRS, imply that inflow of FDI into Nigeria reduced in recent times contrary to high expected inflows. This is evidently portrayed by the findings of Udofia [23]. Although IFRS adoption is expected and forecasted to increase FDI inflows [14], [54]. Some scholars, have proven the opposite to be true in Nigeria as a result of factors including institutional, governance and macroeconomic variables [15], [19], [23].

As regards the second independent variable, the average GDP increased in Nigeria post-IFRS. The results indicated a mean of 7.5219 for the period between 2004 to 2014 and a mean of 7.7572 for the period between 2012 to 2022. Based on the mean values, GDP increased after the adoption of IFRS in Nigeria. This is consistent with the findings of [57], who found that FDI inflows did not significantly contribute to economic growth after the introduction of IFRS. This is proven to be true due to the results showing that FDI reduces after IFRS adoption and as such does not contribute to economic growth. Further, standard deviation for GDP of .17070 indicated a lower value post IFRS than .33074 pre IFRS adoption. Regulatory quality as a covariate in this study, indicated a slight increase on average while political stability according to the mean values remained considerably almost the same. Tsegba et al. [19] have proved that weak institutional and governance factors including political stability and regulatory quality can negatively impact FDI inflows and consequently economic growth.

**Table 1.** Descriptive Statistics results

Statistics	Mean		Std. Deviation		Min.		Max.	
	Pre IFRS	Post IFRS	Pre IFRS	Post IFRS	Pre IFRS	Post IFRS	Pre IFRS	Post IFRS
<b>FDI</b>	.71897	-.77380	.26241	.98706	.32235	-3.2308	1.0647	.06722
<b>GDP</b>	7.5219	7.7572	.33074	.17070	6.9004	7.5714	7.9113	8.0712
<b>Regulatory Quality</b>	-.8511	-.9210	.18347	.12261	-1.29	-1.16	-.70	-.68
<b>Political Stability</b>	-1.9467	-1.9520	.16348	.12309	-2.21	-2.13	-1.67	-1.79

### 4.2. MANCOVA Results

Table 2 shows that the MANCOVA results indicate significant differences in both FDI inflows and economic growth between the two periods while controlling for institutional variables. Hence, based on the MANCOVA results and descriptive statistics we accept hypothesis 1 that there are significant differences in both FDI inflows and economic growth between the pre-IFRS and post-IFRS periods in Nigeria.

Also, the higher the Pillai's trace, the greater the significance and contribution of the given effect to the model. The Pillai's trace for IFRS adoption indicated .605, which was greater than that of regulatory quality and political stability. It implies that IFRS adoption plays a significant role in the model. Based on the results we can conclude that IFRS adoption and regulatory quality contribute to the movement of FDI flows as well as GDP. Wilk's lambda was significant (.395,  $p = .001$ ) indicating a difference in the mean of both pre IFRS and post IFRS adoption periods, indicating that that IFRS adoption influences both FDI inflows and GDP levels.

Also, the results of the MANCOVA indicate that one of the covariates being regulatory quality is significant for both the pre and post IFRS adoption periods. The Pillai's trace for regulatory quality indicated at .571, which implies that this institutional quality indicator is significant in affecting the influence of pre-IFRS and post-IFRS on FDI inflows and GDP. Also, based on the MANCOVA analysis (Wilk's lambda .429,  $p = .003$ ) there was a significant difference in regulatory quality between pre IFRS and post IFRS adoption periods. Among the covariates, regulatory quality was the only significant factor (.003) while political stability was not statistically significant. Though, with a

Pillai's trace indicated at .196, political stability also is important to the model but with a lower impact.

Table 3 presents the tests between-subjects effects, which showed significant differences in GDP ( $p = .002$ ) and FDI ( $p = .001$ ) based on the mean values of 7.241 and .384 during the pre- and post-IFRS adoption periods. The MANCOVA analysis indicated that IFRS as the independent variable accounted for the movements in FDI and GDP at a significant level. Also, it contributed to the association between the two dependent variables. Regulatory quality has a contributing effect on both FDI with significance level of .042 and GDP significant at .009. Model 1 indicated an R square of .653 which implies that IFRS as the independent variable explains 65.3 percent movement in FDI. For Model 2, the R square of .709, indicated that IFRS adoption explains 70.9 percent of increase or decrease in GDP.

Also, for political stability according to table 3, there was a difference in FDI inflows and economic growth but not at a significant level. Hence, this implies that political stability was not significant influencing the impact of IFRS on FDI and GDP. This might be due to the fact that Nigeria as a whole has not experienced political stability in recent years.

### 4.3. Mediating Analyses

To investigate hypotheses 2, 3 and 4, institutional quality indicators specifically regulatory quality and political stability as mediating variables. This examination focuses on the mediating effect of regulatory quality and political stability on the influence of IFRS adoption on FDI inflows and economic growth, using the methodology proposed by Baron and Kenny (1986).

**Table 2.** MANCOVA Computations

Effect	Statistics	Value	F-value	Sig.	Partial Eta Squared
IFRS	Pillai's Trace	.605	10.732	.001	.605
	Wilk's Lambda	.395	10.732	.001	.605
	Hotelling's Trace	1.533	10.732	.001	.605
	Roy's largest Root	1.533	10.732	.001	.605
RGQ	Pillai's Trace	.571	9.328	.003	.571
	Wilk's Lambda	.429	9.328	.003	.571
	Hotelling's Trace	1.333	9.328	.003	.571
	Roy's largest Root	1.333	9.328	.003	.571
PS	Pillai's Trace	.196	1.702	.218	.196
	Wilk's Lambda	.804	1.702	.218	.196
	Hotelling's Trace	.243	1.702	.218	.196
	Roy's largest Root	.243	1.702	.218	.196

**Table 3.** Tests of Between-Subjects Effects

Source	Dependent variables	df	Mean square	F	Sig.	Partial Eta square
IFRS	FDI	1	7.241	15.761	.001	.512
	GDP	1	.384	14.138	.002	.485
RGQ	FDI	1	2.283	4.969	.042	.249
	GDP	1	.249	9.150	.009	.379
PS	FDI	1	.247	.537	.475	.035
	GDP	1	.098	3.618	.077	.194
Model 1. R Square = .653						
Model 2. R square = .709						

**Table 4.** Mediating Analysis

Regulatory Quality as a mediating Factor				
Variables	FDI (without mediating var.)	FDI	GDP (without mediating var.)	GDP
IFRS	-1.493***	-1.330**	.235	.323***
RGQ		2.322**		1.250**
Political Stability as a mediating Factor				
Variables	FDI (without mediating var.)	FDI	GDP (without mediating var.)	GDP
IFRS	-1.493***	-1.330**	.235	.229**
PS		-.646		-1.173**

Note: \*\*\*, \*\* and \* denote significant at 1% , 5% and 10% respectively].

Table 4 shows that with a figure of -1.493\*\*\*, IFRS adoption positively influences FDI inflows. As a result, we reject hypothesis 2 that there exists a positive influence of IFRS on FDI inflows, and accept that IFRS adoption negatively influences FDI. With the beta (-1.330\*\*) representing the relationship between IFRS and FDI being significant when regulatory quality (RGQ) mediates the relationship between the variables, it is concluded that the mediating effect is partial, indicating other mediators remain. Furthermore, table 4 shows that the effect of the adoption of IFRS is mediated by regulatory quality. Such that when regulatory quality is low in the country, it will influence IFRS to reduce FDI inflows and vice versa. However, with a figure of 2.333\*\*, we can infer that increase in RGQ enhances IFRS ability to attract FDI inflows. Political stability also proved to be significant in mediating the negative relationship between FDI and IFRS. However, with a figure of -.646, political stability weakens the promoting role of IFRS in attracting FDI. This can be linked to the political instability prevalent in Nigeria

With a figure of .235, the results from table 4 show that IFRS adoption positively influences Economic growth. Based on this we accept hypothesis 3 that IFRS adoption positively influences economic growth of Nigeria. Further, RGQ strengthens the benefits of IFRS in increasing economic growth based on the figure 1.250\*\*. While, with a figure of -1.173\*\*, political stability weakens the promoting role of IFRS in attracting economic growth.

Furthermore, Table 4 indicates that regulatory quality and political stability are significant in influencing the effect of IFRS adoption on the increase in Nigerian economic growth. Based on table 4, we accept hypothesis 4 that the influence of IFRS adoption on FDI inflows and economic growth is mediated by institutional quality indicators in Nigeria

## 5. Discussion of Findings

MANCOVA analysis was utilized to examine the difference in FDI and economic growth between pre-IFRS and post-IFRS adoption periods while controlling for institutional factors. Based on the MANCOVA computations, the research findings discovered that economic growth and FDI inflows differed between pre-IFRS and post-IFRS adoption periods. During the post-IFRS adoption period, Nigeria experienced increase in economic growth, while reduction in FDI inflows was noted. Economic growth was significantly impacted by the implementation of IFRS between 2012 and 2022, whereas prior to IFRS adoption, the Nigerian accounting standards had lesser increasing impact. The positive effect of IFRS adoption on economic growth in Nigeria may be attributable to increase in flow of domestic capital and funds between investors and business within the country fostered by the uniformity in preparation of financial

statements.

The mediation analyses indicated that the negative influence of IFRS on FDI inflows in Nigeria is significantly influenced by institutional factors which are in line with the findings of Akpomi and Nnadi [55]. Institutional factors including regulatory quality and political stability were utilized as mediating variables of the model. The mediation results showed that both institutional variables are significant in determining the influence of IFRS on FDI inflows and economic growth. Specifically, with economic growth, findings indicated a positive influence of IFRS on GDP. The positive relationship found between IFRS on GDP proved to be positively mediated by regulatory quality. This implies that standardized regulations increase the positive effect of IFRS on Nigeria's economic growth. While, political stability was found to weaken the influence of IFRS adoption on economic growth. Also, the relationship between IFRS and FDI is positively mediated by regulatory quality. This suggests that legislation and enforcement measures will increase the beneficial effect of IFRS on attracting in FDI inflows. While, political stability was found to weaken the influence of IFRS adoption on FDI inflows. With regulatory quality being significant in influencing FDI, this study finding supports the Dunning's Eclectic Paradigm. The theory stresses on the importance of regulatory quality and infrastructure of the host country in attracting FDI inflows. Based on the research findings of this study, FDI inflows have declined after the adoption of IFRS, contrary to expectations which are due to weak institutional quality.

## 6. Conclusions

IFRS has gained substantial significance and importance in the last two decades. As a result, the adoption of IFRS is being more widely used around the world. Nonetheless, differences in governance and institutional qualities will persist and have a significant effect on the interpretation and application of international standards in various countries. Despite the apparent benefits of IFRS adoption on economic growth, the results of this study provide evidence that the flow of foreign direct investment (FDI) into Nigeria after the adoption of IFRS is significantly influenced by institutional quality indicators. The findings also identified regulatory quality and political stability as important in influencing the impact of IFRS adoption on FDI inflows and economic growth. As such it is paramount that policies are made to ensure improved regulations and political stability alongside full IFRS adoption to boost reliability in the economy. Though IFRS promotes accounting accuracy, understandability, and reliability, its adoption tends to attract more FDI into countries with strong institutional structures including regulatory quality, political stability, rule of law and government effectiveness.

It is essential to acknowledge the limitations of this study. Firstly, FDI outflows are not considered in this analysis; only FDI inflows are examined. IFRS adoption and

compliance also have an impact on FDI outflows through various channels. Therefore, future research should explore how IFRS adoption influences both FDI inflows and outflows. While this research focuses on Nigeria's economy, many African countries likely face similar challenges related to IFRS adoption, regulatory quality, and its effects on economic variables. Consequently, further studies could involve a panel of African countries to assess how IFRS adoption affects not only the overall economy but also FDI inflows and outflows. Previous studies have primarily concentrated on the effects of IFRS adoption on either FDI flows or economic growth in isolation. This study advocates for a comprehensive approach that examines the influence of IFRS adoption on both FDI and economic growth to better understand its overall impact on the economy. Additionally, there are various mediators in the relationship between IFRS adoption and FDI inflows, as the mediators considered in this study are only partial mediators. To enhance the literature in relevant fields, future research should explore additional potential mediators.

## 7. Implications

This study suggests that legislation and enforcement mechanisms be designed to effectively regulate IFRS compliance. This could help enhance the positive impact of IFRS on attracting foreign direct investment (FDI) inflows. Independent regulatory bodies that will monitor and regularly inspect the preparation of financial statements to ensure adherence to IFRS requirements can be established to foster reliability and transparency. Adequate disclosures, corporate governance structures, and high institutional quality play an important role in determining the influence of IFRS adoption on FDI inflows and economic growth. Therefore, it is essential for internal control systems at the corporate level to be properly structured to ensure compliance with IFRS in the preparation of financial statements, accurately reflecting the company's earnings. Effective penalties should be implemented for inadequate disclosures to promote full adherence to IFRS. Moreover, the level of political stability in Nigeria has been found to undermine the positive effects of IFRS adoption on both FDI inflows and economic growth. Consequently, there is a need to encourage policies aimed at stabilizing the economy and developing attractive tax incentives for investors. Additionally, standardized laws that promote transparency, along with the consistent implementation of IFRS irrespective of government changes and policies, should be established.

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