

The Impact of IFRS Adoption on Capital Structure: - Pre - Post Analysis of listed Banks in Ethiopia.

Seifu Eshetu Worku and PhD. Nidhi Nalwaya



Parul Institute of Management & Research

Faculty of Management Studies

P.O.Limda, Tal.Waghodia,Dist.Vadodara-391760,Gujarat,India.

Abstract

This paper explores The Impact of IFRS Adoption on Capital Structure: - Pre - Post Analysis of listed Banks in Ethiopia. This study uses different econometric methods in estimating regression models to broaden our understanding of IFRS adoption on Capital Structure. The researcher provide evidence on the interactions of analyst following, managerial opportunism and information asymmetry besides macroeconomic factors on Capital Structure information. The study leverages a fixed effects panel data set of Five Selected Banks in Ethiopia from the total population of 20 Listed Banks in Ethiopia's. The Researcher show that Breusch, Lagrange Multiplier tests and the test of over-identifying restrictions were used. The researcher employed Secondary data were collected from the annual reports of Financial Statement. The researcher used a hand-collected dataset between 2013 and 2021. The regression analysis results from the findings, it concludes that, from 2013-2021 excluding 2005, while IFRS did not have any statistically significant impact on the cost of equity capital and cost of debt capital, it did have a statistically significant impact on the market price per share and equity returns. Also, even though IFRS did not have any statistically significant impact on the exchange rate and profitability, it had a statistically significant impact on earnings per share, operations margin, GDP growth, interest rate and , return on investment capital

Key-words: IFRS adoption, Capital Structure proxies, macroeconomic factors, panel data, Selected Banks in Ethiopia

Introduction

The stated goal of the IFRS Foundation and the International Accounting Standards Board (IASB) is to develop, in the public interest, a single set of high-quality, understandable,

enforceable and globally accepted financial reporting standards based upon clearly articulated principles. There were once scores of unique sets of financial reporting standards among the more developed nations ("national GAAP"). Application of international financial

reporting Standards-John Wiley & Sons (2014).

Mandatory Adoption of IFRS in Ethiopia started and reporting July 7, 2017. These reporting entities were included all financial institutions and government owned (Federal and Regional) public enterprises in Ethiopia were statutorily be required to issue IFRS based financial statements for the year ending July 7, 2017. The commencement for preparation towards transiting to IFRS by other PIEs (and IPSAs for Charities and Societies) is July 8, 2015 and that of SMEs is July 8 2016. (AABE Five Year Strategic Plan (Fiscal years 2016-2021, Page 89).

The banking sector is one of the leading industries in almost all developed and developing countries in today's diverse global economy. The stock exchange directs financial capital to the attainment of the goals of the economy (Nguyen, Tsai, Kumar, & Hu, 2020). This leads to the promotion of the public budget and to the achievement of state sustainable development plans (Almagtome, Khaghaany, & Once, 2020). Investors consider the financial success of the banking sector to be the best investment measure to improve their investments and profits.

Banking sector in Ethiopia is expanding through time. Particularly starting from the 1990s to the present days, numbers of banks have come into existence. Bank Industries were fetching a new dynamism of the financial sector and the banking business in Ethiopia.

These days, the bank is very profitable and has made excellent progresses,

especially due to the favorable dynamic macroeconomic environments, including Strong GDP growth, low inflation, and the ongoing execution of large-scale projects and with growing customer deposits, increasing loan demand, and rising requests for trade facilities (Berhane Ghebray, 2014).

Ethiopia remains highly under-banked as the number of banks in the country is very low when compared the size of population more than (120 million), Currently, more than 20 banks operating in the country, of which 18 are private banks while the remaining two are state owned banks. Still Know new banks are in the process of being under formation to joining the banking Industries in Ethiopia. The adoption of IFRS relates to transparency, high quality, and comparable information that would build the investor's confidence to invest in Different Firms, Financial Sector and in Banking industries.

More attention has been paid to the implementation of IFRS in recent years, as several papers have shown that the implementation of IFRS will increase the comparability and consistency of financial statements (Mande 2014). IASBs are a set of universal accounting standards intended to improve the quality of information and standardize accounting information worldwide. Adopting these standards offers investors with more credible characteristics, as analysts and investors can readily understand IFRS (Gatsios et al., 2016).

The International Accounting Standards Board (IASB)'s primary goal is to increase the distribution of corporate

financial information from IFRS, which improves worldwide market efficiency.

IFRS is to enable the comparability of financial information prepared by entities located across the globe. It would facilitate investment decisions across Country and borders to intensify equity market efficiency and also cut down the costs of raising capital. The companies will be able to establish new relationships globally based on IFRS with investors, clients, vendors and other stakeholders. As an internationally recognized reporting platform, IFRS will improve the reputation and relationship of the company and provide it with a competitive edge in supporting its businesses (Hoang & Ngoc, 2019). In addition, the IFRSs aim to make the capital market easier for foreign investors and to improve investor protection as well as improve the comparison and comprehensiveness of their financial information (Chandrasekar & Kumar, 2016). Devalle, Magarini, and Onali, 2014, propose that IFRS can enhance the value relevance of information by enhancing the cross-border consistency of accounting information, the adequacy of capital markets, and a significant component of IFRSs, they often limit the ability of managers to choose accounting alternatives. The value significance of information can be defined as the ability to capture or summarize information from financial statements that affect equity values (Devalle, Magarini, and Onali, 2014; Suadiye, 2012).

Statement of the Problems

The Prior and existing Research literature links On the IFRS Adoption,

that have been conducted in Ethiopia related with Progress and Implementation. (Teferi Deyuu Alem ;2016, Halefom Seyoum desta; 2018, Teferi Deyuu Alemi, 2016; Dr.P. Fareed Mastan, Zinabu Gebru, A. A,2015, Staff Reporter; 2021, David F. Hawkins, Shani Senbetta; 2021). It Designate that there is no Multiple Investigation and /or research studies Conducted related with Adoption of IFRS relation with Capital Structure, Corporate performance and Macro Economic Performance Studies and Research in terms of Ethiopia.

Moreover, the extent to which IFRS adoption impacts the capital structure. depend mainly on the accounting information environment. The accounting information environment involves information asymmetry, analyst following, managerial opportunism, and third-party assurance. Williamson (1985) notes that opportunism is "self-interest seeking with guile," and this behavior acts as a disincentive for IFRS compliance within a firm. Assurance is used interchangeably with audit, attestation, verification, validation, and review (IFAC, 2004). Dando and Swift (2003) note that all organizations want to be accountable, and this desire for accountability serves as an incentive for IFRS compliance. Thus, the accounting information environment acts as an incentive or disincentive for IFRS compliance and realization or otherwise of full benefits of IFRS adoption. The lack of research to address this issue in Ethiopia, and this research aims to fill this gap.

The main question formulated, was "what is the impact of accounting

Seifu Eshetu Worku et al.

environment information environment on the influence of IFRS adoption on the capital structure, corporate performance, and the economic performance Listed Banks in Ethiopia? The study progresses as follows; section two focuses on research objectives and hypotheses.

Research Objectives and Hypotheses

Motivated by this argument, the main objective of this Research is to assess the moderation effect of the three-accounting environment on capital structure, corporate and economic performances in Pre-Post Analysis of listed Banks in Ethiopia Specifically, the researcher tests the adoption of IFRS with a lower cost of equity capital, lower cost of debt capital, lower information asymmetry, lower managerial opportunism higher number of analysts following, and to increase corporate and economic performances in the Ethiopia Listed Banks. This research aims, also, to determine whether the actual impact of IFRS on the cost of capital affects economic indicators, and the optional component, which is driven by the accounting information environment in the Ethiopia In conclusion, the thesis is to explore the impact of financial reporting on the association between corporate and economic performances and both the capital structure and the accounting information environment of firms.

The main objective of this paper was to assess the impact of IFRS adoption on capital structure- Pre - Post Analysis of listed Banks in Ethiopia. Based on these objectives the study hypothesized as follows;

Hypothesis 1: There is no significant relationship between Combined effect of IFRS-adoption and information asymmetry significantly influences the cost of capital in listed Banks in Ethiopia.

Hypothesis 2: There is no significant relationship IFRS adoption's interaction with analysts following will significantly influence the cost of capital of listed Banks in Ethiopia.

Hypothesis 3: There is no significant relationship between IFRS adoption's interaction with managerial opportunism significantly influences the cost of capital of listed Banks in Ethiopia. influences the cost of capital of selected Banks in Ethiopia.

Hypothesis 4: There is no significant relationship between: Combined effect of IFRS-adoption and information asymmetry to significantly influence the corporate performance of listed Banks in Ethiopia.

Research Design-Sample and dataset selection

The population for this study is according to the register of National Bank Ethiopia, there are 20 listed banks operating in the country and Out of this 18 are private banks while the remaining two are state owned banks. The sample of Selected Banks where consistently published annual reports and showed available information before and after adoption periods. Secondary Sources of data have been used. Secondary data were collected from the annual reports of Financial Statement. Accordingly, the researcher has collected the data from the annual reports of Five Selected Banks in Ethiopia over the period of ten

Seifu Eshetu Worku et al.

years from 2013- 2021. The data were appropriated to test before and after adoption. For separate periods of data were used in the study, namely: the pooled (2013-2021), the early post-adoption (2016-2018), and the late post adoption (2019 - 2021 in. These approaches ensure that sample SBE have been used the same observations in the pre and post adoption period, with exception of the pooled period. The exclusion of 2015 adoption transition year where used.

Sample size based on the Reported Financial Statement and Documented Review in listed bank in Ethiopia. The Selection of Sample size depending on Stratification based on their Gross profit, "less than or Equal to 1.3 billion" from the Fiscal Year of 2019/2020. Therefore, probability sampling technique specifically stratifying sampling technique Where employed. See Table.

Table 1.3. Sample Size Selected Banks in Ethiopia. Source: Researcher.

Table 1.1

| No | Selected Banks in Ethiopia | Gross Profit from Fiscal Year of 2019/2020 |
|----|--|--|
| 1 | Commercial Bank of Ethiopia State Bank | 17, Billion |
| 2 | Awash Bank | 4.2 billion |
| 3 | Dashan Bank | 1.79 billion |
| 4 | Cooperative Bank of Oromia | 1.42 billion |
| 5 | Nib international Bank | 1.3 billion |

LITERATURE REVIEW

IFRS Adoption and Implementation

in Worldwide

The stated goal of the IFRS Foundation and the International Accounting Standards Board (IASB) is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. There were once scores of unique sets of financial reporting standards among the more developed nations ("national GAAP"). Application of international financial reporting Standards-John Wiley & Sons (2014). Before the IFRS adoption era, all global and multinational firms were mandated to present a separate financial report for every nation they operated, following a country's Local GAAP established in conformity with IASC, which was in operation from 1973 to 2001. Accordingly, a series of accounting standards (AS) was released; it numbered from IAS 1- 41 in December 2001. Early 2002, the European Union (EU) made legislation that required public firms among the European Union member states to apply IFRS in their consolidated annual reports commencing from 2005. Over 8000 firms from 30 countries complied. Due to globalization, many other countries outside the EU have also been voluntarily adopting IFRS. It has become mandatory in Africa because IFRS is becoming the set of a globally accepted accounting standard that meets the needs of the world, and it is broadly connected to global equity markets.

Seifu Eshetu Worku et al.

IFRS Adoption, Implementation and Road Map in Ethiopia.

Adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represent only a small part of the conversion efforts. Mandatory Adoption of IFRS in Ethiopia started and reporting July 7, 2017. these reporting entities were included all financial institutions and government owned (Federal and Regional) public enterprises in Ethiopia were statutorily be required to issue IFRS based financial statements for the year ending July 7, 2017. The commencement for preparation towards transiting to IFRS by other PIEs (and IPSAs for Charities and Societies) is July 8, 2015 and that of SMEs is July 8 2016. (AABE Five Year Strategic Plan (Fiscal years 2016-2021, Page 89).

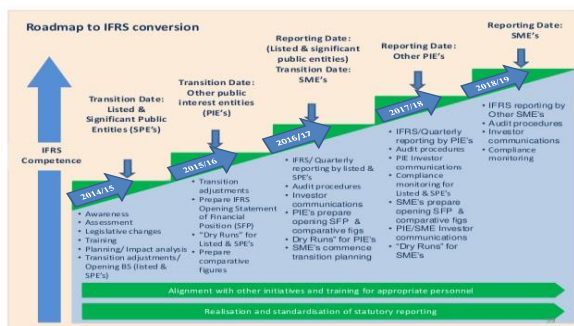


figure 1.1 Roadmap to IFRS Conversion in Ethiopia Source of Figure: - Updated Researcher.

IFRS Adoption and Accounting Information Environment

Information Asymmetry Iatridis (2011) defines information asymmetry as a situation whereby some stakeholders obtain more information than others.

Thus, information asymmetry results in three fundamental problems in the capital market, namely, adverse selection, moral hazard, and high monitoring cost. Theoretically, studies have focused on three aspects through which quality accounting information reduces information asymmetry. These include changing the behavior of uninformed investors, reducing the incentive to search for private information, and reducing information risk.

Managerial Opportunism: Williamson (1985) explains that opportunism is "self-interest seeking with guile." Managerial opportunism is an inevitable consequence of costly information. In a world of no transaction cost, including the cost of determining behavior and actions of stewards (managers), there would be no opportunism. (Kim et al., 2013). IFRS enhances transparency and timely disclosure of accounting information and increases the accessibility of firms' data by users, including investors, financial analysts, credit rating agency the table for the measurement.

Information Asymmetry

In this., the Bid-Ask spread measurement that uses high and Low share prices as employed by (Horton, J., Serafeim, G., and Serafeim, I. (2010). Refer to the table for the measurement.

Analysts Following

It refers to the professionals that use accounting information for potential investment. It ranges from one to a hundred, as reported in the NBE database.

The Impact of IFRS on the Cost of Equity Capital

Pricope, C.F., 2017, investigate the correlation between mandatory IFRS/IAS adoption and firms' earnings among the EU member states from 2002 to 2012 by employing random effects and fixed effects. The study finds that IFRS to decrease the capital cost and the reaction by financial analysts forecast for two years after adoption, which further decreases as the years of IFRS adoption increase.

Latiff, Karim, and Abdul-Rahman's (2016) research applies a correlation between fair value accounting and cost of equity using a sample of 114 Banks in twenty-six Asian countries for the period 2007-2013.

The Impact of IFRS on the Cost of Debt Capital

Florou and Kosi (2015) use an international sample of private loans and public bonds from 2000 to 2007, single equation analysis, and endogenous switching model to investigate, among other things, the impact of IFRS on the cost of debts. The study finds that mandatory IFRS adoption reduces the cost of public debt, but shows no significant association between the cost of private debt and IFRS.

Equity/ Share returns

Usually, equity returns denote the gains or losses on the stock in a precise timeframe. The returns may comprise capital gain or income generated relative to the shareholder's investment. In this thesis, equity returns mean the capital gain relative to the stocks a firm/listed

Banks value in a given period (Dragomir, 2010).

Market Price per Share

A market price of common stock or per share is the number of money shareholders are willing to pay for a share. The share price rises and falls with investors' demand. The price determines how much a stock will cost an investor. It is also precious when associated with other information – to measure market value ratios to decide if shares are a good investment at the prevailing market price. All other information is handy picked from the annual financial reports released by listed Banks is shown on the companies' websites and their data base sources. An associated data point is the listed bank's "market value," which is the total value that shareholders invest in a firm/listed Banks in Ethiopia on a particular period. In this study MPPS is determined the value by multiplying the market price per share.

Control variables- In accordance with previous literature, the researcher include four control variables with the aim of avoiding biased results. Control variables employed include leverage, liquidity, tangibility and integrity of the legal system (INTG) The inclusion four separate periods of data were used in the study, namely: the pooled (2013-2021), the early post-adoption (2016-2018), and the late post adoption (2019 - 2021 in. These approaches ensure that sample SBE have been used the same observations in the pre and post adoption period, with exception of the pooled period. The exclusion of 2015 adoption transition year where used.

Leverage (LEV)

Certainly, there is a high incentive for leveraged firms/LBE to practice into earnings management (Watts and Zimmerman, 1986). The leverage mechanism brings pressure to bear on managers to create free cash flows to pay interest and principal of debts. The quality of control variables could vary the appearance between the pre-IFRS and post-IFRS periods and thereby influence results drawn from the model estimation employed. A vital governance mechanism includes the management of debt

(Botosan, C. (1997). Due to the interest and principal payments on debts, managers are responsible for generating cash flow to meet them. It, therefore, calls for credible financial reporting as a manner to monitor debt arrangements.

Liquidity (LQ)

The liquidity of a firm is one of the indicators of determining the optimal level of debt. It shows how companies could meet their financial obligations in the short-term when they fall due (Al-Akra, M., Eddie, I.A. And Ali, M.J. (2010) The inclusion of control variables expected to correlate with the cost of equity capital estimation, cost of debt capital, performance measures, and macroeconomic factors as their exclusion from the tests may bias the coefficients to be estimated. The study measures Liquidity as a Current asset to current liability (Baker and Martin, 2011).

Asset tangibility (TANG)

Akintoye (2009) specifies that keep significant investments tangible assets of firms/LBE associates with smaller costs of financial distress, which impact the optimum performance. It enhances and generates more revenue from sales. The study measures Tangibility as the Net Property, Plant, and Equipment divided by Total Assets and in percentages form

The integrity of the legal system (INTG)

NBE depend on qualitative judgement stated by the risk rating agency, ranging from 0 (lowest) to 10 (highest).

Model specifications and analysis techniques

According to Onali, E., Ginesti, G. and Vasilakis, C. (2017). Since the data was a panel, the pooled ordinary least square regression (POLS), the random effects (RE) and the fixed effects (FE) estimation techniques were employed depending on which is the best. This is to select the best econometric model that can lead to correct inferences arising from coefficient estimates. Therefore, the Breusch-Pagan Lagrange multiplier tests are employed to select between the RE and the POLS regression, and if the RE is chosen as the best option. To test the validity of the instruments, the Sargan test of over-identifying restrictions (Sargan-Hansen statistic) is reported to choose between the RE and the FE. The test of over-identifying restrictions is used since the study controlled for heteroskedasticity automatically by using robust standard errors and hence the Hausman test wouldn't have been appropriate. However, if the POLS is chosen ahead of

| | | | | | |
|----------------------|---------------------------|--------|--------|--------|---------|
| EX | Selected Head office Bank | 8.12 | 1.667 | 5.645 | 24.810 |
| GDPG | Selected Head office Bank | 3.075 | 1.696 | -1.538 | 5.584 |
| COEC | Selected Head office Bank | .226 | 0.407 | 0 | 3.24 |
| CODC | Selected Head office Bank | .131 | 0.332 | 006 | 4.412 |
| MPPS | Selected Head office Bank | .007 | .04 | 0 | .641 |
| EQRS | Selected Head office Bank | 173 | .490 | -0.88 | 3.64 |
| PROFITABILITY | Selected Head office Bank | .133 | 0.160 | -2.337 | 1.552 |
| ROIC | Selected Head office Bank | .141 | .336 | -4.975 | 3.104 |
| EPS | Selected Head office Bank | 11.063 | 45.840 | 0 | 435.527 |
| EBITDA | Selected Head office Bank | 4.102 | 11.389 | -8.334 | 102.025 |

From Table 1.2 it can be seen that tangibility, liquidity, leverage, information asymmetry, analyst following, managerial opportunism, integrity, exchange rate, economic growth, cost of equity capital, cost of debt capital, market price per share, equity returns, profitability, return on investment capital, earnings per share and operations margin had averages of .337, 1.536, .186, .325, 5.068, .402, 3.918, 7.875, 8.23, 3.075, .226, .131, .007, .173, .133, .141, 11.033 and 4.102 respectively.

Regression Results

The regression results of the study by employing either the fixed effects, the random effects, or the pooled ordinary least square estimator depending on which of these regression techniques was the most suitable, as can be seen below. Table 1.3: The Impact of IFRS on Capital Structure of in "Selected Banks in Ethiopia (2013-2021) excluding 2015"

| | (FE)COEC | (FE)LNCODC | (FE)MPPS | (POL)EQRS |
|--|-----------|------------|------------|-----------|
| TANG | -0.522 | 0.597* | -0.011 | 0.0742 |
| | -0.339 | -0.338 | -0.0118 | -0.0745 |
| LNLQ | -0.103* | 0.117 | -0.00443 | -0.0308 |
| | -0.0607 | -0.102 | -0.00483 | -0.0428 |
| LEV | -0.433 | -2.218*** | -0.0418 | -0.275* |
| | -0.343 | -0.55 | -0.0272 | -0.149 |
| LNINTG | -0.0576 | 0.495*** | -0.000505 | -0.319 |
| | -0.0711 | -0.176 | (0.00454 | -0.149 |
| IA | 0.156 | -0.0338 | 0.0268 | -0.171 |
| | -0.105 | -0.253 | -0.0215 | -0.175 |
| LNAF | 0.0266 | 0.0734 | -0.0049 | 0.0351 |
| | -0.0312 | -0.0553 | -0.00615 | -0.0548 |
| MO | -0.0147 | 0.268 | 0.0126 | 0.00347 |
| | -0.0533 | -0.176 | -0.00993 | -0.116 |
| IFRS IA | -0.139 | 0.0262 | -0.0248 | 0.173 |
| | -0.109 | -0.252 | -0.0238 | -0.179 |
| IFRSAF | 0.0105 | -0.0176 | 0.000501 | -0.00326 |
| | -0.00814 | -0.0177 | -0.00104 | -0.0122 |
| IFRS MO | 0.00784 | -0.3 | -0.0108 | 0.0754 |
| | -0.0541 | -0.183 | -0.00818 | -0.112 |
| LNIR | .0769* | 0.255** | 0.00862 | -0.0343 |
| | -0.0386 | -0.118 | -0.00669 | -0.105 |
| | 0.00972** | | | |
| GDPG | | -0.0434** | -0.0000631 | 0.0795*** |
| | -0.00403 | -0.0173 | -0.00107 | -0.0119 |
| IFRS | -0.0345 | 0.024 | 0.0202* | -0.191* |
| | -0.086 | -0.142 | -0.0118 | -0.099 |
| Constant | 0.444* | -3.493*** | 0.00247 | 0.595** |
| | -0.256 | -0.414 | -0.0127 | -0.272 |
| N | 20 | 20 | 20 | 20 |
| No of Selected Head office Bank | 5 | 5 | 5 | 5 |
| Overall | 0.000147 | 0.123 | 0.00448 | 0.133 |

| | | | | |
|--|---------|----------|--------|----------|
| R² | | | | |
| R² | | | | |
| F | 2.063** | 5.595*** | 1.865* | 12.54*** |
| Cluster robust standard errors in parentheses | | | | |
| *p< 0.1, **p< 0.05, ***p< 0.01 | | | | |

In Table 1.3, regarding the cost of equity capital model for the 2013 - 2021 period excluding 2015 (since it was the adoption year), the tests chose the fixed effects model to be the most appropriate. From the results, liquidity had a coefficient of -0.103, which was statistically significant at 10%. Thus, a unit increase in liquidity significantly led to a 0.103 unit fall in the cost of equity capital. It means that liquidity shows a negative impact on the cost of equity capital.

Also, Gross domestic product growth had a statistically significant positive impact (0.00972**) on the cost of equity capital. It implies that when gross domestic product growth increases by one unit, it resulted in an increment in the cost of equity capital by 0.0097 units.

However, IFRS, as well as its interaction with other variables (information asymmetry, analyst following, and managerial opportunism), had no statistically significant impact on the cost of equity capital.

Regarding the cost of debt capital model, the tests found the fixed effect model to be the best. The results in Table 1.3 show that tangibility had a significant positive effect on the cost of debt capital. Specifically, a unit rise in tangibility shows an increase in the cost of debt capital by 0.597 units at a 10% significant level. Also, leverage had a negative coefficient (-2.218) that was

significant at 1%. Thus, a unit increase in leverage decreases the cost of debt capital by 2.218 units.

From Table 1.3, IFRS, as well as its interactions with other variables (information asymmetry, analyst following, and managerial opportunism), had no statistically significant effects on the cost of debt capital.

Also, the negative coefficient (-0.0434) of economic growth that was significant at five percent implied that when GDP growth increases by one unit, it led to a fall in the cost of debt capital by 0.0434 units. In the market price per share model, the test conducted showed the fixed effect model to be the best, and hence the study settled on that. However, in the market per share model, all the variables were statistically insignificant except IFRS. Specifically, IFRS had a positive coefficient of 0.0202 at a 10% statistical significance level. Thus, when IFRS increases by a unit, the market price per share would increase by 0.0202 units; hence, IFRS adoption had a positive statically significant impact on the market price per share.

On the equity returns model, the tests showed that the POLS were the best, so the study chose that. From the model, leverage had a negative coefficient of -0.275, which was significant at 10%. Thus, a unit increase in leverage led to 0.275 units fall in equity returns. Also, integrity had a negative coefficient of -0.319 that was significant at

Seifu Eshetu Worku et al.

5%. The implication is that a unit increase in integrity led to 0.319 units fall in equity returns. Further, gross domestic product growth had a positive coefficient of 0.0795, which was significant at 1%. Thus, when gross domestic product growth increases by one unit, it resulted in 0.0795 units rise in

equity returns. The results in Table 3 show that IFRS had a significant negative impact on equity returns. Specifically, it shows that equity returns fall by 0.191 units due to IFRS adoption, and this was statistically significant at 10%.

| Pre-IFRS Adoption period (2013-2014) | | | | |
|---|-----------|-------------|-----------|-------------|
| | (FE) COEC | (FE) LNCODC | (FE) MPPS | (POLS) EQRS |
| TANG | -0.422 | -0.54 | -0.0221 | 0.265 |
| | -0.358 | -1.471 | -0.021 | -0.16 |
| LNLQ | 0.0168 | 0.241* | 0.00251* | 0.0161 |
| | -0.0426 | -0.145 | -0.0014 | -0.107 |
| LEV | -0.0409 | -3.798*** | -0.0017 | -0.610** |
| | -0.146 | -1.082 | -0.0073 | -0.3 |
| LNINTG | -0.143 | 0.343 | 0.00088 | -0.512** |
| | -0.0884 | -0.257 | -0.0027 | -0.225 |
| IA | 0.00859 | 0.0501 | 0.00351 | -0.138 |
| | -0.112 | -0.336 | -0.0043 | -0.181 |
| LNAF | 0.00861 | 0.0427 | -0.0005 | 0.0251 |
| | -0.0248 | -0.0697 | -0.001 | -0.058 |
| MO | 0.0275 | 0.312** | -0.0002 | 0.0099 |
| | -0.0339 | -0.17 | -0.0013 | -0.12 |
| LIR | 0.0846 | 0.315* | 0.00576 | 0.016 |
| | -0.102 | -0.214 | -0.0037 | -0.302 |
| GDPG | 0.00978 | -0.108 | 0.00141 | 0.0820* |
| | -0.0206 | -0.0731 | -0.0009 | -0.0533 |
| Constant | 0.377 | -2.658** | 0.00083 | 0.741 |
| | -0.285 | -1.011 | -0.012 | -0.791 |

| | | | | |
|--|---------|---------|--------|---------|
| N | 20 | 20 | 20 | 20 |
| No of Selected Head office Bank | 5 | 5 | 5 | 5 |
| Overall R² | 0.00537 | 0.0908 | 0.0207 | 0.066 |
| R² | | | | |
| F | 2.338** | 2.420** | 0.882 | 2.379** |

These findings are consistent with agency theory, signaling theory, and stakeholder theory. For example, agency theory posits that as LBIE adopt IFRS, agency problems will reduce, and the interests of shareholders are legitimate. It suggests that the value for shareholders will increase, thus increase in market price per share. From signaling theory, adopting IFRS is a signal to the capital market and industry players that companies are willing to disclose the relevant information based on more preventive accounting principles. It suggests an increase in investors for LBIE due to the posit image created by IFRS adoption. As the number of investors increases, demand for a share of the company increase, thereby increasing the market price per share while the return on equity decreases. From agency and signaling theories cost of debt capital and cost of equity capital are expected to decrease. However, these were not the case in this study. The result may be as a result of the similarities between the Ethiopia GAAP and IFRS. IFRS is similar to Ethiopia GAAP, such that the introduction of IFRS in Ethiopia was smooth with little or no problem, unlike other countries. This similarity possibly explains why Ethiopia is one of the African countries to adopt IFRS.

The accounting information environment in Ethiopia is good with high analyst following, low managerial opportunism, and information asymmetry due to stakeholders' protection. However, this environment could not complement IFRS adoption to influence the capital structure of the sampled selected Banks of in Ethiopia.

Determinants of Capital Structure of selected Banks in Ethiopia during the Pre-IFRS Period (2013-2014), Early IFRS Period (2016-2018) and Late-Period (2019-2021).

| Early IFRS Adoption period (2016-2018) | | | | | |
|---|------------------|------|-------------|-----------|-------------|
| | (FE) | COEC | (FE) LNCODC | (FE) MPPS | (POLS) EQRS |
| TANG | 0.071 | | -0.136 | 0.0457 | 0.338* |
| | -0.153 | | -0.566 | -0.0802 | -0.202 |
| LNLQ | 0.0194 | | 0.086 | -0.0252 | -0.102 |
| | -0.0304 | | -0.136 | -0.0266 | -0.0769 |
| LEV | -0.0711 | | -1.877** | -0.0994 | -0.562** |
| | -0.161 | | -0.858 | -0.0737 | -0.299 |
| LNINTG | 0.0238 | | -0.0634 | 0.0154 | -0.673*** |
| | -0.0719 | | -0.208 | -0.0207 | -0.189 |
| IA | 0.00117 | | -0.0141 | -0.00702 | 0.0516 |
| | -0.0153 | | -0.0601 | -0.00724 | -0.0419 |
| LNAF | -0.00746 | | -0.0500* | 0.00507 | 0.0744*** |
| | -0.00511 | | -0.0297 | -0.00527 | -0.0262 |
| MO | 0.0238 | | -0.0634 | 0.0154 | -0.673*** |
| | -0.0719 | | -0.208 | -0.0207 | -0.189 |
| LIR | 0.0133*** | | -0.0356* | 0.00107 | 0.0404*** |
| | -0.00378 | | -0.0185 | -0.00211 | -0.0113 |
| GDPG | 0.0122*** | | -0.0342* | -0.00107 | 0.0404*** |
| | -0.00378 | | -0.0185 | -0.00211 | -0.0113 |
| Constant | 0.255 | | -1.894*** | 0.0502 | 1.396*** |
| | -0.188 | | -0.542 | -0.0409 | -0.406 |
| N | 20 | | 20 | 20 | 20 |
| No of Selected Head office Bank | 5 | | 5 | 5 | 5 |
| Overall R² | 0.066 | | 0.0122 | 0.178 | 0.00453 |
| R² | | | | | |
| F | 2.379** | | 2.355** | 19.76*** | 1.184 |

Cluster robust standard errors in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

Seifu Eshetu Worku et al.

Therefore, in the pre-IFRS adoption period (2013-2014) in Table 1.4, it can be seen in the cost of equity capital model, that, all the variables were statistically insignificant. However, regarding the cost of debt capital model, the coefficients of 0.241 and 3.798 for liquidity and leverage were significant at 10% and 1% respectively, implying that a unit increase in liquidity and leverage led to 0.241 and -3.798 units rise and fall in the cost of debt capital respectively. Thus, while liquidity shows an increase in the cost of debt capital, leverage was found to decrease it. Further, both managerial opportunism and rate return from investment result show an increase in the cost of debt capital at 5% and 10% significance level, respectively. Specifically, unit rise in managerial opportunism and rate return from investment show an increase in the cost of debt capital by 0.312 and 0.315 units, respectively.

Concerning the market price per share model, only liquidity was significant. Specifically, a unit increase in liquidity increases the market price per share by 0.00251 units at a 10% level of significance. However, market price per share models as a whole was not statistically significant (F-stats= 0.882; p=0.457).

POLS was most suitable for the equity returns model. Results in Table 1.4 show that both leverage and integrity had a statistically

significant negative impact on equity return at 5%. Thus, a unit increase in leverage and integrity led to 0.610, and 0.512 units fall in equity returns, respectively. Additionally, gross domestic product growth significantly increases

equity returns by 0.0820 units at a 10% level of significance. Neither IFRS nor its interaction with any of the accounting information environment variables had a statistically significant impact on equity returns.

Cluster robust standard errors in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01 Concerning the early IFRS adoption period (2016-2018), while the fixed effects model was the best for the cost of equity capital and market price per share models, random effects and the pooled OLS were chosen as the best for the cost of debt capital and equity returns models respectively. Specifically, on the cost of the equity capital model, as seen in Table 4.4, only gross domestic product growth was statistically significant. Therefore, a unit increase in gross domestic product growth led to a 0.0122 unit rise in the cost of equity capital at a 1% significance level.

As regards the cost of debt capital model, 1 unit increase in leverage decreases the cost of debt capital by 1.877 units, and this is statistically significant at a 5% level. It further shows that a rise in managerial opportunism has a significant negative impact on the cost of debt capital. Exactly, a unit increase in managerial opportunism shows a decrease in the cost of debt capital by 0.0500 at a 10% significance level. Also, gross domestic product growth shows a negative impact on the cost of debt capital at a 10% significance level. Thus, with the -0.0342 coefficient of GDPG, it implied that a unit rise in GDPG significantly decreased the cost of debt capital by 0.0342 units.

| Late-IFRS Adoption period (2019-2021) | | | | |
|--|---------------------|----------------|--------------|----------------|
| | (FE) COEC | (FE) LNCODC | (FE) MPPS | (POLS) EQRS |
| TANG | -0.221 | 1.507* | -0.066 | -0.0535 |
| | -0.342 | -0.805 | -0.0513 | -0.327 |
| LNLQ | -0.0588 | 0.21 | 0.00235 | -0.0002 |
| | -0.0625 | -0.318 | -0.004 | -0.113 |
| LEV | -0.0893 | -2.101** | 0.0084 | -0.178 |
| | -0.118 | -1.071 | -0.0166 | -0.256 |
| LNINTG | 0.0122 | 0.0988 | 0.00289 | 0.161 |
| | -0.064 | -0.478 | -0.0061 | -0.232 |
| IA | 0.0131 ** | -0.019 | 0.00311*** | 0.0410*** |
| | -0.0064 | -0.0311 | -0.0006 | -0.0134 |
| LNAF | 0.00844 | -0.0516 | 0.00051 | 0.00787 |
| | -0.0137 | -0.104 | -0.0015 | -0.0264 |
| MO | 0.0168 | 0.0786 | -0.0006 | -0.0225 |
| | -0.0229 | -0.179 | -0.002 | -0.0791 |
| LIR | -0.0363 | 0.763 | 0.00109 | -0.647* |
| | -0.16 | -0.915 | -0.0112 | -0.381 |
| GDPG | 0.00152 | 0.0548 | -0.002 | -0.0650* |
| | -0.0107 | -0.0811 | -0.0014 | -0.0377 |
| Constant | 0.329 | -4.423*** | 0.0380* | 1.326* |
| | -0.212 | -1.393 | -0.0212 | -0.676 |
| N | 20 | 20 | 20 | 20 |
| No of Selected Head office Bank | 5 | 5 | 5 | 5 |
| Overall R² | 0.00704 | 0.0925 | 0.00064 | 0.0252 |
| R² | | | | |
| F | 2.396** | 1.518 | 51.74*** | 2.535** |

In the market price per share model, none of the variables was significant. Hence, it was not astonishing that the overall model was not statistically fit (F-stats 1.184;

p=0.335). Also, concerning the equity returns model, tangibility had a positive impact on equity return with a coefficient of 0.338, which was significant at 10%.

Leverage shows a negative impact on equity returns with a coefficient of -0.562, and this was significant at 5%. Managerial opportunism and gross domestic product growth had a positive impact on equity returns with a coefficient of -0.673, and 0.0404, respectively, and these were significant at 1%. Moreover, the interest rate shows a coefficient of --0.673, and that was significant at 1%; thus, the interest rate had a significant negative impact on equity returns.

Cluster robust standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ For the late adoption period (2019-2021), the tests showed the fixed effects technique to be the best for all the models. In Table 4.4, concerning the cost of equity capital model, only information asymmetry was significant. Specifically, information asymmetry shows an increase in the cost of equity capital by 0.0131 units at a 5% significance level. In the cost of the debt capital model, tangibility, the result shows a positive impact at a 10% significance level. While leverage shows a negative impact at a 5% significance level, with coefficients of tangibility and leverage as 1.507 and -2.101, respectively. It implies that unit increments in tangibility and leverage increased and decreased the cost of debt capital by 1.507 and 2.101 units, respectively. However, the overall model for debt capital was not statistically significant ($F\text{-stats} = 1.518$; $p = 0.135$), implying that the model is not fit for predicting debt capital in the country. Concerning market price per share, the positive coefficient of 0.00311 of information asymmetry implied that a unit increase in information asymmetry led to 0.0031 units increase in market price per

share given that the coefficient of information asymmetry was significant at 1%. Regarding the equity returns model, information asymmetry, interest rate, and gross domestic product growth had coefficients of 0.0410, -0.647, and -0.0650, which were significant at 1%, 10%, and 10%, respectively. The implication is that a unit increase in information symmetry, interest rate, and economic growth led to a 0.0410, 0.647, and 0.0650-unit increases, decrease, and fall in equity returns, respectively.

CONCLUSION

The results and Conclusion of the study concerning the impact of IFRS on the capital structure-cost of equity capital, cost of debt capital, market price per share, and equity returns of listed Banks of in Ethiopia for the period 2013-2021 excluding 2015. From the findings, it concludes that, from 2013-2021 excluding 2005, while IFRS did not have any statistically significant impact on the cost of equity capital and cost of debt capital, it did have a statistically significant impact on the market price per share and equity returns. Also, even though IFRS did not have any statistically significant impact on the exchange rate and profitability, it had a statistically significant impact on earnings per share, operations margin, GDP growth, interest rate and return on investment capital.

RECOMMENDATIONS

This study has several policy implications: Firstly, it helps the investment municipal to better understand the impact of international financial reporting standards on the cost of capital in leading investment decisions. Secondly, it is a motivation for standard-setting bodies in IFRS adopted nations to think through to enact laws and

Seifu Eshetu Worku et al.

regulations, which will lead to more convergence into global accounting standards to benefit all debt capital providers and other participants. Thirdly it boosts financial statement analysis of companies after IFRS adoption and enabling them to assess and evaluate their performance against with Banking industry players.

Founded on the findings, the study, therefore, made the following recommendations:

1. Other developing countries in Ethiopia that are yet to adopt the IFRS standards must be encouraged to do so since it shows to increase the market price per share, return on investment capital, earnings per share, and operations margin.

2. Moreover, In Banking industries should institute measures that would increase the number of analysts following since it shows an increasing effect on earnings per share.

3. In addition to adopting IFRS, SB-level measures such as managerial opportunism must be checked instituted since the interaction of IFRS with managerial opportunism was found to enhance GDP growth.

4. Also, efforts geared towards increasing tangibility should be embarked upon since it shows increase profitability and earnings per share.

5. Policies toward ensuring GDP growth should be embarked upon since it shows to increase return on investment capital and profitability

References

1. John Wiley & Sons ,2014, "Application of international financial reporting Standards. <https://books.google.com> > books.
2. AABE, 2015, "Five years strategic plan, 2015/16-2020/21," Addis

Ababa, Ethiopia Fiscal years 2016-2021, Page 89 aabe.gov.et > wp-content > uploads > 2017 > 01 > AABE... · PDF file

3. Nguyen, P.-H., Tsai, J.-F., Kumar G, V. A., & Hu, Y.-C. (2020). Stock investment of agriculture companies in the Vietnam stock exchange market: An AHP integrated with GRA-TOPSISMOORA approaches. *Journal of Asian Finance, Economics and Business*, 7(7), 113–121.

4. Almagtome, A., Khaghaany, M., & Once, S. (2020). Corporate Governance Quality, Stakeholders' Pressure, and Sustainable Development: An Integrated Approach. *International Journal of Mathematical, Engineering and Management Sciences*, 5(6), 1077–1090. <https://doi.org/10.33889/ijmems.2020.5.6.082>.

5. Berhane Ghebray (2014). Annual Report of Zemen Bank. Addis Ababa, Ethiopia

6. Gatsios, R. C., SILVA, J., Ambrozini, M. A., Assaf Neto, A., & Lima, F. G. (2016). Impact of adopting IFRS standard on the equity cost of Brazilian open capital companies.

RAM. *Revested Administerial Mackenzie*, 17(4), 85–108. <https://doi.org/10.1590/1678-69712016/administracao.v17n4p84-107>

7. Hoang, C. C., & Ngoc, B. H. (2019). The Relationship between Innovation Capability and Firm's Performance in Electronic Companies, Vietnam. *Journal of Asian Finance, Economics and Business*, 6(3), 295–304. <https://doi.org/10.13106/jafeb.2019.vol6.n03.295>

8. Chandrasekar, V., & Kumar, D. N. S. (2016). Impact of IFRS Adoption on Financial Decisions Case Study of Indian

Information Technology Industry: Wipro Ltd. *Journal of Financial Management & Analysis*, 29(2).

<https://doi.org/10.1093/acprof:oso/9780199243983.003.0007>

9. Devalle, A., Magarini, R., & Onali, E. (2014). Assessing the Value Relevance of Accounting Data after IFRS Introduction in Europe. Available at SSRN 2420765.

<https://doi.org/10.2139/ssrn.2420765>

10. Karrar Saleem Hameedi. PhD, Akeel Almagtome. PhD and Maher Naji Ali, 2021, Financial Performance Reporting, IFRS Implementation, and Accounting Information: Evidence from Iraqi Banking Sector. Print ISSN: 2288-4637 Online ISSN 2288-4645 doi: 10.13106/jafeb.2021.vol8.no3.1083

11. Castillo-Merino D, Menendez-Plans, C., and Orgaz - Guerrero, N. (2014). Mandatory IFRS adoption and the cost of equity capital: Evidence from Spanish firms; *Intangible Capital*. 10(3), pp. 562-583.

12. Patro, A. and Gupta, V.K., 2016. Impact of International Financial Reporting Standards on Stock Price Synchronicity for Asian Markets. *Contemporary Management Research*, (12)1

13. Williamson, O., 1985, *The Economic Institutions of Capitalism: firms, markets, relational contracting*. New York.

14. Cummings, J., 2001. Engaging stakeholders in corporate accountability programs: A cross-sectoral analysis of UK and transnational experience. *Business Ethics: A European Review*, 10(1), pp.45-52.

15. John Wiley & Sons, 2014, "Application of international financial reporting Standards.

16. IASB, F., 2008. EXPOSURE DRAFT: Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision Useful Financial Reporting Information. 2008-05-29) [2011-09-10]. <http://www.fasb.org>

17. Iatridis, G.E., 2011. Accounting disclosures, accounting quality and conditional and unconditional conservatism. *International Review of Financial Analysis*, 20(2), pp.88-102.

18. AABE Five Year Strategic. Page 91-100

19. Watts, R. and J. Zimmerman (1978), "Towards a Positive Theory of the Determination of Accounting Standards," *The Accounting Review* 53 (January), pp.112-134.

https://thereaderwiki.com/en/Positive_accounting

20. Kim, J.B., Song, B.Y. and Tsui, J.S., 2013. Auditor size, tenure, and bank loan

pricing. *Review of Quantitative Finance and Accounting*, 40(1), pp.75-99.

21. Horton, J., Serafeim, G., and Serafeim, I. (2010). Does Mandatory IFRS Adoption Improve the Information Environment? Harvard Business School Working Paper, 11-029.

22. Pricope, C.F., 2017. The implications of IFRS adoption on foreign direct investment in poor countries. *Audit Financier*, 15(146), pp.218-229.

23. Latiff, Karim, and Abdul-Rahman's (2016) research applies

Seifu Eshetu Worku et al.

a correlation between fair value accounting and cost of equity using a sample of 114 Banks in twenty-six Asian countries for the period 2007-2013.

24. Florou and Kosi (2015), use an international sample of private loans and public bonds from 2000 to 2007.

25. Dragomir, (2010). In his study, equity returns mean the capital gain relative to the stocks a firm/listed Banks value in a given period

26. Botosan, C. (1997): "Disclosure Level and the Cost of Equity Capital" *Accounting Review*. 72 (3), pp. 323-349.

27. Al-Akra, M., Eddie, I.A. And Ali, M.J. (2010), "The have an effect on of the advent of accounting disclosure regulation on obligatory disclosure compliance: evidence from Jordan", *The British Accounting Review*, Vol. 42 No. 3, pp. 170-186.

28. Baker, H.K. and Martin, G.S. (2011) *Capital Structure and Corporate Financing Decisions Theory, Evidence, and Practice* (Vol. 15). John Wiley & Sons, Hoboken. <https://www.scirp.org> > (S (351jmbntvnsjt1aadkposzje

29. Akintoye (2009) who argues that a firm will have smaller costs of financial distress if they retain large investments in tangible assets. <https://mpa.ub.uni-muenchen.de> > 57116 > 1 > MPRA_paper_57116.pdf · PDF file

30. Onali E, Ginesti G, Vasilakis C. 2017. How should we estimate value-relevance models? Insights from European data. *British Accounting Review*. 49(5).

<https://research.bangor.ac.uk> > portal > en > research