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International Financial Reporting Standard and Performance of Quoted Manufacturing Firms in Nigeria

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Abstract

The study examines the effect of International Financial Reporting Standard (IFRS) on performance of quoted manufacturing firms in Nigeria. Secondary source of data was employed through which data were collected from annual report of the selected firms. The study made use of panel data regression. The study covers the period of twelve years from 2011 to 2022 and purposive sampling technique was used to select thirteen consumer goods firms that are constantly trading on the Nigerian Group of Exchange. The study found that IFRS adoption has negative and insignificant effect on financial performance of manufacturing companies in Nigeria. The explanation for this could be as a result of significant adoption cost which will invariably affect the financial performance of the manufacturing companies. The study concluded that the cost of introducing IFRS should be reduced in order to enhance performance of quoted manufacturing firm. In view of this, the study recommends that the management of consumer goods manufacturing firm should consider the cost of implementation and fluctuation in reported values due to change in valuation.

Keywords: IFRS, Return on asset, Panel regression, Consumer goods manufacturing firm.

JEL Classification Codes: D21, L20, G15 , L1.

Introduction

It is impossible to overstate the significance of high-quality financial reporting in the public sector. It offers the financial data that economic stakeholders need to make both tactical and everyday financial decisions. Generally speaking, deficiencies in the cash basis disclosure requirements are the main cause of financial reporting problems in the public sector. The cash basis accounting disclosure requirement, according to Appah and Appiah (2010), is a fundamental obstacle to high-quality financial reporting in the public sector. Philip (2006) also believes that the shortcomings of the cash basis accounting methods utilized by the Nigerian public sector are to blame for the country's subpar financial management reports. Real cash flows and if funds are released in accordance with appropriations are the main concerns of the cash accounting system. The information provided by cash accounting is insufficient for assessing the performance of individuals in charge of public resources. Cash accounting systems don't consider how effectively the resources they authorize are used. The cash accounting method presents a fairly short-term view of the public finances stated in the financial reports and fails to collect information on the assets and liabilities of the public sector. This has created a significant obstacle to responsible resource management, macroeconomic stability, accountability, transparency, and effective resource utilization (Chan, 2008). As per Appah et al. (2010), attempts to guarantee high-quality financial reporting have consistently proved fleeting. According to Kelly and Hartley (2010), there has been a considerable amount of blame, criticism, and shortcomings about the authenticating role of external auditing in accounting in terms of guaranteeing high-quality financial reporting. Governments, organizations, and relevant authorities have invested a great deal of money and made significant expenditures to guarantee high-quality financial reporting. Partially or fully, the goal of laws like the Independent Corrupt Practices and Other Related Offenses Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC) was to lessen the shortcomings of the cash basis disclosure requirement in the public sector. Likewise, these haven't resolved the issue as of yet.

According to Kelly and Hartley (2010) and Michael (2016), financial statements produced using a country's local accounting standards may not be sufficient to satisfy the demands of creditors, investors, or the government agencies, management, employees and labour unions. Furthermore, in order for financial statements to stay complete and provide consumers with the same information everywhere, there has been a need for greater uniformity in the rules guiding them as a result of increased international collaboration, trade, and commerce. The International Accounting Standards Committee (IASC), which was established in 1973 and is responsible for establishing and sharing information regarding the International Accounting Standards Board (IASB, 2008), is credited with bringing about uniform accounting standards. The International Accounting Standard Board (IASB), which was reorganized in 2001 to become the International Accounting Standards Committee (IASC), is now a separate international standards-setting body. International Accounting Standard (IAS) was the name of the board's initial set of accounting standards. International Financial Reporting Standards (IFRSs) replaced IAS in 2001. Hence, as opposed to the IASs series, IFRSs refers to the new numbered series of declarations that the IASB released. In a broader sense, the term "IFRSs" refers to all of the IASB's declarations, including standards and interpretations that have been accepted by the International Financial Reporting Interpretation Committee (IFRIC), Standards Interpretation Committee (SIC), and IASB itself.

International Financial Reporting Standards (IFRSs) are a set of rules that commercial enterprises must follow. They have been considered as a factor that could boost international investment, particularly in developing nations. There is a gap in the current research despite the fact that several studies have been done on various aspects of the International Financial Reporting Standards (IFRSs) as they relate to firm-specific variables like financial performance. Therefore, the adoption of International Financial Reporting Standards (IFRSs) and its impact on the financial performance of listed manufacturing enterprises in Nigeria are the main subjects of this study rather than any one particular component of IFRSs. According to this goal, the study question is what is the effect of IFRS adoption on performance of quoted manufacturing firms in Nigeria? In line with these research questions the hypothesis is formulated in null forms; IFRS adoption has no significant effect on performance of quoted manufacturing firms in Nigeria. To test these hypothesis and answer the research question, the remaining part of the study arranged as follows; section two shows the literature review, section three presents the methodology, section four documents the result and discussion of findings, section five proffers conclusion and recommendation to the study.

2. Literature Review

Institutional and economic aspects influencing the adoption of IPSASs were explored by Yosra and Yosra (2017). The environmental influences on countries' decisions to adopt International Public Sector Accounting Standards (IPSASs) are examined in this article. The findings, which are based on a sample of 110 nations, show that the adoption of IPSASs is positively influenced by external public funding (coercive isomorphic pressure), the degree of external openness (mimetic isomorphic pressure), and the significance of public sector organizations. The availability of local GAAP has a detrimental impact on this decision, according to the results, but education level (or normative isomorphic pressure) has no bearing. This study adds to the body of knowledge on public sector international accounting. International financial organizations, researchers, regulators, standard-setters, and non-adopting nations can all benefit from the findings. Flynn (2018) reviewed the roadmap for adopting IPSASs. Despite these strong benefits, there is a wide variation in the rate of progress made with IPSASs adoption. Taking the sample of countries as examples, the review suggests progress remains slower than is desirable. Specific, complex and consistent implementation challenges have faced adopting countries, which need to be overcome. Here are further issues to consider in the transition towards successful full adoption of IPSASs: stakeholder engagement, structural and legal transformation, transformation and change management, skills capacity, cost, technology and infrastructure, implementation approach and external support.

Flynn (2018) examined the IPSAS adoption roadmap. The rate of advancement in the implementation of IPSASs varies greatly, in spite of these compelling advantages. Using the sample of nations as models, the review indicates that progress is still happening more slowly than would be ideal. Adopting countries face particular, intricate, and persistent implementation issues that must be resolved. Stakeholder engagement, structural and legal transformation, transformation and change management, skills capacity, cost, technology and infrastructure, implementation strategy, and outside help are other factors to take into account in the move towards the effective complete adoption of IPSASs.

The effects of implementing International Public Sector Accounting Standards (IPSASs) on the caliber of financial reporting by Nigerian public sector entities were examined by Udeh and Sopekan (2015). Financial data from a sample of eight (8) domestic oil and gas companies were used in the study. The performance of the firms was measured by the ratios of profit margin (PM), return on equity (ROE), and return on assets (ROA), and these were regarded as dependent variables whose values were determined by the reporting regime (RR) as a free factor. On the other hand, control criteria included the following: equity debt ratio (EDR), earnings per share (EPS), quick test (QT), total debt ratio (TDR), and current ratio (CR). Using OLS regression analysis, the ratios were calculated and compared for the years 2010 to 2011, prior to the required adoption of IFRS, and between 2012 and 2013. According to the inquiry, Nigerian oil and gas companies' exhibits have not improved with the implementation of IFRS. According to the investigation, oil and gas companies should continue adhering to IFRS arrangements because doing so will enhance the quality of their accounting and financial records, which in turn may enhance the quality of their reporting due to increased investment streams, simple access to capital, and comparability.

With the primary goal of comparing the key financial ratios computed under the NGAAP for the three-year period 2009–2011 and the corresponding three-year period under the IFRS regime, 2013–2015, using the Mann Whitney U-Test, Eriki et al. (2017) investigated the impact of IFRS on key financial ratios of 11 quoted banks in Nigeria. According to the report, (I) mentioned banks' profitability ratios under NGAAP differ significantly from those under the IFRS system. There is a significant contrast between short-term solvency ratios of quoted banks under NGAAP and IFRS. Long-term solvency ratios of quoted banks under NGAAP are significantly different from those under the IFRS regime. There is a significant difference between investment ratios of quoted banks, arranged under NGAAP and IFRS. In light of the above outcomes, the examination reasons that adoption of the International Financial Reporting Standard (IFRS) has a critical effect on the performance of financial ratios of banks in Nigeria.

Ramli (2018) examined if accounting data—book value, net income, and operating cash flow—has an effect on share prices using the financial summaries and offer prices for 23 banks listed on the Indonesian capital market (IDX) during the years 2007–2012. Furthermore, the study examined the extent to which the implementation of IFRS successfully broadens the scope of accounting data and its relevance to the share prices of financial institutions listed on the IDX. The conclusion was that the quality of the accounting data used to value the firms increased with the introduction of IFRS. It was discovered that the book value data had a greater influence on share prices; also, it improved the overall operating cash flow and income in accessing important of valuing the share prices. The book value didn't fundamentally decide the share price before the selection of the IFRS. The overall net income and the operating cash flow diminished the information relevance to the share price and didn't significantly impact on the share price.

3. Methodology

The study employed expos-facto research design which focused on consumer goods manufacturing firms in Nigeria. Thirteen companies that constantly traded were selected as the sample size of the study using purposive sampling technique. Data used were gathered on return asset, leverage, firm size, firm age, growth opportunity and total revenue. The IFRS was captured with dummy variable. The audited financial statements of the deposit money banks over the period of 12 years spanning from 2011 to 2022 where used as data source. The model used for this study take a lead from Fadare and Oyedeko (2018) and it is specified below:

$$ROA_{it} = \lambda_0 + \lambda_1 IFRS_{it} + \lambda_2 LEV_{it} + \lambda_3 FAGE_{it} + \lambda_4 GRO_{it} + \lambda_5 TR_{it} + \varepsilon_{it0} \quad \text{......} 3.1$$

Where; ROA is return on asset, IFRS represent 1 when the firm adopts IFRS and 0 when the firm does not adopt IFRS, FAGE represents firm age, GRO shows growth opportunity, TR indicates total revenue, λ_1-λ_6 represents the coefficients of the variables, ε represents the error term, λ_0 represent the constant i is the selected consumer goods and t is the time frame in the study.

4. Result and Discussion

This section presents and describes the data series which include return on assets, international financial reporting standard adoption, firm size, leverage, firm age, growth opportunity and total revenue under investigation the period of 2011 to 2022 through the statistical tools such as mean, median, minimum values, maximum values and standard deviation. The result is presented in Table 1.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
roa	-8.625457	83.17411	-1.004429	13.88876
ifr	.75	.4344073	0	1
lev	2.83255	11.13608	.0094396	103.4189
fsz	6.923371	1.321708	2.181844	8.919347
fage	57.34615	24.33096	10	122
gro	.5419118	.6571252	-.999985	8.207447
tr	6.927064	1.340093	2.681332	9.162749

Note: eps, roa, ifr, lev, fsz, fage, gro and tr represents return on asset, international financial reporting standard, leverage, firm size, firm age, growth opportunity and total revenue respectively.

Source: Author's Computation, (2023)

The mean values of all the variables under consideration show positive values except the return on assets and this implies that all the variable have the tendency of increasing in value for the period of investigation except return on assets. The return on asset indicates that some of the firm operate loss at some period of time and also at profit with a maximum value of 13.88876 and a minimum value of -1.004429. The result of the international financial reporting standard shows pre and post adoption of international financial reporting standard by the companies. The pre-adoption of international financial reporting standard shows pre-adoption of international financial reporting standard indicates 0 while post-adoption of international financial reporting standard indicates 1 and the average value shows .75 which reveals that the study is tailored post-adoption of IFRS under the period of coverage. The leverage value of the firm shows that most of the firms solely rely on debt as a means of financing and this form the major composition of their capital structure. The leverage has a minimum value of .0094396 and maximum value of 103.4189. The firm size indicates that that manufacturing companies are steadily increasing in terms of their size as shown with the average value of 6.923371which corresponds with minimum value of 2.181844 and maximum value of 8.919347. The value of firm age indicates that the youngest manufacturing company among the sample size has life span of 10 years while the oldest manufacturing has life span of 122 years. The growth opportunity reveals expansion of the manufacturing companies at some period of time and also experience decline as well under the period of investigation. The total revenue steadily increases within the period of investigation with an average value, minimum and maximum value of 6.927064, 2.681332 and 9.162749. respectively.

In spite of this, the standard deviation reveals the most volatile among the variable and the least volatile among the variable. The return on assets is the most volatile among the variable and IFR is the least among the variables. Having described the data series, the study proceeds to investigate the multicollinearity among the variables. This is presented in the Table 2.

The study carried out correlation matrix to establish the association among the explanatory variables used in the study. This is conducted in order to show if there is a problem of multicollinearity or not among the explanatory variables. The result is presented in Table 2

Table 2: Correlation Analysis

Variables	ifr	lev	fsz	fage	gro	tr
ifr	1.0000					
lev	-0.2482	1.0000				
fsz	0.1386	-0.2198	1.0000			
fage	0.1071	-0.0957	-0.3833	1.0000		
gro	0.0477	-0.0028	0.0425	0.1946	1.0000	
tr	0.1150	-0.2067	0.7531	-0.3926	0.0489	1.0000

Source: Author's Computation, (2023)

Evidence from the first column shows that 0.1386 is the highest correlation coefficient which indicate positive association between firm size and adoption of IFRS by the manufacturing firms. This shows that an increase in the firm size moves in the same direction with IFRS adoption. On the other hand, the result shows that the least correlation coefficient is -0.2482 which indicates inverse association between the leverage and IFRS adoption. This implies that the adoption of IFRS adoption inversely move with companies' leverage. The second column indicates that all the correlation coefficients are negative and it is an indication that firm size, firm age, growth opportunity and total revenue have inverse association with leverage. The result in the third column shows the correlation coefficient of 0.7531 is the highest among the variable and this means that there is strong association between total revenue and firm size co-move in the same direction. The fourth column shows that 0.1946 is the highest correlation coefficient which implies that firm age is linearly correlated with growth opportunity while firm age is inversely correlated with total revenue because the coefficient of correlation is -0.3926. The fifth column indicates that growth opportunity is linearly correlated with total revenue and this means that total revenue and growth opportunity move in the same direction. The result shows that the coefficients of correlation among the variables are low except under firm size and total revenue. However, this does not indicate perfect correlation and it implied that the assumption of multicollinearity would be refuted

Prior to the estimation of the model, the study conducts the pre-estimation test in order to select appropriate model among the pooled regression, fixed effects, and random effects. The three models could not be computed at the same time and this justifies the study conduct a poolability test which aids in evaluating which model, between the fixed effect model and pooled regression, is appropriate. Breusch-Pagan Lagrangian Multiplier (LM) test is conducted to test the superiority between random effects model and the pooled regression model. Hausman test is conducted to decide the appropriateness between fixed effect model and random effect model. Thus, the study presented the pre-estimation tests alongside the estimation of the model. Thus, the Table 3 summarized the output of the pre-estimation tests for the three models specified in chapter three.

Table 3: Pre-estimation Test

Statistics	Chi-Square	Prob. Value
Poolability Test	1.94	0.0343
LM Test	3.24	0.0358
Hausman Test	2.12	0.8326

Source: Author's Computation (2023)

The result reveals that the fixed effect model is appropriate when compared with the pooled model since the value of the probability associated with chi-square is lesser than 5 per cent under the poolability test. Also, the LM test shows that the random effect is superior to the pooled regression because the P-value associated with chi-square is less than 5 per cent. More so, the Hausman test shows that random effect model is appropriate when compared with random model because the corresponding p-value to the chi-square is larger than 5 per cent. Thus, the study proceeds to interpret the random effect model and the output of the estimation is documented in the Table 4 below.

Table 4: IFRS adoption and financial performance

Variable	Coef.	Std. Err.	t	P>|t|
ifr	-15.63146	15.08159	-1.04	0.300
lev	.4542035	.6337708	0.72	0.474
fsz	-27.75071	16.474	-1.68	0.092
fage	.3484675	.438037	0.80	0.426
gro	-.000409	.0009791	-0.42	0.676
tr	47.67861	16.36912	2.91	0.004
cons	-156.0943	55.68552	-2.80	0.005
R-Squared	0.1096			
Wald chi2(6)	17.46			
Prob > chi2	0.0077			

Source: Author's computation, (2023)

The output of the estimation showed effect of IFRS adoption on financial performance. In line with the pre-estimation test shown in Table 3, the study interprets the output of random effect model. As shown in the Table 4, IFRS adoption, firm size and growth opportunity have negative and insignificant effect on financial performance of manufacturing companies in Nigeria. However, the firm size is significant at 10 percent. In a different token, leverage and firm age have positive but insignificant effect on financial performance of manufacturing companies in Nigeria. Also, the result reveals that total revenue has positive and significant effect on financial performance of manufacturing companies in Nigeria. The coefficient of determination shows a value of 0.1096 and it indicated that almost 10.96 per cent variation in financial performance of manufacturing companies could be explained by explanatory variables- international financial reporting standard adoption, firm size, leverage, firm age, growth opportunity and total revenue while the remaining 89.04 per cent variation in financial performance could be explained by other factors which were not included in the study. More so, the model was significant because the probability values associated with F-statistic were less than 0.05 and it suggested that a valid generalization could be drawn from the model estimation.

4.1 Discussion of Findings

Evidence from the result revealed that IFRS adoption has negative and insignificant effect on financial performance of manufacturing companies in Nigeria. The explanation for this could be as a result of significant adoption cost which will invariably affect the financial performance of the manufacturing companies. This corroborates with the documented of Amaefule, Oyekpere and Kalu (2018) that IFRS adoption has negative and insignificant effect on earnings per share and native effect on return on asset of manufacturing companies in Nigeria. In addition, the findings also conform to the submission of Guerrero (2014) that adoption of IFRS has negative and insignificant effect on financial ratio of Nigerian listed firms. The result also shows that firm age has positive but insignificant effect on financial performance of manufacturing companies in Nigeria. This conforms to the trade-off theory which advocate that the higher the debt the higher the profit. However, the findings contradict the apriori expectation that the firm size of the companies should increase the performance of the firm but the reverse is the case under the estimation result. The firm age has positive effect on financial performance and this may be as a result of the fact that age of firm indicates experience and level of expertise. Thus, an increase in the firm age connotes high level of experience and expertise which could result in more profitability of the firms. This is in line with a priori expectation.

5. **Conclusion**

The study examines the effect of International Financial Reporting Standard (IFRS) on performance of quoted manufacturing firms in Nigeria. The study made use of panel data regression. The study found that IFRS adoption has negative and insignificant effect on financial performance of manufacturing companies in Nigeria. The explanation for this could be as a result of significant adoption cost which will invariably affect the financial performance of the manufacturing companies. The study concluded that the cost of introducing IFRS should be reduced in order to enhance performance of quoted manufacturing firm. In view of this, the study recommends that the management of consumer goods manufacturing firm should consider the cost of implementation and fluctuation in reported values due to change in valuation. One of the limitations of the study is that it focuses on IFRS adoption as a whole, thus, other studies in this area can examine effect of individual segment of IFRS adoption on market performance of consumer goods firms.

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