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# IMPACT OF THE ADOPTION OF IFRS ON PERFORMANCE OF PRIVATE SECTOR ENTERPRISES IN NIGERIA

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**Abstract**

*The study examined the implication of the adoption of IFRS on the performance of private enterprises in Nigeria. In specific terms, the study sought to determine the impact of IFRS adoption on the profitability, liquidity and financial leverage of private enterprises in Nigeria between 2013 and 2018. The relevant data was obtained on the variables sourced from the audited financial statements of selected firms, including their financial indices. The population of the study consists of all the 109 private sector firms quoted on the Nigerian Stock Exchange as at 31st December, 2018. The sample size of the study consisted of half of the population size, by purposive sampling. The study employed the correlational and ex-post facto design. The relevant theoretical framework is the stakeholder theory. The study employed random effect correlation and regression. From the analysis, it was found that IFRS adoption has no significant impact on the profitability, liquidity and financial leverage of selected private enterprises in Nigeria. It is thus recommended that Adequate resources should be put in place to support the sustainable implementation of IFRS by having consultative groups available to respond promptly to concerns to users and to provide for their ongoing trainings, and the required awareness of professional accountants, regulators and preparers should be intensified to improve the knowledge gap, as well as strengthening the capacity of the regulatory bodies and institutional framework on enforcement.*

*Keyword: International Financial Reporting Standards, Nigerian Accounting Standards Board, Financial Reporting Council of Nigeria, Private Sector Enterprise, Firm Performance*

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## INTRODUCTION

The Nigerian Accounting Standards Board (NASB) was established on September 9, 1982, as the only recognized independent body in Nigeria responsible for the development and issuance of Statements of Accounting Standards (SAS) for preparers and users of financial statements. The responsibility of NASB is identical to other National Accounting Standard Setting bodies like the Financial Accounting Standards Board, USA; Accounting Standards Board, United Kingdom; Australian Accounting Research Foundation, Australia. Section 335(1) of the Companies and Allied Matters Decree 1990 as amended, gave legal backing to the activities of the Board by requiring that the financial statements prepared under the decree shall comply "…. with the accounting standards laid down in the Statements of Accounting Standards issued from time to time by the Financial Reporting Council".

The organizations that made up the Board were expected to use their endeavours to persuade their members and organizations they deal with, to comply with all relevant accounting standards and were also allowed to devise their own punitive measures for non-compliance (Abata, 2012).

The International Accounting Standards Committee (IASC) was established in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom, Ireland and United States of America (Houque & Karim, 2012). Additional sponsoring members were added in subsequent years, and in 1982 the sponsoring members of the IASC comprised of all the professional accountancy bodies that were members of the International Federation of Accountants (IFAC). The standard-setting board of the IASC was known as the IASC board, which enacted a large number of standards, interpretations, conceptual framework and other guidance that was adopted directly by many companies and that was looked into by many national accounting standard-setters in developing national accounting standards.

The International Accounting Standards Board (IASB) is the independent accounting standard-setting body of the International Financial Reporting Standards (Houque & Karim, 2012). The IASB is an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRS). The IASB was founded on April 1, 2001, as the successor to the International Accounting Standards Committee (IASC), responsible for developing International Financial Reporting Standards (IFRS), formerly known as International Accounting Standards (IAS) and promoting the use and application of these standards. In addition, the IASB is also responsible for the endorsement and issuance of interpretations developed by the IFRS Interpretation Committee.

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Studies in accounting and finance have gained greater recognition since the universal declaration of IFRS. According to IASB (2012), publicly owned companies in about 120 countries have been required to make use of IFRS. IFRS is a globally-accepted set of accounting standards established by the IASB and International Financial Reporting Interpretation Committee (IFRIC). IFRS was established to serve as a uniform global language for all accountants across the globe. IFRS is equally expected to become the main financial reporting standards for all business entities across the globe (Adeyemi, 2016). The essence of IFRS is to develop a single set of high quality and globally accepted financial accounting standards premised on clear articulated principles (IASB, 2012).

Before the emergence of IFRS in Nigeria, all organizations have been complying with the Nigerian Accounting Standards Board (NASB) which has now evolved to Financial Reporting Council of Nigeria (FRCN). The NASB declared its roadmap to convergence with IFRS in September, 2010 (Tanko, 2012). The roadmap requires publicly listed companies and key public interest entities to comply with IFRS starting from 1st January, 2012. Other public interest entities are mandated to comply with IFRS from 1st January, 2013 while small and medium scale enterprises are required to comply with IFRS starting from 1st January, 2014.

The implementation of IFRS in Nigeria was fueled by the need to develop high quality financial reporting in order to propel sound financial healthy economy. The adoption of IFRS in Nigeria is expected to promote the collation of relevant data of reporting entities' performance for comparability, reliability, fast decision-making, and accessibility to external financing and obtain inflow of foreign investment (Madawaki, 2014). The decision to adopt IFRS in a big economy like Nigeria cannot be under-estimated. Before the adoption of IFRS, it is pertinent for government, especially in developing countries, to consider several factors affecting the relevance of IFRS. According to Budrina (2014), IFRS is a principle-based system established to have a high degree of transparency of financial statement and to promote the usefulness of financial reporting.

Presently, many countries have replaced their national accounting standards by IFRS in order to make domestic accounting system more reliable, accurate, transparent, and understandable as well as enhancing the quality of financial reporting. The process of the implementation of IFRS greatly varies from country to country due to political, economic, social, legal and institutional factors (Adeyemi, 2016). Nigeria and other developing countries are bedeviled with weak institutional framework, unstable political environment and economic instability, which are not favorable to the effective implementation of IFRS. Nevertheless, several developed and developing countries have adopted IFRS as their national accounting standards to their benefits (Mhedhbi & Zeghal, 2006; Umobong, 2015)

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## STATEMENT OF PROBLEM

The impact of the adoption of IFRS on performance of firms has been a burning issue in accounting and finance literatures. Studies such as Budrina (2014) and Madawaki (2014) investigated the effect of IFRS adoption and sought the extent to which IFRS supply additional relevant information and elevate the information content of financial statement prepared in line with these standards. Findings of past studies on the subject matter has been inconclusive as scholars such as Tanko (2012); Ronald (2017) and Musa, Nasiru and Muhammad (2017) found a positive impact of IFRS adoption on firm performance while scholars such as Umobong (2015) and Umobong and Ibanichuka (2016) discovered an adverse impact of IFRS adoption on performance of firms. This position has not been totally supported by scholars in the academia and corporate world as their findings failed to support the hypothesis that IFRS retards the performance of firms. Mara (2011) maintained that IFRS is only a pure accounting change and is insufficient to deliver expected benefits. It is obviously a fundamental fact that IFRS comes with a lot of adjustment in the manner information is disclosed in the financial statement of entities. Findings on the impact of IFRS adoption is controversial and that IFRS adoption does not translate to automatic improvement of firm performance especially when the firm fails to address the inherent challenges surrounding its adoption and implementation (Adeyemi, 2016).

It is observed that past studies failed to distinguish the kind of firm, whether manufacturing or non-manufacturing, private or public firms, small, medium, large or multinational. Performance was generalized among firms with different sizes and characteristics. This study is therefore seeks to examine the impact of IFRS adoption on the performance of private sector firms.

### Research Questions

1. What is the impact of IFRS adoption on the profitability of private sector enterprises in Nigeria?
2. How does IFRS adoption affect the liquidity of private sector enterprises in Nigeria?
3. To what extent has IFRS adoption influenced the financial leverage of private sector enterprises in Nigeria?

### Objectives Of The Study

1. To examine the effect of IFRS adoption on the profitability of private sector enterprises in Nigeria.
2. To assess the effect of IFRS adoption on the liquidity of private sector enterprises in Nigeria.

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3. To explore the effect of IFRS adoption on the financial leverage of private sector enterprises in Nigeria.

**Research Hypotheses**

**Hypothesis One** IFRS adoption has no significant impact on the profitability of private sector enterprises in Nigeria.

**Hypothesis Two** IFRS adoption has no significant impact on the liquidity of private sector enterprises in Nigeria.

**Hypothesis Three** IFRS adoption has no significant impact on the financial leverage of private sector enterprises in Nigeria.

Nigeria.

**Significance of the Study**

1. This study contributes to the large debate pertaining to the importance of accounting standards on the quality of financial reporting.
2. The study advances literature by providing empirical evidence on the effect of IFRS adoption on private sector enterprises' performance in recent years.
3. Investors, financial analysts, accountants and auditors in private and public parastatals will find this study worthwhile because of the veritable importance of IFRS implementation in documenting accounting records, financial records preparation, financial reporting and decision-making process of organizations.
4. Policymakers will benefit from the study as it provides them with empirical answers which may support future decisions regarding the reforms of financial statements.
5. Researchers in the academia and corporate environment will find this study fascinating as it encourages more empirical researchers on IFRS adoption and implementation in Nigeria; and serves as a body of reserved knowledge for interested researchers.

**CONCEPTUAL REVIEW**

IFRSs are a set of accounting standards established by the International Accounting Standards Board (IASB). IFRS was to meet the objective of developing a single set of high quality globally accepted accounting standards premised on clearly articulated principles (Adeyemi, 2016). IFRS provide comprehensible, reliable, accurate and comparable accounting rules which can be executed across international boundaries. They are principles-based accounting standards which are developed to achieve the goal of harmonization of all accounting standards of different nations in order to foster comparability and quality of accounting information in general

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(Tanko, 2012). They result from the outcomes of growing multinational companies and they are increasingly replacing the national accounting standards of different nations.

Despite the fact that IFRS emerged in recent years, its origin can be traced to 1973 when different professional bodies from Germany, Holland, Canada, United Kingdom, Mexico, Japan, USA, Australia and France agreed to create an International Accounting Standard Committee (IASC). As a result of globalization and civilization, companies, business moguls, investors and policymakers are concerned with the implications of varying accounting standards among different countries. The desire to develop a set of global accounting standards led to the emergence of the International Accounting Standards (IAS) to unite all national standards and minimize the inconsistencies in international accounting principles and reporting standards (Umobong, 2015).

For several years, the efforts were actually geared towards unification which connotes minimizing the differences among accounting principles and reporting standards across the major countries of the world. In the 1900s, the notion of unification was replaced by convergence, that is, the development of a single set high-quality international reporting standards that will be acceptable across the globe.

By the year 2001, the International Accounting Standards Committee (IASC) was reformed into the International Accounting Standards Board (IASB) basically to bring convergence of international accounting standards and IFRS to high quality solution (Xu, 2014). The globalization of the world's economy and markets led companies and organizations to become key world players and more investments take place at the global scene. In 2005, the European Union Commission issued a legislation that all firms quoted at its stock exchange must comply with IFRS when preparing their financial statements. Also, countries such as Germany, France, United Kingdom and Italy have adopted IFRS earlier on (Barth, 2007). Currently, over 120 countries including Nigeria, have adopted IFRS as their accounting standards.

**Implementation of IFRS in Nigeria**

There is growing evidence that the world economies are more interconnected and symbolic than anyone can really imagine and it is a glaring fact that Nigeria is indeed part of this globalization. Following the changes in accounting standards across the globe, Nigerian firms have been mandated to comply with IFRS starting from January 1st, 2012. The implementation of IFRS in Nigeria kicked off on 28th July, 2010, when the Federal Executive Council (FEC) approved January 2012 as the effective date for the convergence of the Nigeria Generally Accepted Accounting Practices (NGAAP) to IFRSs.

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The decision of the FEC to fully adopt IFRS in Nigeria was followed by the promulgation of the Financial Reporting Council of Nigeria Act in 2011, which resulted to the transformation of the Nigerian Accounting Standards Board (NASB) to the Financial Reporting Council of Nigeria (FRCN). The NASB announced its roadmap to convergence with IFRS in September, 2010. Based on this roadmap, quoted companies and key public interest entities were mandated to comply with IFRS starting from 1st January, 2012 while other public interest entities were mandated to comply with IFRS starting from 1st January, 2013 and small and medium scale enterprises are required to comply with IFRS from 1st January, 2014. The report sought the amendment of relevant laws and regulations such as Companies and Allied Matters (CAMA) 1990, Banks and Other Financial Institution Act (BOFIA) 1991, Investment and Security Act 2007, etc. In addition, the report recommended for an early nationwide intensive capacity building programs to enhance the process of adoption and the establishment of IFRS academy, an institutional platform for capacity building. This necessitated the review of CAMA and its amendments of 2020.

**Benefits of IFRS Adoption**

The benefits of the adoption of IFRS cannot be undermined despite surfeit challenges that beset its implementation. Deloitte (2013) maintained that IFRS, as a single set of high quality global accounting standards, will simplify accounting procedures by allowing the use of a common reporting language. According to Madawaki (2014), Nigeria's adoption of IFRS will promote the collation of relevant data of reporting entities' performance for comparability and reliability, facilitate and enhance informed decision making process of investors and go a long way to attract foreign investments.

Adoption of IFRS brings about easy external financing to local companies, low cost of trans-border businesses, easy consolidation of financial statements of multinational companies as well as fostering easy regulation (Adeyemi, 2016). IFRS is a systematic approach that promotes understandability, reliability, relevance and comparability, improves security value and results into the accomplishment of higher market liquidity (Omoruyi, 2011). IFRS have the ability to improve the comparability of financial statements, fortify corporate transparency and enhance the quality of financial reporting (Ronald, 2017).

Furthermore, IFRS have some unique benefits which are better quality, easy access to foreign investment, enhanced comparability and transparency in financial reporting (Tanko, 2012). The benefits of IFRS adoption as outlined by Abata (2015) include decreased cost of capital, efficient capital allocation, international capital mobility, capital market development,

 

increased market liquidity and value, enhanced comparability, cross border movement of capital and improved transparency of results.

According to Street and Gray (2012), the general benefits of IFRS include reduced investment risk and saving in the cost of capital of entities for sound decisions; allowing multinational firms to lower the accounting standards compliance cost around the world; promotion of international investment opportunities; ensuring efficient cross-border capital allocation; improving the comparability of reported financial information by entities; bringing accessibility to foreign capital financing and cross-border stock exchange listing; making financial information more transparent to stakeholders; and optimization of tax planning.

Deloitte (2013), in addition stated that, IFRS fosters the comparability of entities and provides more accurate and consistent financial information; enables entities to have a clear understanding of the global marketplace, access to world capital market and promotion of new businesses; allowing investors and other stakeholders to compare the performance of their companies with competitors in the local, national and international scene; fosters additional and quality information for shareholders and supervisory authorities; easier regulation of financial reporting of entities in Nigeria; easy consolidation of financial information of the same company with offices in different countries; allows entities to have a competitive advantage in negotiations with credit institutions and reduces the cost of borrowing; helps companies to make advantage of alternative forms of finance; results in more accurate risk evaluations by lenders and to a lower risk; assurance of useful and meaningful decisions on investment portfolio in Nigeria; and the promotion of the compilation of meaningful data on the performance of various reporting entities at both private and public level in Nigeria thereby encouraging comparability, efficiency, reliability and transparency of financial reporting in Nigeria.

**Challenges of IFRS Adoption**

In spite of the enumerated benefits of IFRS, there are several challenges that limit its effectiveness in different countries. The characteristics of local business environments and institutional framework to a large extent determine the form, structure and content of accounting standards (Iyoha & Jimoh, 2010). In a country, where there is good and effective governance structure, IFRS adoption is likely to be less attractive as good governance represents high quality and the cost of switching to IFRS may not be justifiable. However, many developing countries are beset with weak institution, which is one of the strategic determinants of IFRS adoption (Luez, 2010).

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Duh (2009) contended that the challenges of IFRS adoption are timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement user, prepares, auditors and regulators as well as managerial incentive. Although IFRS has the potentials to enhance cross-border comparability, increase reporting transparency, decrease informational costs, reduce information asymmetry and increase in the functionality of financial markets; Armstrong (2007) however opined that cultural, political and business differences may also continue to impose difficulties in the progress towards a single global financial reporting standard because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in culture and institutions.
Odia and Ogeidu (2013) contended that, IASB financing, staffing, governance structure and consistent adoption; compliance issues and enforcement mechanisms especially in jurisdictions with weak institutions; and application and regulatory review, can also constitute challenges. Ball (2015) argued that most IFRS adoptions are in labels and with various versions which are inconsistent with IASB's prescription.

Furthermore, Madwaki (2014) and Abata (2015) stated that cost of adoption, including the cost of restructuring, accounting system, staff training and consultancy fees; difficulty in implementation, as some of the standards do not meet the local accounting needs of some countries; the entire internal control system to ensure compliance; the need for the services of reputable audit firms (especially the Big Four); Staff training and adoption; and the need to consider local regulation, which demands certain reports that are not in line with IFRS; etc can also pose problems to companies' complying with these standards.

**Concept of Firm Performance**

There is no consensus as regard the definition of firm performance and pose multidimensionality challenges to scholars (Bello & Yinusa, 2010). In accounting literature, firm performance is captured by financial performance and it entails the effectiveness of the firm towards profitability, value maximization, shareholders wealth maximization and maximizing profit on investment. Firm performance can equally be explained in terms of operational measures such as growth in turnover, growth in market share and business stability (Gyasi, 2010).

The performance of an entity cannot be ascertained by mere inspection. Financial ratios are useful tools in the decision making process, and serves as powerful tool of financial analysis because, absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the financial position of a firm (Bello & Yinusa, 2010). The common indicators used to measure firm performance in literature are profitability ratios and

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stock market ratios (Gyasi, 2010; Odia & Ogeidu, 2013). However, in this study, firm performance is captured from three perspectives namely profitability, liquidity and financial leverage.

**Profitability**

The main reason for the establishment of an organization is to generate and maximize returns on shareholders' investment (Bello & Yinusa, 2010). Profitability can be measured in terms of gross profit margin, net profit margin, return on capital employed, return on total assets, returns on capital employed, return on shareholders' equity, etc (Bello & Yinusa, 2010). This study adopts Return on Asset (ROA) to measure profitability, and to indicate the extent at which a firm generates profits or returns from its total assets (profit after tax divided by total assets multiplied by 100%).

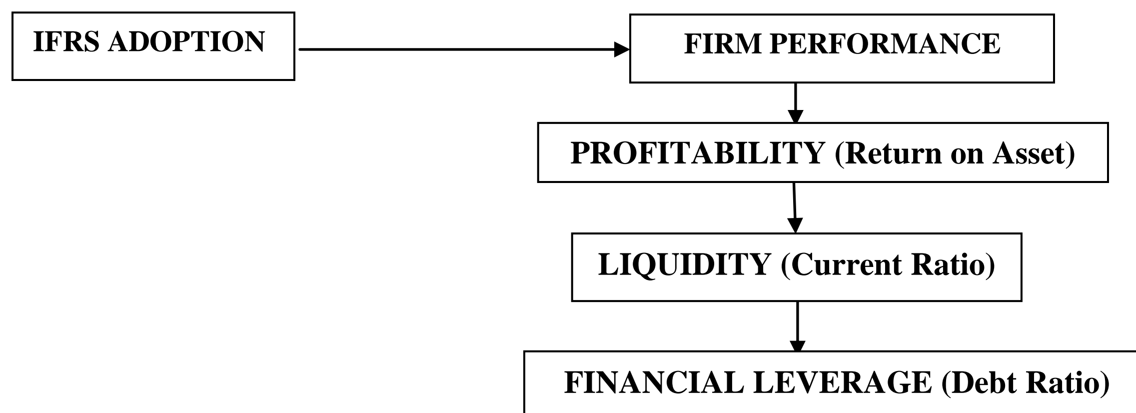
**Liquidity**

Liquidity measures the ability of a company to settle its short-term indebtedness as at when due. And the frontline liquidity ratios include current ratio, quick ratio, debtor turnover ratio, average collection period, creditor payment period and stock turnover (Bello & Yinusa, 2010). This study adopts Current ratio (i.e. the extent to which a firm's current assets meet her current obligations as they mature).

**Financial Leverage**

Financial leverage is an investment strategy of using borrowed money, or the use of various financial instruments to increase the potential return of an investment. Prominent ratios of financial leverage are fixed dividend cover, fixed interest cover, total debt to shareholder fund and debt ratio. Debt ratio is used to measure financial leverage in this study. Debt ratio expresses the relationship between total debts and total assets of a firm (Bello & Yinusa, 2010).

Figure 1 Conceptual Framework

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## THEORETICAL REVIEW

The relevant theories which underpin the study are stewardship theory, agency theory, political cost theory, and stakeholder theory. These four theories can be used to explain the implication of IFRS adoption on performance of firm.

Stewardship theory posits that managers are good stewards of their firms and as such they are totally accountable to the shareholders of the company. Davis and Donaldson (2005) contended that managerial opportunism is relevant and that stewardship theory are primarily developed to examine the situation in which executives as stewards are only motivated to act in the best interest of the shareholders. Political cost theory states that if a company records huge amount of profits, this might be used as a causal reason for trade unionism or lobby groups to take action for an increase in a share of that profit (by demanding for higher wages), therefore companies may adopt income-decreasing accounting methods (Adeyemi, 2016). Agency theory describes the relationship between the shareholders and managers. The theory views managers as the agent of the shareholders and they are required to act in the best interest of the shareholders. Sometimes, managers are motivated to act in their own best interest and create a conflict between the interest of shareholders and managers. However, it is believed that directors may sometimes take decisions which may conflict with the interest of the shareholders. The theory provides insight into systems of information, outcome uncertainty, risk and incentives (Watts & Zimmerman, 2004).

However, the stakeholder theory is most appropriate for the study. This theory is considered as an improvement over the agency theory because it maintains that an organization is not only accountable to the shareholders. Companies have the responsibility of being accountable for their stewardship to all stakeholders in the environment they operate. The theory is more concerned about resolving problems that may occur as a result of divergent interest between the managers and other stakeholders so that each stakeholder have some degree of satisfaction (Chang, 2007). It is a theory of organizational management and business ethics that addresses morals and values in managing an organization. Although, an organization is bound by traditional convention to put the needs of the shareholders first, the theory instead argues that there are other parties (such as employees, customers, suppliers, financiers, community, governmental bodies, political groups, trade associations & unions) the organization must consider before making decisions. Madawaki (2014) argued that competitors are sometimes counted as stakeholders because of their capacity to affect the firm and its fortunes. The business of the business is not just about creating profits for shareholders, but also about improving the state of the world and driving stakeholder value. The stakeholders have the capacity to influence the decisions of an organization; that is, when they deem it fit for

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an organization to adopt certain accounting standards, like IFRS, the board of directors has no choice than to follow such instructions.

## EMPIRICAL REVIEW

Quite a number of studies have been carried out to examine the impact of the adoption of IFRS on the performance of firms.

Adeyemi (2016) found that IFRS adoption does not significantly affect the tendency of Nigerian companies to manipulate earnings no matter the audit quality and size of firm. Tanko (2012) discovered a low variability in earnings capacity of banks quoted on the Nigerian stock exchange, in the post IFRS adoption period, and that IFRS firms recognize losses more frequently in the post adoption period than they do in pre adoption period.

Umobong (2015) examined IFRS adoption and performance of firms in the food and beverage industry in Nigeria; and the results indicated that mean values of earnings per share, price earnings ratio and dividend yield is higher in the post-IFRS adoption period, and that IFRS adoption does not automatically translate to higher financial performance. Umobong and Ibanichuka (2016) found that, the mean values of return on asset and earnings per share of selected firms is higher in the post-IFRS adoption period while return on equity is higher in pre-IFRS adoption period, i.e. there are no significant differences in return on asset, return on equity and earnings per share in the pre- and post-IFRS adoption period. The study done by Herbert, Ene and Tsegba (2013) unveiled that Nigeria was not prepared to adopt IFRS as soon, and that the two major impediments to IFRS adoption are lack of education, understanding and experience by preparers of financial reports with the use of IFRS and lack of coverage of IFRS in contemporary accounting curricula.

Nneka and Rotimi (2012) study showed that the areas that should be focused on while adopting IFRS in Nigeria are disclosure requirements, correction of prior year accounting errors, expenses on reorganization, exceptional and extra-ordinary item and revenue recognition amongst others.

Umoren and Enang (2015) revealed that equity value and earnings of banks are relatively value relevant to share prices in the post adoption period than pre-adoption period, and that earnings reported by Nigerian banks have become more informative to equity investors in determining the value of banks following IFRS adoption. Ronald (2017) using a structured questionnaire concluded that the cost of adopting IFRS, implementing IFRS have a positive and significant relationship with IFRS implementation and profitability of selected SMEs. The study submitted that SMEs adopting IFRS are performing better from profitability perspective.

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Musa, Nasiru and Muhammad (2017) investigated whether accounting information has improved after IFRS adoption among Nigerian listed firms, using Ohlson's stock price model on data that has been commonly used in capital market for a 5-year period and found that disaggregated assets and liabilities have a strong relationship with stock price, and that there are no significant differences in accounting information of selected listed firms before and after IFRS adoption.

Okoye and Ezejiofor (2014) found that most of the banks could not generate sufficient interest earnings to cover their interest obligations thereby, unable to satisfy the expectation of investors. Akinyele (2016) employed ratio analysis to investigate the relationship between IFRS adoption and performance of money deposit banks in Nigeria, and discovered that adoption of IFRS has positive impact on performance of money deposit banks measured in terms of returns on assets, return on equity, liquidity ratio, current ratio and investment ratio. Kanu, Onuoha and Isu (2014) found that IFRS adoption for SMEs in Nigeria is hindered by the various problems of SMEs; but that SMEs should convert to IFRS, because its adoption will enhance accountability, transparency and quality of financial reporting.

Abata (2015) showed that IFRS provides better information than GAAP, and that changes in business processes and operations, financial position of companies and reduction in cost of finance were the least contributions of IFRS to the financial reporting practices of firm. Hassan (2015) study revealed that firm attributes with respect to leverage, profitability, liquidity, bank size and bank growth has significant influence on earnings quality of listed deposit money banks in Nigeria after the adoption of IFRS, while the pre-IFRS adoption period showed that selected firms attributes has no significant impact on earnings quality.

## METHODOLOGY

The study employed the correlational and ex-post facto design. The correlational design is considered suitable for the study because it describes the statistical relationship between two or more variables. The ex-post facto design is equally considered apt for the study because it investigates the possible causal-effect relationship by identifying some existing consequence and exploring backwards by analyzing the causal factors.

### Population & Sample

The population of the study consists of all private sector firms quoted on the Nigerian Stock Exchange as at 31st December, 2018, which are about 109 NSE Fact-book, December, 2018)

The sample of study covered 54 quoted private companies (50% of the population) in Nigeria purposively drawn from various industries. It is noted that IFRS adoption time line and

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road map for Nigeria was between January 2012 and January 2014. The inadequacy and sometimes the non-availability of data for 2019 at the time this research was carried out, and the effect of the worldwide pandemic, justify the selection of the time series of 2013 to 2018 for this study.

**Models Specification**

Three models are developed in the study, with each model on each of the specific objectives. The first model measured the relationship between IFRS adoption and profitability (Return on Asset). The second model measured the relationship between IFRS adoption and liquidity (Current ratio) and the third model on IFRS adoption and financial leverage (Debt ratio). The control variables are Audit quality and Firm's size. This is expressed as:

$Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 Z_{it} + \mu$

Where:

$Y_{it}$ = Dependent variable (firm performance)

$X_{it}$ = Vector of independent variable (IFRS)

$Z_{it}$ = Vector of control variables (audit quality, firm size).

$\mu$ = Error term.

i = Firm.

t = Year.

**Model One:**

$ROA = \beta_0 + \beta_1 IFRS + \beta_2 AUDIT + \beta_3 SIZE + \mu$

**Model Two:**

$CRATIO = \beta_0 + \beta_1 IFRS + \beta_2 AUDIT + \beta_3 SIZE + \mu$

**Model Three:**

$DEBTR = \beta_0 + \beta_1 IFRS + \beta_2 AUDIT + \beta_3 SIZE + \mu$

**Nature and Sources of Data**

The study makes use of secondary data. The data are obtained from the published annual audited financial statements of selected firms between 2013 and 2018. The variables of interest are calculated from the audited financial statements of selected firms.

**Method of Data Analysis**

The descriptive and inferential statistics are utilized to analyze the data. The Pearson product moment of correlation is employed to determine the degree of association between the variables. Furthermore, the pooled least square technique (PLS) is employed to empirically

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estimate the effect of IFRS adoption on performance indicators of selected firms, to take into consideration the heterogeneity among cross-sections (firms).

The analysis premise on data panel analysis with the adoption of fixed-effect and random- effect models. In a fixed-effect model, the unobserved variables are allowed to have any associations whatsoever with the observed variables. Fixed-effect models control the effects of time-invariant variables with time-invariant effects (Green, 2007). The unobserved variables are assumed to be uncorrelated with the observed variables. The Hausman test was carried out to appropriately estimate the date using Econometric Views (EVIEWS)

### A-Priori Expectation

Based on theoretical postulation, it is expected that IFRS adoption will positively impact on profitability and liquidity and negatively related to financial leverage. For the control variables, it is expected that audit quality and firm size are positively related to profitability and liquidity and negatively related to financial leverage.

## ANALYSIS AND FINDINGS

### Descriptive Statistics

Table 1: Descriptive Statistics for Dependent and Independent Variables

| | ROA | DEBTR | CURRR | IFRS | AUDIT | SIZE |
|---|---|---|---|---|---|---|
| Mean | 0.158050 | 0.386063 | 1.056296 | 0.800000 | 0.748148 | 17.23450 |
| Median | 0.134500 | 0.390000 | 1.040000 | 1.000000 | 1.000000 | 15.04627 |
| Maximum | 0.930000 | 0.959000 | 1.990000 | 1.000000 | 1.000000 | 29.35000 |
| Minimum | 0.002000 | 0.013000 | 0.450000 | 0.000000 | 0.000000 | 13.07741 |
| Std. Dev. | 0.092331 | 0.191712 | 0.306532 | 0.400743 | 0.434883 | 3.524517 |
| Skewness | 2.625847 | 0.125522 | 0.648495 | -1.500000 | -1.143338 | 0.876655 |
| Kurtosis | 20.32129 | 2.445506 | 3.161952 | 3.250000 | 2.307222 | 3.244841 |
| Jarque-Bera | 3685.584 | 4.167972 | 19.21962 | 101.9531 | 64.22433 | 35.25798 |
| Probability | 0.000000 | 0.124433 | 0.000067 | 0.000000 | 0.000000 | 0.000000 |
| Sum | 42.67350 | 104.2370 | 285.2000 | 216.0000 | 202.0000 | 4653.314 |
| Sum Sq. Dev. | 2.293252 | 9.886638 | 25.27570 | 43.20000 | 50.87407 | 3341.578 |
| Observations | 270 | 270 | 270 | 270 | 270 | 270 |

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Table 1 above presents the summary of descriptive statistics of all variables. The results showed that the mean and standard deviation of **Return on Asset** are 0.158 and 0.09 respectively. This implies that selected firms generated an average profit of 15.8% from their total assets within the reviewed period; and that the values of return on asset of selected firms for the estimated periods deviated from the mean by 0.09 or 9%.

The mean and standard deviation of **Debt ratio** are 0.386 and 0.192 respectively. This connotes that 38.6% of the total assets of selected firms are financed by debt (short-term and long-term) within the reviewed period; and that the value of debt ratio of selected firms for the estimated periods deviated from the mean by 0.192 or 19.2%.

The mean and standard deviation of **Current ratio** are 1.06 and 0.31 respectively. This connotes that the current assets of selected firms is 1.06 times higher than their current liabilities; so also, the current ratio of selected firms for the estimated periods deviated from the mean by 0.31 or 31%.

IFRS is adopted as a dummy variable. The value of "1" was assigned if a firm uses IFRS in a particular year and "0" if otherwise. The results indicate that 80% of selected firms adopted IFRS within the reviewed period; and that the values of IFRS adoption (0 and 1) deviated from the mean by 0.40 or 40%.

In the same vein, audit quality is also adopted as a dummy variable. The value of "1" was assigned if a firm's financial statement is audited by any of the BIG FOUR firms (namely PWC, KPMG, Earnest & Young and Deloitte) in a particular year and "0" if otherwise. The results showed that 78% of selected firms' financial statements are audited by the BIG FOUR firms; and the values of audit quality (0 and 1) deviated from the mean by 0.43 or 43%.

Firm size is measured by the natural logarithm of firms' total assets. The results revealed that the mean and standard deviation of the size of selected firms are 17.32 and 3.52 respectively. The standard deviation indicates that the natural logarithmic value of total assets of selected firms within the reviewed periods deviated from the mean by 3.52.

The results further showed that return on asset, current ratio, IFRS and firm size are heavily-tailed, as their kurtosis exceeded the benchmark of three, while debt ratio and audit quality are lightly-tailed as their kurtosis is less than three. Therefore, all the variables (firm size, debt ratio, current ratio and return on asset) except IFRS and audit quality are positively skewed. The negative skewness of IFRS and audit quality was probably due to their nature (dummy variables).

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**Test of Correlation**

Table 2: Correlation between Dependent and Independent Variables

| | ROA | DEBTR | CURRR | IFRS | AUDIT | SIZE |
|---|---|---|---|---|---|---|
| ROA | 1.000000 | -0.007821 | 0.164420 | 0.132820 | 0.071464 | 0.138706 |
| DEBT | -0.007821 | 1.000000 | -0.030052 | -0.043142 | 0.024938 | 0.016485 |
| CR | 0.164420 | -0.030052 | 1.000000 | 0.145261 | 0.183165 | 0.552474 |
| IFRS | 0.132820 | -0.043142 | 0.145261 | 1.000000 | 0.541806 | 0.153204 |
| AUDIT | 0.071464 | 0.024938 | 0.183165 | 0.541806 | 1.000000 | 0.200679 |
| SIZE | 0.138706 | 0.016485 | 0.552474 | 0.153204 | 0.200679 | 1.000000 |

Table 2 presents the correlation coefficients between the dependent and independent variables. The result showed that return on asset is positively associated with current ratio (r=0.164); IFRS (r=0.133); audit quality (r=0.071) and firm size (r=0.139) and negatively related to debt ratio (r= -0.0078). This implies that an improvement in current ratio, IFRS, audit quality, firm size and return on asset moved in similar direction while debt ratio and return on asset moved in opposite direction. The result in Table 2 revealed that none of the correlation coefficients between the independent variables fall between 0.80-1.00. It is therefore evident that the problem of multi-collinearity is absent between the variables (Green, 2007).

**Panel Data Analysis**

In Hausman tests, the a-priori expectation is defined as: If the probability value of the Hausman chi-square statistic is greater than 0.05 ($p > 0.05$), it indicates that the there is no significant difference between the fixed-effect and random-effect models, and in this case, the random-effect model is more appropriate. On the other hand, if the probability value of the Hausman chi-square is less than 0.05 ($p < 0.05$), it connotes that the random-effect and fixed-effect models differ significantly, and as such, the fixed-effect is more appropriate.

Table 3: MODEL ONE - Impact of IFRS adoption on Firms' Profitability

Correlated Random Effects - Hausman Test
Equation: Untitled
Test period random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Period random | 1.954286 | 3 | 0.5819 |

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The Hausman chi-square statistic is 1.954 with probability value of 0.582. Since the probability value of Hausman test is greater than 0.05, it indicates that there is no significant difference between the fixed-effect and random-effect models, and as such, the random-effect model is more appropriate to estimate the first model.

Table 4: Random-Effect Regression Estimates

Dependent Variable: ROA
Method: Panel EGLS (Period random effects)
Date: 08/30/20 Time: 17:50
Sample: 2013 2018
Periods included: 6
Cross-sections included: 54
Total panel (balanced) observations: 270

**Swamy and Arora estimator of component variances**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.082440 | 0.028775 | 2.864999 | 0.0045 |
| IFRS | 0.028895 | 0.016616 | 1.738957 | 0.0832 |
| AUDIT | 0.004527 | 0.015445 | 0.293106 | 0.7697 |
| SIZE | 0.003242 | 0.001621 | 2.000363 | 0.0465 |
| Effects Specification | | | | |
| | | | S.D. | Rho |
| Period random | | | 0.000000 | 0.0000 |
| Idiosyncratic random | | | 0.091659 | 1.0000 |
| Weighted Statistics | | | | |
| R-Squared | 0.032301 | Mean dependent Var. | 0.158050 | |
| Adjusted R-Squared | 0.021387 | S.D. dependent Var. | 0.092331 | |
| S.E. of regression | 0.091339 | Sum squared Resid. | 2.219177 | |
| F-Statistic | 2.959620 | Durbin-Watson Stat | 0.903049 | |
| Prob.(F-Statistic) | 0.032803 | | | |
| Unweighted Statistics | | | | |
| R-Squared | 0.032301 | Mean dependent Var. | 0.158050 | |
| Sum Squared Resid. | 2.219177 | Durbin-Watson stat | 0.903049 | |

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The result above showed the random-effect regression estimates of the first model. The constant term of the model is 0.0824, indicating that the return on asset of selected firms would be 8% when the explanatory variables are subjected to zero. The coefficient of determination indicates that 3% variation in firms' profitability is explained by the explanatory variables. The coefficient and probability value of audit quality are 0.0045 and 0.77 respectively. This implies that audit quality has positive but insignificant impact on firms' performance. The coefficient and probability value of firm size are 0.0032 and 0.05 respectively, indicating that firm size has positive and significant impact on firms' performance. In addition, the coefficient and probability value of IFRS adoption are 0.03 and 0.08 respectively, indicating that IFRS adoption has positive but negligible impact on firms' performance.

**Test of Hypothesis**

**Hypothesis One** IFRS adoption has no significant impact on the profitability of private sector enterprises in Nigeria.

Since the probability value of IFRS adoption is greater than 0.05, it therefore connotes it has positive but slim effect on the profitability of selected firms. Thus, the null hypothesis is accepted that IFRS adoption has no significant impact on the profitability of private sector enterprises in Nigeria.

Table 5: MODEL TWO - Impact of IFRS adoption on Firms' Liquidity

Correlated Random Effects - Hausman Test
Equation: Untitled
Test period random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Period random | 1.850285 | 3 | 0.6041 |

The probability value of the Hausman test chi-square statistic is greater than 0.05. It therefore indicates that there is no significance difference between the fixed-effect and random-effect models. As such, the random-effect model is more appropriate to estimate the second model.

Table 6: Random-Effect Regression Estimates

Dependent Variable: CURRR

Method: Panel EGLS (Period random effects)

Date: 08/30/20 Time: 17:51

Sample: 2013 2018

Periods included: 6

Cross-sections included: 54

Total panel (balanced) observations: 270

**Swamy and Arora estimator of component variances**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.202908 | 0.080597 | 2.517554 | 0.0124 |
| IFRS | 0.024022 | 0.046541 | 0.516156 | 0.6062 |
| AUDIT | 0.041308 | 0.043261 | 0.954862 | 0.3405 |
| SIZE | 0.046608 | 0.004540 | 10.26579 | 0.0000 |

| Effects Specification | S.D. | Rho |
|---|---|---|
| Period random | 0.000000 | 0.0000 |
| Idiosyncratic random | 0.256734 | 1.0000 |

| Weighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.311368 | Mean dependent var | 1.056296 |
| Adjusted R-squared | 0.303601 | S.D. dependent var | 0.306532 |
| S.E. of regression | 0.255802 | Sum squared resid | 17.40566 |
| F-statistic | 40.09101 | Durbin-Watson stat | 0.375398 |
| Prob(F-statistic) | 0.000000 | | |

| Unweighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.311368 | Mean dependent var | 1.056296 |
| Sum squared resid | 17.40566 | Durbin-Watson stat | 0.375398 |

The result above showed the random-effect regression estimates of the second model. The constant term of the model indicates that the current ratio of selected firms would be 0.2029 on the notion that the explanatory variables are subjected to zero. The coefficient of determination indicates that 31.1% variation in current ratio of selected firms is explained by the independent

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variables. The coefficient and probability value of audit quality are 0.041 and 0.341 respectively, indicating that audit quality has positive but insignificant effect on the liquidity of selected firms. The coefficient and probability value of firm size are 0.05 and 0.00 respectively, implying that firm size has significant positive impact on firms' liquidity. The coefficient and probability value of IFRS adoption are 0.024 and 0.61 respectively, indicating that IFRS adoption has positive but negligible impact on firms' liquidity.

**Hypothesis Two** IFRS adoption has no significant impact on the liquidity of private sector enterprises in Nigeria.

Since the probability value of IFRS adoption is greater than 0.05, it implies that IFRS adoption exerts weak influence on firms' liquidity. Thus, the null hypothesis is accepted that IFRS adoption has no significant impact on the liquidity of private sector enterprises in Nigeria.

Table 7: MODEL THREE - Impact of IFRS adoption on Firms' Financial Leverage

Correlated Random Effects - Hausman Test
Equation: Untitled
Test period random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Period random | 1.278087 | 3 | 0.7343 |

The probability value of Hausman chi-square statistic is greater than 0.05. It indicates that the random-effect and fixed-effect models are not significantly different. As such, the random-effect model is more appropriate to estimate the third model.

Table 8: Random-Effect Regression Estimates

Dependent Variable: DEBTR
Method: Panel EGLS (Period random effects)
Date: 08/30/20 Time: 17:52
Sample: 2013 2018
Periods included: 6
Cross-sections included: 54
Total panel (balanced) observations: 270

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| Swamy and Arora estimator of component variances | | | | |
|---|---|---|---|---|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 0.380702 | 0.060643 | 6.277731 | 0.0000 |
| IFRS | -0.038838 | 0.035019 | -1.109075 | 0.2684 |
| AUDIT | -0.028993 | 0.032551 | -0.890708 | 0.3739 |
| SIZE | 0.000855 | 0.003416 | 0.250375 | 0.8025 |
| Effects Specification | | | | |
| | | | S.D. | Rho |
| Period random | | | 0.000000 | 0.0000 |
| Idiosyncratic random | | | 0.193173 | 1.0000 |
| Weighted Statistics | | | | |
| R-Squared | 0.055402 | Mean dependent Var | | 0.386063 |
| Adjusted R-Squared | 0.015815 | S.D. dependent Var | | 0.191712 |
| S.E. of regression | 0.192268 | Sum squared Resid | | 9.833232 |
| F-Statistic | 0.481568 | Durbin-Watson Stat | | 0.320353 |
| Prob. (F-Statistic) | 0.695371 | | | |
| Unweighted Statistics | | | | |
| R-squared | 0.055402 | Mean dependent Var | | 0.386063 |
| Sum Squared resid | 9.833232 | Durbin-Watson Stat | | 0.320353 |

The constant term of the regression model indicates that the debt ratio of selected firms is 38.07% on the maxim that the explanatory variables are zero. The coefficient of determination indicates that the explanatory variables (IFRS adoption, audit quality and firm size) explained only 5% variation on firms' leverage. The coefficient and probability value of audit quality of 0.03 and 0.37 respectively, indicating that audit quality has insignificant negative impact on firms' leverage. The coefficient and probability value of firm size are 0.0009 and 0.80 respectively, which connotes that firm size has insignificant positive impact on firms' leverage. In addition, the coefficient and probability of IFRS adoption are -0.04 and 0.27 respectively indicates that the adoption of IFRS reduces leverage at a slower rate.

**Hypothesis Three** IFRS adoption has no significant impact on the financial leverage of private sector enterprises in Nigeria.

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Since the probability value of IFRS adoption is greater than 0.05, it connotes that IFRS adoption has negative but insignificant impact on firms' financial leverage. The null hypothesis is accepted, and that IFRS adoption has no significant impact on the financial leverage of private sector enterprises in Nigeria.

## DISCUSSION OF FINDINGS

From the analysis, it was discovered that IFRS adoption has no significant impact on the profitability, liquidity and financial leverage of selected private enterprises in Nigeria. This could be attributed to the fact that private enterprises in Nigeria are yet to fully realize the benefits of IFRS adoption due to challenges surrounding its adoption and implementation. The non-significance of IFRS adoption on firm performance is simply because the challenges of implementation have not been well-addressed in Nigeria. In most countries it may include changing culture and poor developing systems of regulation.

Atu and Raphael (2016), Duh (2009), Madawaki (2014) and Abata (2015) supported the position that there are cultural, language, regulatory and accounting professional challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms to a country's regulatory, legal and economic structures and adaptation of its culture to the western world. In our clime, some of the challenges of the implementation including poor enlightenment campaign, shortage of adequate manpower for IFRS implementation, associated institutional problems, weak enforcement mechanisms, lack of training resources, tax implications, universal tendency to resist change, cultural issues, legal impediments, inconsistency of existing laws, regulatory frameworks of accounting profession, inadequate knowledge of professional accountants and weak accounting education, are still paramount.

The finding of this study is consistent with empirical findings of Umobong (2015), Adeyemi (2016) and Umobong & Ibanichuka (2016) that IFRS adoption does not automatically translate to higher financial performance especially when the firm fails to address the inherent challenges surrounding its adoption and implementation. Furthermore, the finding is consistent with that of Musa, Nasiru and Muhammad (2017) that there is no significant difference in the quality of accounting information and corporate performance of selected quoted Nigerian firms before and after adopting IFRS.

## CONCLUSION

Many developing countries adopt IFRS in order to gain acceptance in the international community and to prevent the problems that arise where there is limited resources in terms of

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human, technical, logistics or otherwise to prepare national standards. These reasons however should not be the primary motive for adoption because what good will a financial statement be if being reported under IFRS standard becomes irrelevant, untimely, costly, incomprehensive, unreliable and does not give faithful representations to stakeholders. Nigerian quoted firms should pursue the international harmonization of these accounting standards as far it does not negate on their local accounting needs. All in all, the decision to adopt IFRS should not be rushed by private enterprises. It should be carefully thought through politically, legally, culturally, financially and economically, especially when the result of the study primarily confirmed that IFRS adoption has no significant impact on profitability, liquidity or financial leverage of quoted firms.

## RECOMMENDATIONS

1. Adequate resources should be put in place to support through consultative groups the sustainable implementation of IFRS.
2. The awareness of professional accountants, regulators and preparers should be raised to improve the knowledge gap, through regular trainings and seminars.
3. The adoption and implementation of IFRS should be on the basis of cost-benefit analysis; not just based on following the crowd or the bandwagon.
4. The capacity and adequacy of regulatory bodies and the statutory framework of accounting and auditing should be strengthened and regularly reviewed.
5. Professional accounting bodies should align their professional educational requirements with IFAC guidelines including business ethics and widen exposure to practical IFRS applications, and build capacity of various stakeholders in the accounting profession as often as necessary.
6. Strong accounting institutional framework must be developed to manage IFRS change process, by strengthening the oversight function of the Financial Reporting Council to shoulder the responsibility of setting accounting and auditing standards, monitoring compliance with accounting standards, review auditors' practice and reporting practices and enforcing sanctions for violations.

## LIMITATIONS OF CURRENT STUDY

The area of limitation was in the aspect of lack of updated data, which constrained the study to 2018 scope. We still need to contend with difficult in sourcing up-to-date data on issues of contemporary and strategic importance like this issue of IFRSs implementation as regards the private sector firms, who may still have to battle with proper and current record keeping.

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We also hope to impress on the suggestion that further studies should extend the scope to Small and Medium Scale Enterprises (SMEs) in Nigeria. The impact of IFRS adoption on the performance of SMEs should also be investigated; which can also assess the impact of IFRS adoption on other performance indicators such as shareholders' wealth, growth, earnings, survival and stock market assessment of quoted private companies in Nigeria.

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