COMPARATIVE ASSESSMENT BETWEEN PRE-AND POST-IFRSs ADOPTION EFFECT ON SHAREHOLDERS' VALUE IN NIGERIAN LISTED COMPANIES

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Abstract

This study carried out a comparative assessment between pre-and post-IFRSs adoption effect on shareholders' value in Nigerian listed companies. The study covered a total population of one hundred and sixty-eight (168) companies listed as at 31st December, 2020. The study collected data from the annual reports and accounts of a samples size of fifty-six (56) companies listed on the NSE between 2003 and 2020 (i.e., 2003 to 2011 for pre-IFRSs and 2011 to 2020 is post-IFRSs adoption era). Ordinary least square regression analysis technique was used to analyse the data by the study and the result revealed that the pre-IFRSs adoption era had positive significant effect on shareholders' value compared to the post-IFRSs adoption era. In addition, it was revealed by the study that the control variable, firm size had positive significant effect on shareholders' value in companies listed on the NSE. The study concludes that post-IFRSs adoption in Nigeria by companies listed on the NSE has not result to significant increase in shareholders' value compared to the pre-IFRSs adoption era. Hence, the study recommends to the policy-makers in Nigeria such as the FRCN to review the IFRSs, identify key areas particularly where the standard allows estimate and judgment on business transactions that may not enhance shareholders' value and make necessary adjustment.

Keywords: Agency theory; Pre- and Post-IFRSs adoption; Shareholders' Value; Nigerian listed companies.

1. Introduction

Minimizing the loopholes existed in nations' Generally Accepted Accounting Principles (GAAPs) and to enhance free trade and investment between countries across borders brings the globe to the development and establishment of International Financial Reporting

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Standards (IFRSs). IFRSs is international standard issued by International Accounting Standard Board (IASB) and it forced the harmonization of accounting and financial reporting that have to be done by every country, including Nigeria as the widely users of accounting information. IFRSs focused on current cost accounting today as alternative to historical cost accounting which is characterized by a lot of weakness particularly not reflecting business transactions in economic reality.

Moreover, current cost accounting alternative to historical cost accounting is what post-IFRS focused on and thereby aiming to enhance shareholders' value which depend on the quality of earnings generated from operations by the company. These earnings usually are in the form of dividends disbursed periodically and proceeds from the trading of stock. Specifically, dividends are paid to ordinary shareholders or stockholders out of corporate profits and it can be used to predict stock price movement which consequently affects shareholders wealth. Shareholders' value may be determined by earnings per share or stock price or market price per share having put into consideration the timing and risk associated with future earnings to be received by the shareholders (Imagbe & Okoughenu, 2020). In fact, all of these measurements have been examined under the historical accounting based measurement.

Furthermore, there is focus of IFRSs on fair value accounting according to Ball (2006) that may lead to increased earnings volatility and consequently, reduce shareholders' value. However, according to Silva, Fraga, Noriller, and Lopes (2019), since IFRSs represents a standardized, high-quality and transparent set of accounting standards capable of neutralizing accounting differences among jurisdictions, it would lead to high quality earnings and have a better predictability of future dividend flows. Therefore, in validating the prior research evidence in the fair value accounting measurement, further studies is required to be carryout. Also, Preiato et al. 2009; (in Rizki & Rosyidiana, 2017) and Nwaogwugwu (2020) asserted that it was ambiguous that IFRSs adoption would increase the financial statement information decision usefulness than the historical based accounting measurement. Based on the variables that determine shareholders' value examined by previous researchers, this study seeks to address the following question: to what extent pre-and post-IFRSs adoption has affected shareholders' value on companies listed on the Nigerian Stock Exchange (NSE)?

Hence, this study generally aims to carry out a comparative assessment between pre-and post-IFRSs adoption effect on shareholders' value in Nigerian listed companies. The specific objective is to assess the extent pre-IFRSs adoption has affected shareholders' value (proxies by earnings per share) of companies listed on the (NSE). To achieve this specific objective, the following hypothesis is formulated:

$H0_1$: Pre-IFRSs adoption has no significant effect on shareholders' value (i.e., earnings per share) compare to post-IFRSs adoption era by companies listed on the NSE.

2. Literature Review

2.1 Conceptual Review

IFRSs are issued by IASB which is situated in London, United Kingdom. IASB articulates uniform financial reporting principles that bridged the gap between national standards. IFRSs

according to Eke (2018) are more focused on objectives and principle-based and it purports to be a set of rules that ideally would apply equally to financial reporting by public interest companies worldwide. Gaining from the seemingly distressed global economy, according to Nwaogwugwu (2020), Nigeria joined other countries and adopted and started implementation of IFRSs in 2012. To facilitate compliance of the standards, the Financial Reporting Council of Nigeria (FRCN) mandated all publicly listed companies to prepare their financial statements in line with the IFRSs.

Therefore, IFRSs since it aimed to shift from historical accounting based-measurement to currents accounting and characterized with both rule-based and principle-based standards, unlike the GAAPs that permit choice of accounting measurement and estimate, it may give more value relevance data as well as enhancing shareholders' value. In the same way, Barth et al. (2008); (in Viana, Ohlson, Lourenço, & DeLima, 2018) asserted that IFRSs are recognized with the potential to improve the quality of accounting information, because, among other factors, are recognized as principle-based rules, and may, therefore, better reflect the company's financial position.

It is widely viewed by various studies that the concept of shareholders' value is differed. Shareholders' value according to Khan and Hussanie (2018) is when a company maximizes the market value of the share or shareholders' returns and it is expresses by multiplying the number of shares held with market value per share. Shareholders' value is based on two perspectives, according to Arhin (2018) which are capital gains (which come in the form of share price appreciation) and the dividend (which is the amount of money paid out to the shareholders from the total earnings after tax). However, dividend payout according to Tuoyo (2017) is one of the most important decisions affecting shareholders' value maximization of the business entity. Shareholders' value is based on the premises according to Jasman and Kasran (2017) a company maximizing the highest earnings per share. Jasman and Kasran (2017) added that the ratio which reveals net income for each share for shareholders is earning per share and lower ratio indicates lesser value of shareholders' wealth creation by the firm and verse visa.

Based on the underlying concept of shareholders' value, this study proxies shareholders' value by earnings per share variable because it directly related to the business entity's performance and value created from shareholder's capital investment and businesses are established to maximise the wealth of their owners.

2.2 Theoretical Review

In accounting literature, there are a lot of theories that explains quality accounting standards and it affects investors' values or decision and according to Odia and Imagbe (2015) it includes decision usefulness theory and agency theory. But, this study anchored on the theoretical background of the agency preposition.

Agency theory is concerned with minimizing the problems and conflicts according to Jensen and Meckling (I976) that occur in the relationships between owners and managers. This

problem occurs since both parties are having divergent or misaligned interests between them. For instance, whereas the managers would want to maximize utility but the owners would want to maximize net present value of firm. The mangers could take advantage of the information at his disposal for his personal interest by non-disclosure of important facts about the business entity to the owners. This result to conflict of interest, thus to resolve or mitigate this conflict, it would attract costs known as agency costs. Agency costs can be reduced according to Odia and Eriabie (2015) by disclosing more information in the financial statements which enable the owners to have access to appropriate, relevant and reliable information. IFRSs are issued to enhance the quality of information disclosure in the financial statements leading to lower agency costs and increase shareholders' value. Therefore, agency theory predicts IFRSs to have positive effect on shareholders' value.

2.3 Empirical Review

A sample of one hundred (100) companies listed in Pakistan were used by Baiga and Khan (2016) to investigates the impact of introduction of IFRSs on earnings management. The study focused on the pre-post-IAS/IFRS period and the study adopted cross sectional modified Jones model. The analysis of variance reveals in the study that IFRSs adoption had no significant negative impact on earnings management. However, analysis of variance adopted by this study may not reveal the same result if regression analysis approach is employed to analysis the data.

A comparative analysis on key financial ratios computed under the pre (i.e., 2009-2011)-and-post (i.e., 2013-2015) IFRS era were used by Eriki, Modebe, Okoye, and Erin (2017) to examined the adoption of IFRS in Nigerian eleven (11) quoted banks. The result of the study indicated that profitability ratios of quoted banks under the pre-IFRS era vary significantly from those under the post-IFRS era, there was significant contrast between short-term solvency ratios of quoted banks pre-IFRS era and post-IFRS era, long-term solvency ratios of quoted banks under the pre-IFRS era were significantly different from those under post-IFRS era, and there was a significant difference between investment ratios of quoted banks under pre-IFRS era and post-IFRS era. However, this study only covered quoted banks in Nigeria leaving other sectors, thus as a result of firm type or specific characteristics, this may hinder generation.

Performance of oil and gas marketing firms in Nigeria and how it was affected by IFRS was investigated by Abdullahi, Abubakar, and Ahmad (2017) with a sample of eight (8) oil and gas firms. The study used profit margin, return on assets and return on equity ratios to represent performance and IFRS was represented by a free factor (dummy). In addition, the study had current ratio, snappy test, total debt ratio, earnings per share, and equity debt ratio as control variables. The study arranged the periods' observation under pre-IFRSs era 2010 to 2011 and post-IFRS adoption era 2012 to 2013. The ordinary least square result in the study indicated that post-IFRS adoption has not enhanced the performance of oil and gas marketing firms in Nigeria. However, this study only covered oil and gas sector in Nigeria

leaving other sectors, thus as a result of firm type or specific characteristics, this may hinder generation.

Accounting information and its relevance under pre (i.e., 2008-2011)-and post (i.e., 2012-2015)-IFRS adoption was examined by Erin, Olojede, and Ogundele (2017) and covered sample of fifty-two (52) quoted firms in Nigeria. The regression models in the study revealed that under the post-IFRS era, value relevance of accounting data is more detected in Nigeria. However, considering the range of periods covered by this study, it would be important to expand the scope of period to 2020 because earnings quality may be affected by management time-to-time changes of strategies and policy.

Eluyela, Adetula, Oladipo, Nwanji, Adegbola, Ajayi, and Falaye (2019) collected data from the annual reports of listed SMEs in Nigeria to assessed the comparison between pre and post-adoption of IFRS for the period 2012-2015. Profitability, liquidity and market ratios were proxied by the study with return on capital employed, return on equity, debt to equity and earnings per share respectively and the result of the one-sample Kolmogorov Smirnov test, descriptive statistics and Mann Whitney u-test indicated that there was no significant difference between profitability and leverage ratios of IFRS and NGAAP- based financial statements of listed SMEs, also a significant difference exists amid market ratios prepared under IFRS and NGAAP-based financial statements of listed SMEs. However, this study only covered data from SMEs in Nigeria leaving large-scale enterprises particularly those companies listed on the NSE and consequently, this may hinder generation.

A sample of five (5) banks for eight (8) years observation ranged post-IFRS from 2012 to 2015 and pre-IFRS period from 2008 to 2011 were used by Nwaogwugwu (2020) to examine the effect of IFRS adoption on the financial performance and value of the listed banks in Nigeria. The study introduced panel data analysis on return on asset, return on equity and earnings per share and IFRS dummy variable as the independent variables into the model. The result of the regression fixed model in the study indicated that the adoption of IFRS in Nigeria has not lead to higher performance and increased value. However, this study only covered banking sector in Nigeria leaving other sectors, thus as a result of firm type or specific characteristics, this result may not be the same if all listed companies are examined.

Share price anticipation of earnings (SPAE) was investigated by Lee, Walker , and Zeng (2020) in China under IFRSs adoption. The study exploited the institutional setting in China, which allows it to identify first time adoption of IFRS in 2007 as a treatment group and post-IFRS adoption as a control group. From the analyses in the study, it was revealed that SPAE improved under the first time adoption of IFRS in 2007 relative to post-IFRS adoption era, thus consistent with the improved transparency making it easier for investors to forecast future earnings. However, due to country specific characteristic, this result may not be the same in other countries like Nigeria.

In Ghana, pre (2001 to 2006)-and post (2007 to 2014)-IFRS adoption was examined by Mensah (2020) and the study examined how it has affected the financial reporting quality (FRQ) of listed manufacturing firms. The study employed ordinary least squares regression

techniques to analyse the data sourced from the audited annual reports of eleven (11) manufacturing firms. The fixed effect model revealed in the study a decrease in earnings management in the post-adoption era as against the pre-adoption era, thus implying an improvement in accounting quality after the adoption of IFRS. Apart from this study only covered data from the manufacturing companies in Ghana, the result disagreed with other prior studies such as Lee, et al. (2020) in China and Nwaogwugwu (2020) who found that the adoption of IFRS has not lead to higher performance and value of the firm.

3. Methodology

Ex-post facto research design is adopted by the study to examine pre-and post-IFRS and shareholders' value creation in Nigerian listed companies. The study obtained data through secondary sources (i.e., the companies' fact book) and one hundred and sixty-eight (168) companies listed on the NSE as at 31st December, 2020 formed the population of this study. In addition, the firm in the population had annual reports and accounts for consecutive years for the period between 2003 and 2020 (i.e., 2003 to 2011 for pre-IFRSs and 2011 to 2020 is post-IFRSs adoption era). The study adopted Ewododhe (2011)'s formula to arrive at a samples size of fifty-six (56) companies listed on the NSE. Since the study aimed to test the effect and data are collected across firms over time (panel data) ordinary least square regression approach is employed to analyse data.

In this study, the equation that account for the individual explanatory variable is specified as follows:

$$lEPS_{it}=\beta_0+\beta_1\, lPre\text{-}IFRSsADE_{it}+\beta_2\, lFS_{it}+e_{it} \quad \ldots\ldots 3.1$$

Equation 3.1 is a regression model specified to demonstrate the effect of pre-IFRSs adoption era on shareholders' value (i.e., proxies EPS).

$$lEPS_{it}=\beta_0+\beta_1\, lPost\text{-}IFRSsADE_{it}+\beta_2\, lFS_{it}+e_{it} \quad \ldots\ldots 3.2$$

Equation 3.2 is a regression model specified to demonstrate the effect of post-IFRSs adoption era on shareholders' value (i.e., proxies EPS).

Where *lEPS* is earnings per share and measured as natural logarithm of profit available for equity holders divide by equity shares in issues, *lPre-IFRSsADE* is pre-IFRSsADE and measured as dummy variable '0' otherwise, and *lPost-IFRSsADE* is post-IFRSsADE and measured as dummy variable '1' otherwise. Firm size (FS) is a control variable added in the models and measured as natural logarithm of total assets. β_1 –β_2 are coefficients of the explanatory variables, and e_{it} is disturbance terms that absorbs effect from other variables that are ignored. Accept the H_1, if the P-value of the test is less than 0.05. Otherwise accept H_o.

4. Results and Discussion of Findings

4.1 Results

Table 1 OLS Regression Result for Model 1 EPS on Pre-IFRSs Adoption Era

Variables	*Pred. Sign*	*POLS Estimate*			*Fixed Effect (FE) Estimate*			*Random Effect (RE) Estimate*		
		Coef.	*t-stat.*	*Prob.*	*Coef.*	*t-stat.*	*Prob.*	*Coef.*	*t-stat.*	*Prob.*
C.		**0.27**	**0.19**	**0.01***	**0.31**	**0.22**	**0.04**	**0.31**	**0.19**	**0.02***
lPreIFRSsADE	+	**0.01**	**0.12**	**0.00***	**0.09**	**0.22**	**0.01***	**0.05**	**0.10**	**0.01***
lFS	+	**0.38**	**0.42**	**0.00***	**0.24**	**0.33**	**0.00***	**0.31**	**0.27**	**0.00***
R-Sq.			**0.49**			**0.52**			**0.54**	
Adj R-sq.			**0.13**			**0.16**			**0.19**	
F-stat.			**15.10**			**12.05**			**14.12**	
Prob.			**0.01**			**0.00**			**0.00**	
Durbin-Watson stat.			**1.91**			**2.01**			**1.79**	

Source: Authors' computation (2022). **Note: *p < 0.05.**

From the OLS Regression result on Model 1 EPS on pre-IFRSs adoption era in Table 1, the outcome of restricted POLS estimate showed that pre-IFRSs adoption era exerts positive and significant effect on shareholders' value proxies by *lEPS* and significant at the 5% level. In addition, the control variables, *lFS* exerts positive and significant effect on *lEPS* and significant at the 5% level. The outcome of FE estimate showed that pre-IFRSs adoption era exerts positive and significant effect on shareholders' value proxies by *lEPS* and significant at the 5% level. In addition, the control variables, *lFS* exerts positive and significant effect on *lEPS* and significant at the 5% level. The outcome of RE estimate showed that pre-IFRSs adoption era exerts positive and significant effect on shareholders' value proxies by *lEPS* and significant at the 5% level. In addition, the control variables, *lFS* exerts positive and significant effect on *lEPS* and significant at the 5% level.

The reported R-square for the POLS, FE and RE estimate showed 49%, 52% and 54% respectively, thus, suggesting that 51%, 48% and 46% respectively of the systematic variation in dependent variable (i.e., earnings per share) cannot be explained by other variables on the assumption that the study did not considered heterogeneity effect across

firms sampled. The estimates' respective F-statistics values showed that a significant linear relationship existed between the dependent and independent variables. Also, the estimates' respective result of Durbin-Watson statistic is very close to 2.00 suggesting absence of the problem of multicollinearity in the regression model.

Table 2 OLS Regression Result for Model 1 EPS on Post-IFRSs Adoption Era

Variables	*Pred. Sign*	*POLS Estimate*			*Fixed Effect (FE) Estimate*			*Random Effect (RE) Estimate*		
		Coef.	*t-stat.*	*Prob.*	*Coef.*	*t-stat.*	*Prob.*	*Coef.*	*t-stat.*	*Prob.*
C.		**0.03**	**0.22**	**0.07**	**0.11**	**0.27**	**0.01***	**0.21**	**0.14**	**0.00***
lPostIFRSsADE	+	**0.24**	**0.45**	**0.13**	**-0.19**	**-0.13**	**0.09**	**0.25**	**0.20**	**0.12**
LFS	+	**0.44**	**0.23**	**0.00***	**0.29**	**0.45**	**0.02***	**0.34**	**0.17**	**0.03***
R-Sq.			**0.55**			**0.67**			**0.77**	
			0.19			**0.23**			**0.28**	
Adj R-sq. F-stat.			**13.15**			**10.21**			**16.10**	
Prob.			**0.04**			**0.01**			**0.00**	
Durbin-Watson stat.			**1.72**			**1.81**			**1.66**	

Source: Authors' computation (2022). Note: *p < 0.05.

From the OLS Regression result on Model 2 EPS on post-IFRSs adoption era in Table 2, the outcome of restricted POLS estimate showed that post-IFRSs adoption era exerts positive and insignificant effect on shareholders' value proxies by *lEPS* and not significant at the 5% level. In addition, the control variables, *lFS* exerts positive and significant effect on *lEPS* and significant at the 5% level. The outcome of FE estimate showed that post-IFRSs adoption era exerts negative insignificant effect on shareholders' value proxies by *lEPS* and not significant at the 5% level. In addition, the control variables, *lFS* exerts positive and significant effect on *lEPS* and significant at the 5% level. The outcome of RE estimate showed that post-IFRSs adoption era exerts positive and insignificant effect on shareholders' value proxies by *lEPS* and not significant at the 5% level. In addition, the control variables, *lFS* exerts positive and significant effect on *lEPS* and significant at the 5% level.

The reported R-square for the POLS, FE and RE estimate showed 55%, 67% and 77% respectively, thus, suggesting that 41%, 33% and 23% respectively of the systematic variation in dependent variable (i.e., earnings per share) cannot be explained by other variables on the assumption that the study did not considered heterogeneity effect across firms sampled. The estimates' respective F-statistics values showed that a significant linear relationship existed between the dependent and independent variables. Also, the estimates' respective result of Durbin-Watson statistic is very close to 2.00 suggesting absence of the problem of multicollinearity in the regression model.

Post-Estimation Test

Table 3 Summary of the Restricted F-Test of Heterogeneity

Model	*F-Stat.*	*Prob.*
1	1.19	0.00
2	1.22	0.01

Source: Authors' computation (2022).

The outcome of the summary of the restricted F-test from Table 3 provides that for all the models estimated in the study heterogeneity effect existed among the sampled firms suggesting that heterogeneity effect across firms is too significant to be ignored. Therefore, we conclude that there is no justification to interpret the results of the data analysed for the study on the basis of POLS estimation result.

Furthermore, either of the two models of FE or RE models would be considered for the interpretation of the regression result for the study on the assumption that if the outcome of the Hausman Test provide probability value less than 0.05, FE estimation result will be accepted or otherwise accept the RE estimation result for the study.

Table 4 Summary Result of Hausman Test for the Models

Model	*Chi-sq. stat.*	*Prob.*
1	1.12	0.38
2	1.27	0.02

Source: Authors' computation (2022).

The outcome of Table 4 indicates that the Hausman Test provided a probability value greater than 0.05 on Model 1 and for Model 2 probability value less than 0.05, thus, suggesting that Model 1 was appropriately interpreted on the basis of the RE estimation result presented in the second column of Table 1 above, while Model 2 was appropriately interpreted on the basis of the FE estimation result presented in the third column of Table 2.

4.2 Test of Hypothesis

The RE estimation result indicated in Table 1 reveals that the pre-IFRSs adoption era effect on shareholders' value on companies listed on the NSE was positive significant with (*t-value=0.10)* and coefficient (β_1=0.05) suggesting that an increase in pre-IFRSs adoption era by one scale, would lead to an increase in shareholders' value by 0.05 (5%). In addition, the result showed that pre-IFRSs adoption era effect on shareholders' value proxies by *lEPS* is significant at the 5% level. The FE estimation result indicated in Table 2 reveals that the post-IFRSs adoption era effect on shareholders' value on companies listed on the NSE was negative insignificant with (*t-value=-0.13)* and coefficient (β_1=-0.19) suggesting that an increase in post-IFRSs adoption era by one scale, would lead to decrease in shareholders' value by 19%. In addition, the result showed that post-IFRSs adoption era effect on shareholders' value proxies by *lEPS* is significant at the 5% level. Therefore, comparing the two results, the null hypothesis ($H0_1$) formulated for the study that stated Pre-IFRSs adoption has no significant effect on shareholders' value compare to post-IFRSs adoption era for companies listed on the NSE should not be accepted.

4.3 Discussion of Findings

Based on the comparison between the result of the analyses provided by model 1 and 2, it was indicated that pre-IFRSs adoption era had significant effect on shareholders' value of companies listed on the NSE compared to the post-IFRSs adoption era. Since our result indicated that post-IFRS adoption has no significant effect on shareholders' value, it is consistent with the outcome in the study of Eriki, et al. (2017) and Nwaogwugwu (2020) in Nigeria which revealed that the post-IFRSs adoption era in Nigeria has not significantly lead to higher performance or profitability and value compared to the pre-IFRSs adoption era.

Nevertheless, the result gives no support to the agency theory reviewed in the study which argued that, since the costs of agency conflict will reduced as a result of post-IFRSs adoption providing sufficient disclosure of information more than the pre-IFRSs adoption era to the shareholders, the value of the company' profitability will increased as well as shareholders' return. Also, the findings in study did not collaborate with the study of Erin, et al. (2017) in Nigerian who revealed that under the post-IFRS era, value relevance of accounting data is more detected or pronounced in Nigeria. Our result also different from the outcome in the study of Lee, et al. (2020) in China and Mensah (2020) in Ghana who found that post-IFRSs adoption era has resulted to a significant effect on quality accounting and enhanced investors value.

5. Conclusions and Recommendations

This study carried out a comparative assessment between pre-and post-IFRSs adoption effect on shareholders' value of companies listed on the NSE. Following the empirical studies, pre- and post-IFRSs adoption was represented by dummy variable and shareholders' value was represented by EPS variable. The study employed POLS, FE and RE estimation model to test the effect of pre-and post-IFRSs adoption on shareholders' value. Based on the comparison of the tests, it was revealed that pre-IFRSs adoption era had significant effect on

shareholders' value compared to post-IFRSs adoption era. Therefore, the study concludes that post-IFRSs adoption in Nigeria by companies listed on the NSE has not result to significant increase in shareholders' value compared to the pre-adoption era.

Hence, this study recommends to the Nigerian policy-makers such as the FRCN to review the IFRSs, identify key areas particularly where the standard allows estimate and judgment on business transactions that may not enhance shareholders' value and make necessary adjustment. In addition, since the study could not examine all the determinants of shareholders' value which includes, dividend per share, market price per share, return on assets and among others, it recommend to further studies to employ these variables and carry out comparative assessment on how they would be affected by the pre-and post-IFRSs adoption in Nigerian listed companies.

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