

**INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)  
ADOPTION AND MARKET VALUE OF FIRMS: EVIDENCE FROM  
NIGERIAN MANUFACTURING COMPANIES.**

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**ABSTRACT**

The study examined the relationship between International Financial Reporting Standards (IFRS) adoption and Market value of Nigerian manufacturing companies. Data from listed manufacturing firms over twelve (12) years were analyzed. The objective of the study was achieved using panel ordinary least square regression. The result from the pooled least square regression indicated that there is a positive and significant relationship between IFRS adoption and market value Nigerian manufacturing firms. The result also shows that a significant positive relationship exist between dividend per share and market value of the Nigerian manufacturing firms. The study therefore concludes that adoption of IFRS by manufacturing for the preparation of financial statement will impact positively on the market value of the firms. This is because IFRS adoption will improve the quality of financial statement thereby boost the confidence of investors and also improve the patronage of investors which will in turn increase that market value of the companies . The study therefore recommends that companies in Nigeria should fully adopt the International Financial Reporting Standard for preparation of their financial statements.

**Keywords:** IFRS, Manufacturing companies, Nigeria

**1. INTRODUCTION**

The call for adopting IFRS as a basis for the preparation of financial statement of companies around the globe was due to the need for a uniform accounting standard that is understandable globally. In Africa the adoption of the International Financial Reporting Standards (IFRS) is comparatively new as few countries adopted this financial reporting standards and this may be due to the difficulties associated with diversity of accounting standards. In Nigeria, IFRS was adopted in 2012 for preparation of financial statements of public companies listed on the Nigerian Stock Exchange. The financial crisis in the world has led to an economic downturn hence leading to loss of jobs, liquation of companies, and loss of investor confidence. This

financial crisis has shown how difficult it is to retain investor confidence when investors are uncertain about the financial information available to them.

The previously used accounting standards which was the Generally Accepted Accounting Principles (GAAP) has no clause of full disclosure unlike the IFRS. By providing reliable and internationally comparable financial information, IFRS is a very important framework and is fundamental of the market economy (Uwaoma & Ordu, 2015). With successful implementation of IFRS, Nigeria will benefit economically by receiving a boost on foreign direct investments (FDIs) . The stakeholders of organizations have benefited from the adoption of the International Financial Reporting Standards (IFRS) in the transparency and comparison of financial reports, giving the organization a wider access to the global capital or stock market. One of the challenges of IFRS adoption stems from the number of stakeholders that have a vested interest in the financial performance of the organization (Ogunyemi, 2014).

The adoption of IFRS has increased considerably however, most of the empirical studies on IFRS adoption on and market value of firms predominant in developed countries while only few have been conducted in the developing economy like Nigeria. Furthermore, most of this empirical studies such as Umobong (2015), Nnado and Ugwu (2016) and Heikal, Khaddafi and Ummah (2014) have laid too much emphasis on performance measures such as return on assets return on equity and profit margins.. None of these studies has focused on IFRS adoption and how it affects the market value of the firms. Since one of the major benefits of adoption of IFRS is attraction of investment as result of confidence in quality of financial statement prepared under IFRS; then, it will be of great importance to examine how the adoption of IFRS has affected the market value of manufacturing firms.

In addition, most studies have focused on financial sectors of economy with little or no attention given to the manufacturing sub sector of the economy. Manufacturing is at the center of any country development. Therefore, there is need to assess how adoption of IFRS has affected the market value of companies in the sector.

In the light of the above arguments, the study examined the empirical relationship between IFRS adoption and market value of companies in manufacturing sub sector of Nigerian economy. The rest of the paper is divided into five sections. Sections two and three discussed literature review and methodology while section four focused on the empirical results and section five concludes the study.

## **2. LITERATURE REVIEW**

### **2.1 Theoretical Review**

The theory on which the study is based is the Agency theory. Agency Theory explains the relationship between an Agent and a Principal, according to this theory when an individual (agent) acts on behalf of or performs certain services on behalf of another individual (the principal), a principal-agent relationship is created. The Agency theory aims to resolve the problems that may exist in agency relationships to align goals the common agency relationship in finance occurs between shareholders (principal) and company executives such as managers (agents). The principal or shareholder starts the agency relationship when he buys shares of stock from the company with the agents as managers of the companies who have the duty of managing and making decisions on behalf of the interests of shareholder. Management's stewardship in financial reporting according to Jehro and Okoro (2015) investors and shareholders rely on the information content of financial statements which usually is supplied by management. The implication of the above is that investors' decisions on whether or not to invest on a firm or group of firms are basically based on the available information at their disposal.

## **2.2 Empirical Review**

According to Umobong (2015) who examined the impact of IFRS on market performance of food and beverage firms in Nigeria, the performance variables selected in his study included Price Earnings Ratio, Earnings per Share, and Dividend Yield. The findings from this study based on the comparative analysis of the pre and post IFRS era using the t-test indicated that the difference between market performance of the pre and post IFRS periods were not significant. This study suggested that a weak correlation exist between IFRS adoption and the market performance of beverage manufacturing firms in Nigeria.

Contrary to this finding, the study of Abata (2015) on the impact of IFRS adoption on the financial reporting practices in Nigeria, who in his study found that the adoption of IFRS brought about increased comparability and better decision making among banks in the country since quantitative difference in the financial reports prepared under the Nigerian GAAP and the IAS/IFRS were found to be statistically significant.

Adebimpe and Ekwere (2015) also examined whether the mandatory adoption of IFRS improves the value relevance of financial information of banks in Nigeria. Result shows that the equity value and earnings of banks are relatively value relevant to share prices under IFRS. In the same vein, Muhibudeen (2015); Umoren and Enang (2015) investigated the adoption of IFRS and value relevance of accounting information in quoted cement firms in Nigeria. Their Findings reveal that earning per share and other performance indicators significantly improved by the adoption of IFRS.

Jinadu and Olugbenga (2016) in their study examined whether the adoption of IFRS has improved the quality of accounting information in the area of value relevance as it affects

Nigerian quoted firms. The study applied the use of regression techniques to analyze the data collected and the findings revealed that the adoption of IFRS has a positive and significant effect on the value relevance of accounting information. Their study recommended that government should empower the relevant bodies to incorporate more measures to improve the quality of the financial reporting in order to increase the value relevance of financial statements.

Ibiamke, Adzor and Ateboh-Briggs (2014) examined the impact of IFRS adopted by Nigerian listed firms on key financial ratios used by investors, using a sample scope of 60 companies where used in this study. The Methodology applied was Gray Index which was used to find the impact of IFRS adoption on financial ratios while, Paired sample t test and Levene's F were used to test the statistical significance of the differences in mean and variances between ratios under IFRS and Nigerian Generally Accepted Accounting Principles (NGAAP) respectively. The study findings showed that IFRS adoption has caused a negative impact on the financial ratios of Nigerian listed firms, but the impact was not statistically significant. The study therefore recommended that analysts and other financial statement users should be mindful of the new features of financial statement when taking economic decisions during this period of transition to IFRS in Nigeria.

Asian and Dike (2015) examined IFRS adoption and accounting quality of quoted manufacturing firms in Nigeria. The differences in quality of quoted manufacturing firms in Nigeria was investigated pre and post IFRS adoption over a five years period. The method adopted was multiple regression analysis on accounting quality, earning management, value relevance and timely loss recognition. The findings result indicated a decline in accounting quality using earnings management, value relevance and timely loss recognition as independent variable. The study concluded that the decrease in accounting quality is mainly driven by institutional factors (such as cost of initial implementation) and not the new adopted standards.

Sanyaolu, Iyoha and Ojeka (2017) examined the International Financial Reporting Standards Adoption and Earnings of Quoted Banks in Nigeria. The study examined the effect of adoption of IFRS on the earning yield (EY) and earnings per share (EPS) of quoted banks in Nigeria. Findings showed a positive relationship between IFRS adoption and Earnings per share and concluded that IFRS adoption has improved the decision making capability of various stakeholders, thus increasing investors' confidence and inflow of capital in the country through foreign direct investment (FDI). The study further suggested that in order to safeguard the suitable adoption of IFRS in Nigeria, competent accountants of Nigeria must intensify its efforts in organizing IFRS based training programs for its member and other parties connected with corporate reporting.

Abdullahi, Abubakar and Sa' Ad Ahmad (2017) investigated the effect of IFRS adoption on the performance of oil and gas marketing companies in Nigeria. The study utilized financial statements of a sample of eight (8) oil and gas companies operating in the country. Firms' performance was proxy by Profit Margin (PM), Return on Assets (ROA) and Return on Equity (ROE) ratios and was considered as dependent variables to be determined by reporting regime (RR) as independent variable. While Current Ratio (CR), quick Test (QT), Total Debt Ratio (TDR) Earnings per Share (EPS) and Equity Debt Ratio (EDR) are use as control variables. The ratios were computed and compared for 4 years (2010 to 2011) before mandatory IFRS adoption and 2012 to 2013 after mandatory adoption OLS, regression was employed for the analysis. The study revealed IFRS adoption has not improved the performance of oil and gas companies in Nigeria and recommended that, oil and gas companies should continue to comply with provisions of IFRS as it will improve their reporting quality which may also improve their performance as result of more investment flow, easy access to capital and comparability.

3. METHODOLOGY

3.1 Model Specification

To examine the relationship between IFRS adoption and Market Value of manufacturing companies, the study specify the following model:

MV = f (IFRS, DPS, EPS) ..... (1)

This is expressed in econometric form as follows;

MV<sub>i,t</sub> = β<sub>0</sub> + β<sub>1</sub>IFRS<sub>i,t</sub> + β<sub>2</sub>EPS<sub>1,t</sub> + β<sub>4</sub>DPS<sub>t</sub> + μ<sub>i,t</sub> ..... (2)

Where,

- MV = Market Value
IFRS = IFRS adoption
EPS= Earnings per share
DPS = Dividend per share
β<sub>1</sub> to β<sub>3</sub> =coefficient of explanatory variables
β<sub>0</sub> = intercept
n = number of years
c= number of firm

3.2 A Priori Expectation

A Priori expectation measures the magnitude of the size of the parameter estimates of the economic relationship between the regressor and the regressed.  $\beta_1, \beta_2, \beta_3 > 0$

### 3.3 Measurement of Variables

**Dependent Variable:** Market value is proxied by market price per share of which is the closing price as at December 31 each year used in the study.

**Independent Variable:**

- i. The International Financial Reporting Standards (IFRS) is measured using dummy variable (0) for non-adoption and (1) for adoption
- ii. Earnings per share (EPS) =  $\frac{\text{Total earnings in firm } i \text{ at time } t}{\text{Number of ordinary shares outstanding in firm } i \text{ at time } t}$
- iii. Dividend per share (DPS) =  $\frac{\text{Total dividends in firm } i \text{ at time } t}{\text{Number of ordinary shares outstanding in firm } i \text{ at time } t}$

## 4. EMPIRICAL RESULT

**Table 1: Pool regression of IFRS adoption on the market price of listed manufacturing companies**

Dependent Variable: MPS  
 Method: Panel EGLS (Cross-section weights)  
 Total panel (balanced) observations: 108

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	0.060156	0.073633	0.816971	0.4160
DPS	17.70189	3.038747	5.825391	0.0000
IFRS	17.71328	4.667284	3.795202	0.0003
C	47.83403	10.71056	4.466064	0.0000

Effects Specification

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Cross-section fixed (dummy variables)

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Weighted Statistics

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R-squared	0.825906		
Adjusted R-squared	0.805958		
F-statistic	41.40250	Durbin-Watson stat	1.753405
Prob(F-statistic)	0.000000		

**Source: Author's Computation 2018**

The result in table 2 showed the estimation of the effects of IFRS on the market price per share of listed manufacturing companies in Nigeria. The method applied is ordinary least square method of regression. The panel data span over twelve (12) years across nine listed manufacturing companies were used. The total observation is 108. The R-squared of 0.82 (82.8%) implies that 82.8% of the total variation in dependent variable (market price per share) is explained by the independent variable (IFRS, DPS, EPS). This therefore follows that the independent variables are sufficient to explain the behaviour of the dependent variable. The result shows that the probability of F-statistic is 0.0000 which implies that the model is statistically significant at 1% level of significance. The Durbin-Watson value of (1.75) shows the result is free from auto correlation. Therefore, the model is well specified and can be used.

Specifically, the result reveals that the coefficient of IFRS is 17.71328 with a p-value of 0.0003. This implies a positive and significant relationship between IFRS and market price of shares of listed manufacturing companies in Nigeria. Furthermore, the result shows that the coefficient of Earnings per share (EPS) is 0.060156 with p-value of 0.416 this is statistically insignificant. This implies that a unit increase in EPS will lead to 6% increase in market price of listed manufacturing firms in Nigeria. This reveals a positive relationship between IFRS and market price.

The result shows that the coefficient of Dividend per share (DPS) is 17.70189 with a p-value of 0.000. This implies that a unit increase in DPS will lead to 177% increase in market price per share and the result showed a positive and significant relationship between dividend per share and market price per share of listed manufacturing companies in Nigeria.

In addition, firm size has correlation coefficient of 47.83403 with p-value of 0.000 showing a positive relationship between firm size and market price per share of listed manufacturing companies in Nigeria.

#### **4.1 Discussion of findings.**

The result of the estimation of the effect of IFRS on the market price of listed manufacturing companies in Nigeria reveals that there is a positive relationship between IFRS and market price. This implies a direct relationship between the market price of firms and IFRS adoption on listed manufacturing companies. In addition the findings reveal a positive relationship between earnings per share of companies (EPS), dividend per share (DPS) and the market price of companies. As profit increases so does the earnings per share and dividend per share of the company, the company's ability to pay dividend to its shareholders attract investors thus market price of company will increase as more investors buy more shares.

Furthermore, the study reveals that the firm size measured by natural logarithm of total assets impacts positively on the market price per share. Hence as firm size increase market price increase as bigger firms are more profitable and have a higher market value

## **5. CONCLUSION AND RECOMMENDATION**

The study concludes that IFRS adoption impacts positively on the market price per share of manufacturing firms in Nigeria due to full disclosure of IFRS both local and foreign investors. Also, the market price per share after the adoption of IFRS is different from quality before IFRS.

Based on the findings of this study the following recommendations are put forward;

Firstly, the study recommends that companies in Nigeria should continue adopting the IFRS and adhere to stipulated requirements of international financial reporting standards in their preparation of financial reporting standards in their preparation and presentation of financial statement as it will positively affect market price per share.

Secondly, all Nigerian companies should ensure to use IFRS represents in the treatment of their financial transactions, thereby ensuring transparency and full disclosure of activities which will attract foreign investors to invest in their companies.

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