

## Investigating Corporate Performance of FMCG Companies before and after the adoption of IFRS in Nigeria

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### **Abstract**

*This study is centered on investigating corporate performance of quoted fast moving consumer goods (FMCG) companies in Nigeria before and after international financial reporting standards (IFRS) adoption. The aim of the study was to utilize selected performance indicators such as firm size, liquidity, leverage and return on assets to examine the behavior of these companies before and after the adoption of IFRS in the Nigeria. The Study was established on institutional theory. Secondary data was adopted from the annual reports of five selected quoted fast moving consumer goods companies in Nigeria. Panel data was employed to analyze the relationship amongst the variables before and after IFRS adoption periods. The findings revealed that before IFRS adoption, there was positive significant relationship between firm size and return on asset; Leverage had negative insignificant relationship with return on assets; liquidity had negative significant relationship with return on asset in FMCG companies in Nigeria. After IFRS adoption, the findings revealed that there was negative significant relationship between firm size and return on asset; leverage also has negative insignificant relationship with return on assets; however, liquidity had positive significant relationship with return on asset in FMCG companies in Nigeria. The study concluded that all variables tested explained the behavior of FMCG companies in the Nigerian financial market before and after IFRS adoption. It was recommended among others that the FMCG companies should endeavor to utilize the opportunity offered by IFRS adoption to enhance their operational activities in order to boost financial performance.*

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**Keywords:** Firm Size, Institutional Theory Liquidity, Leverage, Pre-IFRS adoption and Post IFRS adoption, Return on Assets

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## 1.0 Introduction

The adoption of International Financial Reporting Standard (IFRS) in most countries of the world is an issue of universal significance due to quest for uniformity, reliability and comparability of financial statements of companies and expected improvement in the performance of corporate entities. In the past few years, many developed and developing countries have adopted IFRSs as their basis for financial reporting (Yeboah & Takacs, 2018). There are many possible benefits to be gained from commonly known and respected international accounting standards as the globalization of financial and capital markets is a permanent process (Odia & Ogiedu, 2013). The adoption of unified accounting standards reduces the costs of business operations across borders by reducing the need for complementary information. They make information more comparable, thereby improving assessment and analysis by users of financial statements (Okoye & Akenbor, 2014). Users become more certain of the information they are provided with and most probably, this reduces uncertainty, promotes an efficient allocation of resources and reduces capital costs (Aganga, 2013).

Akinyele (2016) noted that there has been some disagreement to the implementation of IFRS especially for developing nations like Nigeria. It has been argued that Nigeria and many developing nations exhibit weak institutions, unpredictable economic and political environments which undermine the successful implementation of IFRS. Abata (2015) asserted that, there has been the development process of financial reporting standards around the world and its practical results in developing countries. He further posited that Nigeria experienced lots of challenges in the implementation of IFRS. These challenges include the complicated nature of IFRS, difficulties in the application, enforcement issues and possible knowledge shortfall.

Over the years, Nigerian FMCG companies have been perceived to exhibit weak disclosures in financial statements; operational inefficiencies, undercapitalization and a weak corporate governance practice that impedes their performance and makes it difficult to detect problems easily. The quality and standard of financial reporting in Nigerian FMCG companies seems not to match the high standard of reporting in developed countries (Taiwo & Adejare, 2014).

As a result, this study is centered on investigating the performance of quoted fast moving consumer goods companies in Nigeria vis-à-vis the comparative study of pre and post IFRS adoption. Selected performance indicators such as firm size, liquidity, leverage and return on assets were used to examine the behavior of these companies before and after the adoption of IFRS in the Nigeria.

### 1.1 Research Hypotheses Development

The research hypotheses of this study was adapted from the work of Nurunnabi (2015) who examined the implementation of IFRS in Bangladesh using institutional forces and their relationships as the key hypothetical resources. Nurunnabi (2015) highlighted the importance of forced pressures applied by donor institutions such as the World Bank and International Monetary Fund. Furthermore, derivative forces to follow accounting practices in developed nations, along with the legality IFRS confer were acknowledged as important forces for adoption of IFRS.

Similar hypothetical method was used by Tahat, Omran, and AbuGhazaleh (2018) and by Hassan, Rankin and Lu (2014). They focused on institutional pressures that described the decisions of Jordan and Iraq, respectively, to adopt IFRS. Those countries are believed to be reacting to forced pressures arising from the supervisory requirements of key international institutions, such as the World Bank and International Monetary Fund (IMF).

Therefore, the following hypotheses that underpinned the study were based on institutional theory framework and formulated below;

H<sub>01</sub>: Pre- IFRS adoption has no significant effect on performance of quoted of quoted FMCG companies in Nigeria.

H<sub>02</sub>: Post- IFRS adoption has no significant effect on performance of quoted FMCG companies in Nigeria.

## **2.0 Literature Review**

### **2.1 Theoretical Framework**

#### **Institutional Theory**

This study is predicated on institutional theory (IT). The practice of IT to examine changes in organizations date from the mid-1970s; a period when top advocates of IT contended that corporate entities should contemplate on the practical and the institutional environment when anticipating change (Scott, 2001). This demand for a double focus in IT embodied a significant change in thinking and varied significantly from rational-choice theories that had been previously leading. The overall fundamental hypothesis of IT was that organizational structures and procedures are formed mainly by external factors of “social fitness” — and not only by monetary goals of minimizing cost and maximizing profit (Moll, Burns, & Major, 2006).

An IT structure allows stakeholders to have the knowledge of how IFRS have become the international accounting standards. A vital determinant prompting the rise of IFRS is a restructured myth; this means that the standards established in IFRS will enhance the transparency, quality and comparability of financial reports (Lara, Torres, & Vieira, 2008). This invariably means that the interests and desires of main users of financial statements will be better served (Mantzari, Sigalas, & Hines, 2017; Maroun & Zijl, 2016). Certainly, fiscal and monetary alliances among nations assist to have full knowledge of how authority relations and resource dependencies affect decision-making procedure vis-à-vis implementation of IFRS.

For instance, Krishman (2018) argues that India’s resolution to suspend implementation of IFRS was impacted by the cautious approach to the adoption of IFRS by Japan and the United States (India’s major financial and trade associates). These relations counter-balanced the dynamic supported adoption of IFRS by powerful multinational organizations, such as IMF and World Bank. Similar with Mir and Rahaman (2005), these studies debate that various emerging and developing nations adopt IFRS because of the symbolic advantages promised by such adoption.

### **2.2 Empirical Literature**

Hassan (2019) examined the effects of IFRS adoption on the comparability of financial reporting: evidence from Saudi listed companies. The accounting consolidation process designed in accordance with the IASB framework to obtain understandable and comparable information, and increasing the quality of accounting standards is the main driving force of consolidation. Since the accession of Saudi Arabia to the G20, the adoption of international financial reporting standards has considered an important event in the future economic development of Saudi Arabia. Saudi Arabia adopted the International Financial Reporting Standards on 1 January 2017. Financial statements prepared in accordance with IFRS will certainly be more useful to users at the international level, but there is uncertainty about their usefulness at the national level. His study aims to analyze the impact of the adoption of IFRS on the comparability of the financial reports of a sample of companies listed on the Saudi Stock Exchange that are expected to differ significantly from the generally accepted accounting standards in Saudi Arabia. To achieve this objective, the study measured the quantitative impact of the application of IFRS on income figures and financial positions. The results of the study indicate that there are statistically significant differences between the variables resulting from the application of two sets of International Financial Reporting Standards adopted in Saudi Arabia and the Saudi (GAAPs).

Ibanichuka and Asukwo, (2018) statistically examined the effect of International Financial Reporting Standard (IFRS) adoption on the financial performance of petroleum marketing entities in Nigeria. The study was a comparative analysis that assesses corporate performance pre- and post-IFRS adoption in the petroleum marketing sector of Nigeria. A sample size of ten (10) Listed Petroleum Marketing companies in which their data were available on Nigerian Stock Exchange (NSE) as at December 31, 2015 was used. A time series research design was used for this study. One-way Analysis of Variance (ANOVA) and The One Sample t Test were the statistical tools used to test the hypotheses. The test of hypotheses and other breakdown of data were empirically completed by SPSS statistic 20.0. The findings of the study revealed that Pre-IFRS and Post-IFRS adoption have no significant effect on Return on Asset and on Return on equity; however, both Pre-IFRS and Post-IFRS adoption have a significant impact on Earnings Per share. The study concluded that there is no significant relationship between IFRS adoption and corporate performance of petroleum marketing entities in Nigeria. The study recommended that Institutional factors such as the government, financial reporting council of Nigeria, and Accounting Professional bodies should intensify education and training of accountants on IFRS implementation and interpretations. Also, management of corporate organizations should ensure effective and efficient management of resources at their disposal in order to maximize shareholders' wealth.

### 3.0 Methodology

#### Research Design

The research design used in carrying out this research was ex-post facto and cross-sectional design. This is because the data used in this study were examined over a period of time. This type of research design focuses on generalizing the inferences drawn from the sample that is sufficient to represent the whole population of the study, which in this case was quoted FMCG firms in Nigeria. The annual reports of these companies were used in determining the variables during 2007– 2011 (Pre-IFRS adoption) and 2015-2019(Post-IFRS adoption)

#### Sources of Data

The study relied on secondary source of data. Secondary data used in the study were sourced from the annual reports of FMCG companies before and after adopting IFRS.

#### Data Collection Technique

In order to examine the performance of the companies in the two periods, information concerning leverage, liquidity, firm size and return on assets of the firms in Nigeria were retrieved from their annual reports and financial statements during the pre-IFRS adoption period 2007 to 2011 (5 years) and after IFRS adoption period 2015-2019 (5 years).

#### Method of Data Analysis

Panel least square technique i.e. regression analysis was adopted to obtain interpretable findings. The regression outputs were obtained using E-views Statistical Package. The choice of this method was informed by the availability of data on the selected companies.

#### Model Specification

In this section, the model was specified to capture the impact of IFRS adoption on financial performance. For this Study, the model in the work of Olokoyo, *et al* (2016) was adapted to measure the relationship between the variables. Thus, the independent variables were leverage, liquidity, and firm size while dependent variable was return on assets (ROA). Therefore, the model was stated as follow;

$$Y_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 LIQ_{it} + \beta_3 FSZ_{it} + \varepsilon_{it} \dots \dots \dots 3.1$$

$$FPerf = f(LEV_{it}, LIQ_{it}, FSz_{it}) \dots \dots \dots 3.2$$

**Before adoption of IFRS (2007-2011)**

$$ROA_{it} = \alpha + \beta_1 LEV_{it} + \beta_2 LIQ_{it} + \beta_3 FSz_{it} + \varepsilon_{it} \dots \dots \dots 3.3$$

**After adoption of IFRS (2015-2019)**

$$ROA_{it} = \alpha + \beta_1 LEV_{it} + \beta_2 LIQ_{it} + \beta_3 FSz_{it} + \varepsilon_{it} \dots \dots \dots 3.4$$

$\alpha$  = the constant term

ROA = Return on Assets

LEV = Leverage.

LIQ = Liquidity.

FSz = Firm Size.

$\beta$  = the coefficient of the function

e = error term.

**4.0. Results and Discussion of Findings****4.1 Descriptive Statistics****Table 1 Results from Descriptive Statistics (Pre-IFRS Adoption)**

	FIRM_SIZE	LEVERAGE	LIQUIDITY	ROA
Mean	17.62918	0.513135	1.028713	0.128307
Median	17.64775	0.488600	0.895000	0.107500
Maximum	19.35140	1.672000	3.755700	0.489200
Minimum	15.65010	0.000000	0.038700	-0.179900
Std. Dev.	1.204131	0.459290	0.901962	0.176321
Skewness	-0.314797	1.012846	1.787127	0.192737
Kurtosis	2.287601	3.756142	6.719992	3.135226
Jarque-Bera	0.564938	2.921987	16.63352	0.104297
Probability	0.753920	0.232006	0.000244	0.949188
Observations	50	50	50	50

Source: E-views Output, (2020)

**Table 2 Results from Descriptive Statistics (Post-IFRS Adoption)**

	FIRM_SIZE	LEVERAGE	LIQUIDITY	ROA
Mean	17.73420	0.294027	0.781287	0.141720
Median	17.41389	0.280400	0.756500	0.154200
Maximum	19.73797	0.715400	1.823300	0.383400
Minimum	16.02792	0.000000	0.074000	-0.129000
Std. Dev.	1.267220	0.255124	0.426685	0.144872
Skewness	0.211200	0.202825	0.730141	-0.216886
Kurtosis	1.845216	1.622722	3.608499	2.450133
Jarque-Bera	0.944968	1.288404	1.564183	0.306570
Probability	0.623452	0.525082	0.457448	0.857885
Observations	50	50	50	50

Source: E-views Output, (2020)

Tables 1 and 2 above show the results of descriptive statistics test during the Pre-IFRS adoption and Post-IFRS adoption periods utilizing the mean, median, standard deviation, skewness and kurtosis data. The mean values of all the variables as shown in the table ranges from lowest value of 0.1283 for return on assets to the highest value of 17.63 for firm size in the pre-adoption period, and was also revealed in the post-adoption period having the lowest mean

value for ROA (0.1417) and highest mean value for firm size (17.73). The average means values of ROA before the adoption of IFRS and after IFRS adoption were 0.128 and 0.142 standard deviation of 0.176 and 0.145. This implies that before and after the adoption of IFRS, there exists a significant variation in the financial performance of listed FMCG companies in Nigeria.

The mean value of firm size before adopting IFRS was 17.63 with a standard deviation of 1.204 and after adopting IFRS, the mean and standard deviation values were 17.73 and 1.27 respectively. This shows that there is large variation across the sample of listed FMCG companies in Nigeria. Hence, the highly deviated firm size may have significant impact on the financial performance. The mean value of leverage during the pre-IFRS adoption and post-IFRS periods were 0.513 and 0.294. This implies that there were no significant differences among the values of leverage as measured by debt to total equity across the sampled companies and this was confirmed by the standard deviation of 0.459 and 0.255 for the pre and post adoption periods respectively. The analysis of liquidity shows a mean value of 1.03 with the value of standard deviation of 0.920 for the pre-IFRS adoption period and it shows a mean value of 0.781 with a value of standard deviation of 0.427. This implies that liquidity through the analysis of its standard deviation revealed that liquidity of the companies deviates insignificantly from their mean value during the two periods.

A kurtosis with distribution greater than 3 is a leptokurtic distribution whereas 3 is the kurtosis of a normal distribution. A leptokurtic distribution (greater than 3) has a sharper peak with lower probability than a normal distribution of kurtosis whose value is equal to 3. A kurtosis with less than 3 is a platykurtic distribution which has a lower and wider peak with higher probability than leptokurtic and normal distribution. Before adopting IFRS, leverage, liquidity and return on assets have a leptokurtic distribution (i.e a distribution that displays a positive value of excess kurtosis). This is because their kurtosis values (3.76, 6.72 and 3.14) respectively were greater than 3 and they have a very high peakedness while firm size has a platykurtic distribution given that, its kurtosis value of 2.29 is less than 3. After adopting IFRS, only liquidity has a leptokurtic distribution (3.61) while firm size, leverage and return on assets have a platykurtic distribution given their corresponding values of 1.85, 1.62 and 2.45.

As regards skewness, before adopting IFRS, only firm size was negatively skewed at -0.315; this means that its mean value (17.62) is less than its median value (17.65). Leverage, liquidity and return on assets were positively skewed at 1.013, 1.787 and 0.193 correspondingly. After adoption of IFRS, it was revealed that only return on asset was negatively skewed (-0.217) while firm size, leverage and liquidity were positively skewed at 0.211, 0.203 and 0.730 respectively. The positive values of skewness show that, the coefficients of the variables are positive and their means are greater than median values. Moreover, the negatively skewed distribution is an indication that there is greater risk than what the standard deviation measures, while the positively skewed distribution is also showing that there is lower risk than what the standard deviation measures.

It can also be seen that all the variables have 50 observations for pre and post adoptions of IFRS. This can be attributed to availability of information on the variables used in the study. Therefore, this confirms a balanced panel data set.

## 4.2 Correlation Matrix

The correlation matrix tables show the correlation coefficients between the variables under study. Each cell in the table shows the relationship between two variables. This helps to see which pairs have the highest correlation.

**Table 3 Result from Correlation Matrix (Pre-IFRS adoption)**

	FIRM_SIZE	LEVERAGE	LIQUIDITY	ROA
FIRM_SIZE	1.000000			
LEVERAGE	0.562193	1.000000		
LIQUIDITY	0.544395	0.360150	1.000000	
ROA	0.505642	0.464972	0.227434	1.000000

**Source: E-views Output, (2020)**

The Table 3 briefly shows the relationship of variables with each other before the adoption of IFRS. Return on Assets is positively related to Firm size (0.506), leverage (0.465) and Liquidity (0.227). This means that an increase in these independents variables will result in the corresponding increase in financial performance in the proportion of 50.6 per cent, 46.5 per cent and 22.7 per cent, respectively.

**Table 4 Result from Correlation Matrix (Post-IFRS adoption)**

	FIRM_SIZE	LEVERAGE	LIQUIDITY	ROA
FIRM_SIZE	1.000000			
LEVERAGE	0.115820	1.000000		
LIQUIDITY	-0.111526	0.451328	1.000000	
ROA	0.707720	0.194079	0.424574	1.000000

**Source: E-views Output, (2020)**

The Table 4 briefly shows the relationship of variables with each other after the adoption of IFRS. Return on Assets is positively related to Firm size (0.708), leverage (0.194) and Liquidity (0.425). This means that an increase in these independents variables will result in the corresponding increase in financial performance in the proportion of 70.8 per cent, 19.4 per cent and 42.5 per cent, respectively. In general, correlations between independent variables are not high; an indication of absence of multi-collinearity.

The results show that firm size and liquidity contributed higher after adoption of IFRS (70.7 per cent and 42.5 per cent) as compared to the period of pre-IFRS adoption (50.6 per cent and 22.7 per cent) respectively. Only leverage contributed less during post adoption of IFRS at 19.4 per cent as compared to the pre-adoption period at 46.5 per cent. Thus, it implies that the performance of FMCG companies have improved as a result of the adoption and implementation of IFRS in Nigeria.

### 4.3 Analysis of Hausman Specification Test

The Hausman test is sometimes described as a test for model specification. In panel data analysis (the analysis of data over time), this test helps to choose between fixed effects model and a random effects model. The null hypothesis is that the preferred model is random effects while the alternate hypothesis is that the model is fixed effects. The null hypothesis is that there is no correlation between the two. Thus, the decision rule is that, if the p-value is less than 0.05), the null hypothesis is rejected.

**Table 5 Result of Hausman Specification Test (Pre-IFRS adoption)**

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.845600	3	0.2786

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
FIRM_SIZE	0.016090	0.165365	0.066535	0.5628
LEVERAGE	0.000713	-0.013416	0.009293	0.8835
LIQUIDITY	-0.095524	-0.073263	0.000162	0.0804

**Source: E-views Output, (2020)**

Result of the test revealed that before the adoption of IFRS, there was no significant difference between the estimators using either the fixed or random effect model. Furthermore, the result of statistical analysis showed a probability value of 0.2786 which is greater than the benchmark 0.05 level of significance, meaning that the result was not significant and the null hypothesis was accepted. Thus, the result meant that, random effect model was appropriate and it was adopted for the analysis of the study under the pre-IFRS adoption period.

**Table 6 Result of Hausman Specification Test (Post-IFRS adoption)**

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	28.128319	3	0.0000

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
FIRM_SIZE	-0.278200	0.068826	0.004895	0.0000
LEVERAGE	-0.175282	-0.170360	0.004134	0.9390
LIQUIDITY	0.164546	0.263701	0.000814	0.0005

**Source: E-views Output, (2020)**

Result of the Hausman Specification test after IFRS adoption revealed that, there also was significant difference between the estimators using either the fixed or random effect model. Also, the result of statistical analysis showed a probability value of 0.0000 which is less than the benchmark 0.05 level of significance, meaning that the result was significant and the null hypothesis was rejected. Thus, the result meant that, fixed effect model was appropriate and it was adopted for the analysis of the study under the post-IFRS adoption period.

#### 4.4 Testing of Hypotheses

The hypotheses developed for this study were independently tested against the results of the statistical analysis carried out on the data of the companies. To achieve this, the panel regression analysis was adopted. Regression analysis is a set of statistical techniques used for



the estimation of relationships between a dependent variable and one or more independent variables. It can be utilized to measure the power of the relationship between variables and for modeling the future relationship between them.

### Hypothesis One

**H<sub>01</sub>:** Pre- IFRS adoption has no significant impact on performance of quoted FMCG companies in Nigeria

**Table 7 Hypothesis One Result using Panel Random Effect Test**

Dependent Variable: ROA

Method: Panel EGLS (Cross-section random effects)

Date: 11/12/20 Time: 02:00

Sample: 2007 2011

Periods included: 10

Cross-sections included: 5

Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FIRM_SIZE	0.165365	0.016308	10.14001	0.0000
LEVERAGE	-0.013416	0.038444	-0.348962	0.7337
LIQUIDITY	-0.073263	0.019300	-3.795913	0.0030
C	-2.704698	0.270573	-9.996186	0.0000
R-squared	0.921269	Mean dependent var	0.128307	
Adjusted R-squared	0.899797	S.D. dependent var	0.176321	
S.E. of regression	0.055814	Sum squared resid	0.034267	
F-statistic	42.90564	Durbin-Watson stat	2.097429	
Prob(F-statistic)	0.000002			

**Source: E-views Output, (2020)**

Results of the statistical analysis shown in table 7 during the pre-IFRS adoption period reveal that there was positive significant relationship between firm size and return on asset in FMCG companies in Nigeria. This was evident from the coefficient (0.165) and P-value (0.000) associated with firm size which was less than the benchmark of 5 per cent specified for this analysis. This outcome basically implies that, with all other variables held constant, an increase or a change in the firm size by one unit resulted in a 0.165 unit increase in the financial performance of listed FMCG companies operating in Nigeria. Leverage has negative insignificant relationship with return on assets. This was revealed by the coefficient of -0.0134 and p-value of 0.7337. This implies that with all other variables held constant, an increase or a change in leverage by one unit resulted in a 0.0134 unit decrease in the financial performance of listed FMCG companies in Nigeria. In the same vein, liquidity had negative but significant relationship with return on asset as revealed by the coefficient (-0.0733) and p-value (0.003). This indicates that an increase in liquidity by one unit, financial performance decreases by 0.0733 unit.

Furthermore, findings from the panel data regression analysis using fixed effect model for the selected firms as shown in table 4.7 indicated that, the R-squared of the variables was 0.921269. This is the coefficient of determination, which denotes a goodness of fit measure for linear regression models and specifies the percentage of the variance in the dependent variable that the independent variables explain collectively. As a measure of the overall fitness of the model,

the R-squared indicated that, the model was capable of explaining 92 per cent of the systematic variation in the value of the dependent variable which could be traced to the independent variables and that about 8 per cent of the variations in performance were accounted for by other factors not captured by the model. This result was complimented by the adjusted R-squared of 90 per cent, which was the proportion of total variance that could be explained by the model. Similarly, findings from the Fishers ratio (i.e. the F-Statistic) which is a proof of the validity of the estimated model presented a p-value of (0.00002) which is less than 0.05; this invariably suggested clearly that simultaneously, the independent variables (firm size, liquidity and leverage) were significantly associated with the dependent variable (return on assets). In effect, these independent variables strongly have impact on the financial performance of quoted FMCG companies in Nigeria. This implies that in the pre-adoption of IFRS era, firm size, leverage and liquidity jointly contribute significantly to the financial performance of FMCG companies in Nigeria. Hence, the null hypothesis which states that “Pre-IFRS adoption has no significant effect on financial performance of quoted FMCG companies in Nigeria” was rejected and it is concluded that Pre- IFRS adoption has significant effect on performance of quoted FMCG companies in Nigeria.

### Hypothesis Two

**H<sub>02</sub>:** Post- IFRS adoption has no significant impact on performance of quoted FMCG companies in Nigeria.

**Table 8 Hypothesis Two Result using Panel Fixed Effect Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FIRM_SIZE	-0.287647	0.089659	-3.208235	0.0238
LEVERAGE	-0.174227	0.105592	-1.650009	0.1599
LIQUIDITY	0.161049	0.048075	3.349939	0.0203
C	5.168306	1.608278	3.213566	0.0236
R-squared	0.977355	Mean dependent var	0.141720	
Adjusted R-squared	0.936593	S.D. dependent var	0.144872	
S.E. of regression	0.036480	Akaike info criterion	-3.549393	
Sum squared resid	0.006654	Schwarz criterion	-3.077360	
Log likelihood	36.62045	Hannan-Quinn criter.	-3.554421	
F-statistic	23.97735	Durbin-Watson stat	2.489959	
Prob(F-statistic)	0.001358			

### Source: E-views Output, (2020)

Results of the regression analysis shown in table 8 after IFRS adoption period reveal that there was negative significant relationship between firm size and return on asset in FMCG companies in Nigeria. This was evident from the coefficient (-0.288) and P-value (0.0238) associated with firm size which was less than the benchmark of 5 per cent specified for this analysis. This result

implies that, with all other variables held constant, a change in the firm size by one unit resulted in a 0.288 unit decrease in the financial performance of listed FMCG companies operating in Nigeria. Leverage also has negative insignificant relationship with return on assets. This was revealed by the coefficient of -0.174 and p-value of 0.1599. This implies that with all other variables held constant, a change in leverage by one unit resulted in a 0.174 unit decrease in the financial performance of listed FMCG companies in Nigeria. However, liquidity had positive significant relationship with return on asset as revealed by the coefficient (0.161) and p-value (0.0203). This indicates that an increase in liquidity by one unit, financial performance increases by 0.161 unit.

Additionally, findings from the panel data regression analysis using fixed effect model for the selected firms as shown in table 4.7 indicated that, the R-squared of the variables was 0.977. After the adoption of IFRS, the R-squared indicated that, the model was capable of explaining 97.7 per cent of the systematic variation in the value of the dependent variable which could be traced to the independent variables and that only about 3 per cent of the variations in financial performance were accounted for by other factors not captured by the model. This could mean that, after adopting IFRS, the variables have improved in explaining the variations in financial performance of FMCG companies. This result was complimented by the adjusted R-squared of 93.7 per cent.

Similarly, findings from the Fishers ratio (i.e. the F-Statistic) which is a proof of the validity of the estimated model presented a p-value of (0.001358) which is less than 0.05; this invariably suggested clearly that simultaneously, the independent variables (firm size, liquidity and leverage) were significantly associated with the dependent variable (return on assets). In effect, these independent variables strongly have impact on the behaviour of financial performance in quoted FMCG companies in Nigeria after the adoption of IFRS in Nigeria. Hence, the null hypothesis which states that “Post-IFRS adoption has no significant effect on financial performance of quoted FMCG companies in Nigeria” was rejected. Thus, Post-IFRS adoption has significant effect on financial performance of quoted FMCG companies in Nigeria.

#### **4.5 Discussion of Findings**

##### **Hypothesis One**

From the findings made in hypothesis one, it was revealed that, during the pre-IFRS adoption, there was a positive significant relationship between firm size and financial performance. This was evident from the P-value (0.000) associated with firm size which was lower than the benchmark of 5 per cent specified for this analysis. This implies that, before adoption of IFRS, the increase in the companies' size increases their performance. This is a clear signal of the fact that the increase in size of firms brings about economies of scale and as a result, enhances the level of performance. This study is consistent with the findings in the work of Dioha, Mohammed, and Okpanachi, (2018). Their result signified that firm size had a positive significant effect on profitability of listed consumer goods firms in Nigeria, that is, the greater the size of a firm, the higher its reported profitability. The finding supports the resource based theory which articulates a positive and significant relationship between firm size and financial performance of a firm.

Leverage was statistically insignificant and has negative relationship with financial performance given its corresponding coefficient of -0.0134 and p-value of 0.7337 which is higher than the 0.05 benchmark specified for the analysis. The negative relationship indicates that, the higher the leverage, the lower the financial performance of these companies implying that before adopting IFRS, highly levered firms were less profitable. The leverage level of the FMCG companies affect their performance and that, high profitable FMCG companies rely more on internal financing. It can further be inferred that the ability of FMCG companies to meet their long term debts from its total asset may be as a result of an efficient management of

its resources and not necessarily as a result of the adoption of International Financial Reporting Standard compliant set of financial statement. This result supports the finding of Abubakar (2017). His findings revealed that leverage has an insignificant negative effect on the financial performance measured by return on assets. However, the result on leverage and financial performance does not support the resource based theory which postulate that greater leverage brings about higher profitability.

There was a negative significant relationship between liquidity and financial performance. This means that the higher the liquidity position of the firm, the lower the reported financial performance as measured by return on assets. This was evident from the negative coefficient (-0.0732) and P-value (i.e.  $0.0030 < 0.05$ ) associated with liquidity which was lower than the benchmark of 5 per cent specified for this analysis. This implies that, there is a tradeoff between liquidity and financial performance meaning that FMCG companies that are highly liquid tend to have idle cash that could have been directed to profitable investments. Also, high liquidity serves as motivation for managements to pursue self-enhancing activities such as increase in incentives and executive compensations for themselves which may not be corresponding with current performance of their companies. Consequently, FMCG companies that are highly liquid may indicate that, management exhibits inefficiency in directing the firms' resources to maximizing projects. This result is in agreement with Dioha, Mohammed, and Okpanachi, (2018). On the contrary, Nyamiobo, Muturi, Okibo, and Olweny, (2018) found that liquidity has positive significant impact on financial performance of deposit money banks. They believed that companies maintain adequate liquidity to meet their daily demand as they arise because adequate liquidity helps these companies to minimize liquidity risk and financial crises. It can also be deduced that the more liquid companies are, the more the returns on their assets.

Despite the above findings from the individual parameters, the overall result of hypothesis one reveals that the independent variables (firm size, leverage and liquidity) jointly have significant impact on the financial performance measured by return on assets during the pre-IFRS adoption period. The findings are in agreement with the work of Olokoyo *et al*, (2016) and Akinleye, (2016). The implication of this assertion is that in the pre-adoption era, firm size, leverage and liquidity were good indicators that can be used to explain the reason for changes in performance of FMCG companies.

## Hypothesis Two

The findings made in hypothesis two deduced that, after the adoption of IFRS, there was a negative significant relationship between firm size and financial performance. This was evident from the P-value (i.e.  $0.0238 < 0.05$ ) associated with firm size which was greater than the benchmark of 5 per cent specified for this analysis. This implies that, in the IFRS complaint financial statements of FMCG companies, as firm size increases, the financial performance reduces, meaning that as these companies grow, most times, it becomes difficult for owners to monitor and control unusual behavior by managers. These managers tend to pursue size related objective rather than wealth related objective that is, maximizing shareholders wealth. The result in this Study is similar to the work of Aza (2018) who examined influence of firm size on financial performance. In his work, the firm size proxied by log of total assets represents the explanatory variable while the financial performance measured by profitability proxied by return on asset is the dependent variable. The findings of the study indicated that firm size negatively influenced financial performance as a result of diseconomies of scale. Also, Hassan (2014) found out that firm size has a negative influence on earnings quality of listed oil and gas companies in Nigeria.

After, the adoption of IFRS, leverage still remained statistically insignificant and has negative relationship with financial performance given its corresponding coefficient of -0.174 and p-

value of 0.1599 which is higher than the 0.05 benchmark specified for the analysis. This is similar to the findings during the pre-IFRS adoption era. This shows that adoption and presentation of IFRS complaint financial statement was not the reason for the efficient management of debts of deposit money banks but this may be attributable to other reasons like management efficiency, good corporate governance and regulatory and surveillance functions of the Central Bank of Nigeria.

Post-IFRS adoption results showed that liquidity became positively significant. This means that the higher the liquidity position of the firm, the higher the reported financial performance as measured by return on assets. This was evident from the negative coefficient (0.161) and P-value (i.e.  $0.0203 < 0.05$ ) associated with liquidity which was lower than the benchmark of 5 per cent specified for this analysis. This implies that, managements of these companies have exhibited efficiency in directing the firms' resources to maximizing projects. Also, they have been able to maintain adequate liquidity to meet their daily demand as they arise since adequate liquidity helps these companies to minimize liquidity risk and financial crises. Despite the above findings from the individual parameters, the overall result of hypothesis two reveals that the independent variables (firm size, leverage and liquidity) jointly have significant impact on the financial performance measured by return on assets after IFRS adoption. The findings are also in agreement with the results of Olokoyo *et al*, (2016) and Akinleye, (2016). However, the findings contradict the result in some prior researches like Ibanichuka and Asukwo, (2018) and Aseoluwa and Jelili, (2017). They argued that the performance of Nigerian quoted FMCG companies is not significantly dependent on the International Financial Reporting Standards' (IFRSs) adoption however; the adoption is appropriate because of the various benefits accruing to such.

## 5.1 Conclusion

From the result of the analyses carried out, it was concluded from this study that all variables tested explained the behavior of FMCG companies in the Nigerian financial market before and after IFRS adoption. Thus, none of the variables tested in this study is less important than the other. In the same vein, from the panel fixed effect test, the overall model is significant. This was evident from the P-values associated with the pre and post IFRS adoption variables which were lower than the benchmark of 5 per cent specified for the analysis. Invariably, the International Financial Reporting Standards (IFRSs) are perceived as high quality accounting standards when compared to most local standards, and that could assist in fostering increased comparability of financial statements by investors. This study concludes that the adoption of IFRS by Nigerian FMCG companies is worthwhile as revealed in extant literature because, it enhances better accountability, comparability, transparency and as well, improves the financial performance of these companies not only from the view point of the companies' shareholders but also from that of the stakeholders such as managers, customers, employees and regulatory bodies.

## 5.2 Recommendations

The following recommendations were made as regards the study:

1. Regulatory authorities in Nigeria should make deliberate campaigns on the significant impact of adopting IFRS. The FMCG companies should endeavor to utilize the opportunity offered by IFRS adoption to enhance their operational activities in order to boost financial performance. FMCG firms can achieve this by embarking on re-training programs for accountants in their employment to facilitate the acquisition of requisite skills in handling the preparation of IFRS based financial statements.
2. IFRS should be made mandatory in the Accounting curriculum of all tertiary institutions and accounting professional institutes to heighten massive educational training and

retraining for students and professionals through continuing professional development programmes.

3. The managements of FMCG companies should carefully make their decisions in respect to leverage. During the pre and post IFRS adoption, leverage has shown negative impact on financial performance, thus, the financing decision of the companies should be more of equity capital through issuing of more shares in the capital market than debt in order to avoid high leverage, thereby leading to excessive loans and debentures and low profitability.

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