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INFLUENCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON SHARE PRICES OF NIGERIAN QUOTED OIL AND GAS FIRMS

SANNI Michael Rotimi (Ph.D) (Corresponding Author), +2348035629290. babasanni2@gmail.com Department of Accountancy. The Federal Polytechnic, llaro, Ogun State, Nigeria.

OLOWOOKERE Johnson Kolawole (Ph.D) +2348073424693. johnson.olowooker@uniosun.edu.ng Department of Accounting. Osun State University, Okuku Campus, Osun State, Nigeria.

OJEDELE Mofoluwaso Iyabode (Ph.D) +2348030677028, gjedelem@run.edu.ng. Department of Accounting, Redeemer's University, Ede, Osun State.

ABSTRACT

This paper examined the influence of IFRS on share prices of Nigerian quoted Oil and Gas firms after the adoption of the standards in 2012. Paired sample t-test statistics was used to analyse the share prices of eight out of the twelve quoted Nigerian Oil and Gas firms for three years (2009-2011) pre-IFRS adoption period and three years (2012-2014) post IFRS adoption period. Findings showed that the share prices declined marginally by 1.78% during the six-year period and that the decline is not statistically significant (p=0.924) at 0.5 significant level. There is a positive (0.638) and significant (p=0.001) correlation between share prices in the two periods. These findings are consistent with existing studies which posit that the mere adoption of IFRS does not necessarily translate into improvement in the quality of financial reports and share price increase in the short run as other factors outside the adoption of the standards equally affect share prices. The study therefore recommends the use of appropriate discretions by management and provision of enabling environment by government for the full benefits of the adoption of the standards to be reaped.

Key words: International Financial Reporting Standards, Quoted Oil and Gas Firms, Quality Share prices

INTRODUCTION

International Financial Accounting Standards (IFRS) harmonise accounting practices worldwide for proper understanding and meaningful interpretation of financial statements for better decision making (Sanni, 2014). Until the advent of IFRS, financial statements were prepared based on the provisions of country specific local Generally Accepted Accounting Principles (GAAPs) and International Accounting Standards (IAS) (Tudor & Dragu, 2010). This did not make uniformity in financial statements possible as differences arose due to differences in business structures, tax and legal systems (Demaki, 2013).

The major reason for the harmonisation of accounting standards was for easy comparison. This would enable preparers and users of financial statements to stick to only a single procedure instead of the former multiple procedures (Tudor & Dragu, 2010). The adoption or otherwise of IFRS by developing countries has been controversial as these countries were not considered to be on the same economic pedestal like their developed counterparts. The controversy notwithstanding, some developing countries, Nigeria inclusive, went ahead to embrace the standards (Sanni & Ahmed, 2017). The adoption of IFRS became mandatory in Nigeria in 2012 and one of the 'public listed entities' that kick started the adoption was the Oil and Gas industry (Sanni, 2015).

It is generally believed that financial reports prepared with the provisions of IFRS should be more reliable and preferred in capital markets due to more relevant accounting information (Godfrey, 2014, Samper, 2008). This is based on the quality of required disclosures associated with the adoption of IFRS. It is however highly debatable whether IFRS is really superior to domestic GAAP (Barth, Landsman & Lang 2007). This is due to the fact that IFRS, which is principles based, allows more discretions than the local GAAP and these discretions if not properly monitored and utilized, might lead to a decline in the quality of financial statements.

It is not surprising therefore that Clarkson, Hanna, Richardson and Thompson (2011) find that IFRS adoption has failed to enhance the quality of financial reporting and share price. In fact, critics of IFRS such as and Erick (2011); Barth et al (2007); Bartov, Goldsberg and Kim (2005) argue that there is no conclusive evidence that the standards have contributed to improvements in accounting quality.

Most of the few research studies on the evaluation of the adoption of IFRS in the Oil and Gas industry in Nigeria do not consider the quality and share prices of financial reports. They include Elumilade & Sanni (2016); Sanni (2015b); Bala (2013); Tanko (2013) and Umoren (2009). It therefore becomes imperative to fill this gap.

LITERATURE REVIEW

Conceptual Review

International Financial Reporting Standards (IFRS)

IFRS stands for International Financial Reporting Standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Bala, 2013).

Onalaka, (2014) defined International Financial Reporting Standards (IFRS) a series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help preparers of financial statements throughout the world, produce and present high quality, transparent and comparable financial information.

Since 2001 International Financial Reporting Standards (IFRS) are being developed and approved by the International Accounting Standards Board (LASB) The LASB is a stand-alone, privately funded accounting standard setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards Committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in Londen, the IASB assumed accounting standard setting responsibilities from the IASC in 2001 (Onulaka, 2014).

Theoretical Review

Two theories are relevant for this research work. These are Network Theory and Value Relevance Theory.

Network Theory

This theory suggests that two factors should be considered when a product like IFRS is to be adopted. These are the intrinsic value of the product and the value of the product's network (the value of other people using it) (Adereti & Sanni, 2016; Sanni, 2014), IFRS should therefore be adopted if and only if the combined value of the intrinsic value and the value of IFRS network is greater than the value of the local GAAPS. This should lead to an improvement in the profitability of firms that adopt the superior standard.

Value Relevance Theory

This theory measures market's reaction to accounting events or accounting information. Accounting information provides an insight into information not anticipated by the market and such information is value relevant if it is capable of influencing the market (Barth, Beaver & Landsman, 2001). The aim of IFRS is to reduce information asymmetry between equity investors and management and as such assist investors in valuing the firm. If this is achieved, the market should react favourably to such information.

Empirical Review

The perceived limitations noticed in the use of GAAPS increased risks faced by investors globally as financial statements are prepared differently thus making it difficult to make economic and financial decisions. Differences in GAAPs affect the credibility and importance of accounting information as demonstrated by Hung (2001); Ali & Hwang (2000) Pope & Walker (1999) and Pope & Walker (1999), Financial statements prepared on the basis of IASS provide books values which are almost the same as economic reality than those prepared with German GAAPS (Hung, 2001). This was also confirmed by Chan and Seow (1996 cited in Olta, Boumediene and Salem, 2013) for a sample of US companies. Such differences were caused due to differences in tax laws, social rules and policies, governmental body, the culture and economic rules among countries (Nobes, 1998; Hellman, 1993 and Gray, 1980). With the same idea, Ball (2006) explains that the adoption of these standards enable entities to present more complete and better quality financial statements. The adoption of IFRS therefore enables entities to present better comprehensive quality financial statements (Ball, 2006). They afford investors and financial analysts better understanding of economic realities (Dumontier & Maghraoui, 2006).

The adoption of IFRS is noted for the production of timely, accurate and comprehensive accounting information that can lead to a better valuation of equity market and lower risk for investors (Cheong, Kim & Zurbruegg, 2010; Barth et al, 2008). Studies by and Clarkson, Hanna, Richardson and Thompson (2011), Goodwin, Ahmed and Heaney (2008), Chalmers, Clinch and Godfrey (2008) that compared accounting information prepared under Australian GAAP with IFRS by listed Austrian companies before and after the adoption of IFRS show that the adoption of the standards does not improve the quality of financial statements. Findings by Chalmers, Clinch and Godfrey (2011) that use a longitudinal study however suggest that earnings became more value-relevant at the adoption of IFRS and that IFRS adoption affects the relationship between accounting information and market value.

In contrast, empirical evidence in Burgstahler, Hail and Lenz (2006), Street and Gray (2001) and Cairns (1999) suggest that the mere adoption of higher-quality accounting standards does not translate into higher-quality financial reporting, These results raise the question as to whether improvement in accounting standards can lead to improvements in financial reporting quality in emerging countries. Much of the research to date on this question relates to IFRS adoption and focuses on relatively developed European economies (e.g., Callao, Jarne & Lainez, 2007). An exception is Ismail, Dunstan and Van (2010), who address the impact of IFRS adoption within the context of Malaysia, an emerging economy. They find that the adoption of IFRS, referred to as Financial Reporting Standards (FRS) in Malaysia, lead to an improvement in disclosure quality in terms of lower absolute accruals and higher value relevance of earnings. This evidence suggests that accounting standards can positively impact the quality of accounting outcomes, even in emerging economies (Bova & Pereira, 2012). Though Habib (2004). Ashbaugh and Pincus (2001) do not see any reason for the justification for the adoption of IFRS due to the existence of an interaction between GAAPS and socio- economic factors peculiar to each country, they conclude that a global adoption of the standards would be difficult to achieve in spite of the envisaged improved quality in financial statements often sought by investors.

Two different sets of empirical studies can be identified from literature. The first set of empirical studies is on net income or unexpected dividend payment. This dominated by the works of Beaver, McAnally & Stinson (1997). Collins & Kothari (1989), Ball & Brown (1968). It provides explanatory power of accounting and financial performance. The second set which uses a stream of accounting ratio dicators is advocated in the studies of Nafti & Baccouche, (2007) and Lev & Thiagarajan, (1993). These ratios measure the possible relationship between these Indicators and the value of output.

The use of IFRS allows providers of financial statements a lot of freedom to choose and the application of any standard requires the approval of management, thus enabling management to choose those that will comply with necessary rules. Management can therefore choose those that can provide more information that can positively enhance market response (Sampers, 2008). Samper (2008) argues further that the choice of the most informative form of financial reports depends on extraneous factors like the legal environment, the capital market in which an organisation operates as well as its corporate governance structure. Therefore, a change over to IFRS does not translate to an automatic improvement in the quality of financial reports. This view was collaborated by Tang et al. (2009); Daske et al. (2007), Soderstrom and Sun, (2007).

Most of the research works on the evaluation of the adoption of IFRS in Nigeria are not specific to the Oil and Gas industry. Such works include Sanni and Ahmed (2017): Adeosun (2015 in Sanni, 2015a); Asian and Dike (2015) and Obadimu (2015); Sanni (2014); Odia and Ogiedu (2013); lyoha and Faboyede (2011); Onulaka (2012); Okpala (2012); Owolabi and Iyoha (2012): Tanko (2012). The few research studies on the evaluation of the adoption of IFRS in the Oil and Gas industry in Nigeria are presently too narrow as they do not consider the quality of financial reports. They include Elumilade and Sanni (2016); Sanni (2015b), Bala (2013); Tanko (2013); Umoren (2009). Though Ibiamke and Abayam (2012)'s research on the impact of International Financial Reporting Standards on value relevance of accounting in Nigeria using 35 Nigerian quoted companies, the study is not exclusive to the Oil and Gas alone. Again, the work uses regression analysis and 'same year approach' which the present work considers inadequate.

METHODOLOGY

The focus of this research work is on Oil and Gas industry in Nigeria because the industry is the single most important sector in the Nigerian economy and provides about 90% of its total exports (Mories, 2010). What affects the industry will definitely have ripple effects on the economy and investigating the effect of the adoption of IFRS on the Oil and Gas industry is like investigating the Nigerian economy itself as observed by Bala (2013).

This study is limited to a single industry setting in order to hold constant certain institutional macro and micro economic factors such as stock listing requirements, political and economic risk exposure, market microstructures and regulatory environments that may confound the results, thereby strengthening the reliability of the findings as it has been suggested in the literature (Barth et al, 2008). It is also restricted to a short-time period of three years.

A period of six years (2009-2014) was chosen because the implementation of IFRS became mandatory in Nigeria in 2012. The period from 2009-2011 is for three years pre-adoption period while 2012-2014 is for three years post adoption period. The choice of equal pre and post adoption periods is suitable for the model to be used for data analysis of this research work. It is also in line with the works of Sanni & Ahmed (2017); Elumilade & Sanni (2016); Sanni (2015a); Olfa, Emma & Salem (2013); Wen, Michelle & Judy (2012).

The population of this study entailed all the twelve quoted Nigerian Oil and Gas firms. Eight of them (representing 67%) were purposely selected based on availability of their published financial statements for the entire period under review. The companies are: Conoil Ple; Eterna Oil and Gas Plc; Forte Oil Ple; Japaul Oil and Marine Services Ple; Mobil Oil Nigeria Plc; MRS Oil Nigeria Plc; Oando Nigeria Plc and Total Nigeria Plc.

Measurement of Variables

The Market values of shares before and after the adoption of IFRS were used to measure the quality of financial statements after the adoption of IFRS. This is because share prices capture all relevant information relating to an organization and are used to measure the quality of financial reports as demonstrated in the literature and used by Sanni, (2017), Ibiamke & Abanyam, (2012).

Model Specification

The model used for this research work is Paired Sample t-test Statistics. The purpose of this technique is to test the significant differences between two group means from data that have been gathered by means of a related measures design (Sabine & Brian 2004 in Elumilade & Sanni, 2016).

T-test was employed to address research questions that focus on the differences in the means on one dependent variable produced by one independent variable with two levels. The model had been used by Sanni (2015a); Sanni, Adereti and Ebo (2012); Sanni and Adeyemi (2011); Sanni (2010); Sanni (2009); Sanni and Adereti (2009). Our concern here is with change in a single variable observed at two points in time.

A paired r-test was used to compare the means of two populations when samples from the populations are available, in which each individual in one sample is paired with another individual in the other sample.

If the values of the variables of interest y for the members of the ith pair in groups I and 2 are denoted as yli and y2i, then the differences di = y1i - y2i are assumed to have a normal distribution.

The null hypothesis here is that the mean difference is zero, i.e., Ho: μd = 0. The paired t-statistic is:

$$t= \frac{d}{Sd/\sqrt{n}} \text{ .... Equation 1}$$

Where:

d is the mean difference between the paired groups and sd is the standard deviation of the differences di and n the number of pairs. Under the null hypothesis, the test-statistic has a t-distribution with n - 1 degree of freedom.

A 100(1-a)% confidence interval can be constructed as follows:

d+taSd $\sqrt{n}$ ………………………………………………………….. Equation 2

Where ta is the critical value for a two-sided test with n - 1 degrees of freedom. The two equations has been summarized thus by Sabine and Brian (2004).

$$t_{cal} = \frac{Mp - Mb}{\sqrt{\frac{Vp}{np} \quad \frac{Vb}{nb}}}$$ ………………………………………….Equation 3

Where:

t_{cal}t = t calculated.

Mp = Mean of post adoption period.

Mb = Mean of pre-adoption period.

Vp = Variance of post adoption period.

Vb = Variance of pre-adoption period.

np = Number of post adoption period.

nb = Number of pre-adoption period,

RESULTS AND DISCUSSIONS

Results

Share prices of the selected Nigerian quoted Oil and Gas companies fell marginally by 1.78% from 62.9883 in the three-year (2009-2011) pre-IFRS adoption period to 61.8883 in the three-year (2012-2014) post-IFRS adoption period (Table 1).

Table 1: Paired Sample Statistics

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 Post IFRS	61.883	24	67.28532	13.73456
Pre IFRS	62.9883	24	64.30394	13.12599

Source: Authors, 2018

There was a significant (p= 0.001) positive correlation (0.638) between the share prices in two periods (Table 2).

Table 2: Paired Sample Correlations

Paired Samples Correlations

	N	Correlation	Sig
Pair 1: Post IFRS & Pre IFRS	24	.638	.001

Source: Authors, 2018

The paired mean difference of the two periods was -1.100 and it is not statistically significant at 0.05 (p=0.924) (Table 3). This means that the mean of Post-IFRS period was 1.100 less than that of the Pre-IFRS period, though not statistically significant.

Table 3: Paired Samples Test

Paired Samples Test

	Paired Differences					t	df	Sig, (2 -tail
	Mean	Std. deviation	Std. Error Mean	95% Confidence Interval of Difference Lower	Upper			
Pair 1 Post IFRS - Pre IFRS	-1.100000	56.01073	11.43314	-24.75126	22.55126	-.096	23	.924

Source: Authors, 2018

Discussions

Year 2012 was IFRS adoption year. The share prices of all the selected companies fell at the end of the year, contrary to a priori expectation (Figure 1) (not shown), that of MRS Nigeria Plc having the highest decrease of 46.78%, followed by Oando Nigeria Ple (33.10%) and Total Nigeria Plc (29.29%) (Figure 2) (not shown).

Many factors were responsible for the fall in share prices and might not be solely attributed to the adoption of IFRS.

The global economic meltdown had negative effect on the Nigerian economy in 2012 as the country's GDP declined by 6.6% in that year. Inflation also increased from 10,9% in 2011 to 12.2% in 2012. Oil growth, according to Otedola (2013) remained negative during the year due to declining national production and limited investments in the sector. The downstream petroleum sector thus remained a low- margin but capital intensive one.

Oil and Gas industry was also affected by its operating environment in 2013. The country's real GDP recorded a moderate growth of 6.99% year-on-year (y/y) in 2013 compared to 6.58% yly in 2012. The Oil marketing sector growth remained negative; declining further to 0.53% in 2013 from 0.91% in 2012 (Otedola, 2014).

These notwithstanding, the share prices of six of the companies increased at the end of the year (2013), the highest of 811.34% by Forte Nigeria Plc (Figure 2) and the least of 27.82% by Total Nigeria Plc (Figure 2). The share prices of four of the companies increased in 2014 while those of the remaining four companies decreased. The highest increase of 120.87% was recorded by Forte Nigeria Plc (Figure 2) while the least increase of 22.25% was by Conoil Nigeria Plc (Figure 2). The worst decrease of 33.6% was by Eterna Oil Nigeria Plc. In general, the share prices of all the firms fell in 2012 year end, the IFRS adoption year, leading to a drastic fall of 23.3% in the average share price. It is to be noted however that the average share price increased steadily during the Post IFRS period, firstly to N61.90 (44%) in 2013 and to N81.15 (31.1%) in 2014. These notwithstanding, the share prices are yet to reach the pre-IFRS adoption level.

Share price movements as opined by Sanni and Ahmed (2017) and Aldin, Dehnavi and Entezari (2012), are likely to be influenced by many macroeconomic factors including political events, firms' guidelines, general economic situations, inventory price index, investors' expectations, institutional investors' selections and psychological factors.

Proponents of efficient market hypothesis are of the view that stock prices would be determined primarily by fundamental factors such as earnings per share. dividend per share, payout ratio, size of the firm and dividend yield, management and diversification (Inyiama, 2014; Srinivasan, 2012). However, sequel to information asymmetry, stock market information may not be available to all stakeholders at the same time. Citing Copeland and Weston (2005), Khan (2009) submitted that the source of the information asymmetry is the superior knowledge that managers have about the firm's prospects, while the investors in the firms comprise the uninformed group, which unfortunately may make wrong investment decisions.

The findings of this study are in conformity with the works of Clarkson et al, (2011) and Erick (2011); Barth et al. (2007): Bartov et al. (2005) which found that IFRS adoption fails to enhance the quality of financial reporting in influencing increase in share prices though in the short run. They are also in conformity with the works of Clarkson, Hanna et al, (2011); Chalmers et al,

(2008) and Goodwin et al, (2008). Empirical evidence in Burgstahler et al, (2006); Street and Gray (2001) and Cairns (1999) suggest that the mere adoption of higher-quality accounting standards does not necessarily translate into higher-quality financial reporting and improvement in share prices in the short run as other factors outside the adoption of the standards affect share prices. This was established by the present study.

The findings however negate the works of Bova and Pereira (2012); Ibiamke and Abayam (2012); Ismail, Dunstan et al, 2010; Chan and Seow 1996 (in Olfa et al, 2013).

CONCLUSION

The conclusion that can be drawn from this work is that market may not react favourably to improved information provided in financial statements which may lead to improvement in share prices on the adoption of IFRS in the short run.

RECOMMENDATIONS

IFRS are principles based and allow more discretions than the local GAAPS. These discretions if not properly monitored and utilized, might lead to a decline in the quality of financial statements. This study therefore recommends the use of appropriate discretions in the use of the standards in order to reap the full benefits of their adoption. It also recommends the formulation of good economic policies and provision of enabling environment by government as share prices do not depend on the adoption of IFRS alone but also on other micro and macro-economic variables.

LIMITATION OF THE STUDY

The major limitation of this work is that it is restricted to a short-term period of three years. If longer periods and other model specifications had been used, the findings might have been different; hence the need for future studies in these areas.

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