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Moderating Effect of IFRS Compliance on the Relationship between Ownership Structure and Financial Reporting Quality

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Abstract
This study investigates the moderating effect of International Financial Reporting Standards (IFRS) on the relationship between corporate governance, specifically ownership structure, and financial reporting quality in listed non-finance firms in Nigeria. Utilizing an ex-post facto research design, the study drew its data from 67 non-finance firms listed on the Nigerian Exchange Group over a ten-year period (2012-2021). The study employs purposive sampling and hierarchical regression analysis to explore the complex connection between IFRS adoption and ownership structures, revealing that IFRS plays a significant role in enhancing the quality of financial reporting. The findings indicate that while ownership concentration may weaken financial reporting quality in the absence of IFRS, the adoption of IFRS significantly moderates this effect, leading to improved transparency and reduced earnings manipulation. This study contributes to the existing literature by providing empirical evidence from a less developed market context, emphasizing the critical interaction between global accounting standards and corporate governance mechanisms. The study concludes that robust enforcement of IFRS compliance, combined with targeted capacity building for financial professionals, is essential to ensure high-quality financial reporting in Nigeria. Key implications include the need for enhanced regulatory oversight and collaboration between regulatory bodies and professional accounting organizations to foster consistent adherence to IFRS, thereby improving the reliability of financial statements and boosting investor confidence.

Keywords: Corporate Governance, Financial Reporting Quality, IFRS Compliance, Ownership Structure, Nigeria, Moderated Regression Analysis.

1.0 Introduction

Throughout the last century, corporate governance mechanisms have been employed to tackle corporate failures and systemic crises. The South Sea Bubble incident of the 1700s triggered significant reforms in England's business laws. According to Borgia (2005), the stock market crash of 1929 revolutionized US securities laws, preventing future crashes. The collapse of Enron and Parmalat in the 1900s emphasized the need for robust governance structures. Inadequate governance practices were blamed, and since then, corporate governance has acted as a monitoring tool. Chen, et al. (2014) highlight ownership structure as crucial in corporate governance. Kukah, et al. (2016) affirm that ownership structure functions as a monitoring tool to align managerial actions with shareholder interests. This view is reinforced by Neel (2017). According to Jouber & Fakhfakh (2012), managers often pursue personal objectives like rent extraction, leading to discretionary accruals and earnings management. However, ownership concentration and managerial ownership mitigate these effects (Siregar & Utama, 2008). Significant shareholder ownership promotes thorough monitoring, enhancing transparency and disclosure (Nelson & Rusdi, 2015). Guedhami & Pittman (2006) note that the quality of financial statements depends on aligning interests between minority and majority stakeholders, encouraging quality auditing for all stakeholders' benefit.

In situations where there is limited information and costly oversight, especially in underdeveloped markets such as Nigeria, a situation can arise where management and shareholders' objectives do not align (Abdulmalik & Ahmad, 2020), leading to suboptimal decisions by managers. Managers may resort to manipulative tactics to maximize their benefits, disregarding other stakeholders' concerns (Abernethy et al., 2017). Agency theory suggests monitoring mechanisms can improve alignment between management and shareholders and reduce opportunistic behavior (Kazemian & Sanusi, 2015). Yasser et al. (2017) argue that ownership concentration improves financial reporting quality as it motivates owners to oversee agents' performance. Al-Najjar and Clark (2017) also assert that ownership structure fosters ethical values and discipline in management. Firm owners with significant stakes prioritize high-quality accounting standards, including IFRS. Managers bear responsibility for adhering to IFRS in financial statements and ensuring external auditors provide reasonable assurances (Kothari et al., 2009; Callen & Fang, 2013). However, DeAngelo (1981) notes that external auditors may lack independence due to managers' undue influence, leading to legal disputes and financial losses for shareholders. The IASB developed IFRS to address such malpractices. Different countries have mandated the adoption of IFRS, though with varying timelines.

In Nigeria, non-financial sector firms began IFRS adoption in 2012, with delays partly due to deficiencies in local GAAP (Usman, 2013). Managers and directors faced challenges during IFRS adoption due to insufficient knowledge and training (Musa et al., 2014). Nurunnabi (2017) predicted unforeseen effects on financial reporting quality due to the complexity of IFRS. Zureigat (2015) noted potential negative impacts on reporting quality. Hessayri and Saihi (2015) stressed the need to understand the relationship between IFRS, ownership structure, and reporting quality. Verriest et al. (2012) suggested firms with concentrated ownership comply better with IFRS to enhance transparency. This study aims to contribute to the ongoing discussion on the correlation between corporate governance and the quality of financial reporting, focusing on the moderating influence of IFRS compliance in Nigeria. While extensive research has explored the relationship between ownership structure and financial reporting quality in developed economies after IFRS adoption (Al-Bassam et al., 2018), there is a significant gap in literature regarding less developed markets. In these markets, ownership structures differ, and empirical studies on the moderation effect of IFRS compliance on this relationship are rare. This investigation is essential for understanding how IFRS affects the link between ownership concentration, managerial ownership, and financial reporting quality.

The impact of managerial and concentrated ownership structures on reporting quality remains inconclusive due to limited IFRS expertise and challenges in detecting earnings manipulation (Bashir et al., 2018; Zureigat, 2015). In less developed countries, where shareholder protection is weak, ownership concentration serves as an important internal mechanism for IFRS implementation (Kasai, 2014; Yasser et al., 2017). Ilaboya and Obaretin (2015), Egbunike et al. (2018), and Siyanbola et al. (2014) note the limited academic studies in Nigeria examining the effects of IFRS adoption on financial reporting quality. Nurunnabi (2017) also highlights the scarcity of empirical research on the correlation between ownership structure and financial reporting quality post-IFRS adoption in Nigeria. Acknowledging this gap, Bafel (2015) and Alsubaie et al. (2012) stress the need for further exploration into the effectiveness of IFRS adoption. Evaluating financial reporting quality in Nigeria post-IFRS adoption could offer insights for regulatory bodies and contribute to improving reporting standards. This study makes a significant contribution by addressing a gap in the literature, examining the interplay between IFRS compliance, managerial and ownership concentration, and their impact on financial reporting quality in Nigeria.

2.0 Literature Review and Hypotheses Development

Ownership Concentration and Financial Reporting Quality

A large body of research has been published on the effect of block ownership on the quality of financial statements. Kurawa et al., (2021) and Ismail et al., (2024) find evidence that block ownership improves the reliability of accounting numbers. Studies conducted on the importance of majority controlling shareholders in financial reporting quality have led to mixed results. On one hand, dan Pajak, (2021) and Shah et al., (2020) argue that investors with high ownership levels have significant control over the firm's assets, which is translated into monitoring firm's managers, thereby restraining managerial discretion. Hence, these investors are more inclined toward value-increasing activities aimed to conveying a good image of the firm and raising the firm's value through stock prices. Hence, block holders would benefit from their high ownership levels to exercise control over firms' managers, thereby thwarting managers'

attempts at accruals manipulation. On the other hand, several other studies document that "controlling owners are perceived to report accounting information for self-interested purposes, causing the reported earnings to lose credibility to outside investors" (Fan & Wong, 2002). The majority controlling shareholders may [also] use earnings management to camouflage the reported earnings and hide expropriation from minority shareholders Alhadab et al., (2020). Therefore, at a higher level of ownership, however, they may feel more empowered to influence reported earnings themselves in order to serve their own interests. Gardi et al. (2023) demonstrate that IFRS adoption mediates the relationship between corporate governance and financial reporting quality in private Iraqi banks, highlighting benefits like improved reporting quality, regulatory compliance, decision-making, and reputation. Saona et al. (2020) reveal that corporate governance system's efficiency influences managerial discretion in accounting, with factors like larger independent boards and female representation reducing earnings management, while board duality increases opportunistic behavior.

From the interaction perspective of IFRS, Odudu et al., (2018) document that ownership concentration just like every other variable, interconnects with accounting standards to determine the level of audit quality. Basically, IFRS adoption lacks the capacity to influence financial reporting quality if the structure of ownership does not understand and embrace global accounting standards in firm financial reporting and in assurance of high audit quality. In this regard, Byard et al. (2011) find that firms implementing IFRS mechanisms, irrespective of ownership concentration, demonstrate more timely loss recognition, offer credible relevance of earnings, and engage in less earnings management. Therefore, this study hypothesized that;

H1a: Ownership concentration has no significant effect on financial reporting quality.

H1b: IFRS compliance has a significant moderating effect on the relationship between ownership concentration and financial reporting quality.

Managerial Ownership and Financial Reporting Quality

Managerial ownership is one of the key corporate governance indicators commonly examined in companies. The levels of ownership in companies will to a great extent decide the conflict level and thus heightens agency cost or mitigate it. Elhennawy, (2021) are of the view that managerial ownership and financial reporting quality are correlated to an extent that it affects the quality of the reported accounting numbers. Saona et al., (2020) stated that managerial ownership and discretionary accruals, as an audit quality indicator; are significantly correlated in affecting the quality of the reported accounting numbers.

In firms with concentrated managerial ownership, large shareholders can affect management, especially when they become board members hence have much to offer the firm beyond board membership (Yasser et al., 2017). Lennox, (2005) find a negative correlation between shares held by managers and financial reporting quality. Shan, et., al (2019), stressed that greater managerial ownership benefits shareholders because it increases managers' incentives to increase firm value and audit quality. However, when managerial ownership becomes too large, it enables managers to entrench themselves so that the firm's value falls as managerial ownership increases beyond a certain point; consequently, financial reporting quality also decreases, owing to the inability to properly monitor the top management (Alqadasi & Abidin, 2018). Again, from the interaction perspective of IFRS, Abdullah et al., (2008) note that managers' ownership alone cannot impact on financial reporting quality without them having the requisite knowledge and training in the content and application of the international financial reporting standard. Therefore, this study hypothesized that.

H2a: Managerial ownership has no significant effect on financial reporting quality.

H2b: IFRS compliance has a significant moderating effect on the relationship between managerial ownership and financial reporting quality.

Theoretical Framework

This study examines how the interaction between International Financial Reporting Standards (IFRS) impacts the ownership structure and audit quality of companies, with a focus on institutional and agency theories. Institutional theory emphasizes the importance of institutions in shaping accounting practices and suggests that the adoption of IFRS is influenced by coercive pressures from transitional institutions or powerful states through conditions or recommendations. Previous studies have utilized institutional theory as a framework to investigate the implementation and adoption of IFRS. Several studies conducted by Aburous (2018), Alon and Dwyer (2016), Hassan et al. (2014), Pricope (2015), and Vellam (2012) have employed institutional theory to explore this topic. Further, empirical evidence from past studies demonstrates that the adoption of IFRS plays a moderating role in the positive relationship between ownership structure and audit quality, as evidenced by Komalasari (2017).

Agency theory, initially proposed by Jensen and Meckling in 1976, is a widely acknowledged and influential concept that applies to the management of corporate organizations. The fundamental aim of agency theory is to analyze the challenges that arise when managers, appointed by shareholders, are entrusted with the authority to make decisions on behalf of the owners of the resources within a firm. It is observed that managers often prioritize their own interests, which can be attributed to the separation of ownership and control (Desai et al., 2007). This situation leads to a scenario where managers have a propensity to extract personal gains, consequently resulting in increased agency costs. One effective approach to mitigate the occurrence of rent extraction and opportunistic behavior is to encourage members of the board of directors, managers, and other key committee members to hold a specific percentage of the company's shares or investments. This practice acts as a deterrent against careless conduct within the organization, thereby promoting adherence to the International Financial Reporting Standards (IFRS) in financial reporting. As a result, it enhances the overall quality of audits conducted in the firm. Thus, agency theory provides an explanatory framework for understanding the level of compliance with IFRS in relation to various factors, including ownership structure, firm size, board diversity, ownership diffusion, leverage, and the role of auditors (Samaha & Khlif, 2016).

3.0 Methodology

This study is based on *ex-post facto* research design since the event has already taken place hence the data already exist, and no attempt is made to manipulate the data of the selected variables. Annual financial report of the sampled companies was used in collecting the data for this study, due to its degree of reliability and widespread acceptability by organizational stakeholders(Deegan & Rankin, 1997; Haniffa and Cooke, 2005). The population of the study consists of all one hundred and nine (109) non-finance firms listed on the Nigerian Exchange Group (NGX, Fact Book, 2022). To obtain a homogenous sample, the study employed purposive sampling technique while fulfilling the conditions of availability and accessibility of relevant data as replicated in earlier studies of Barnett and Salomon, (2006), Boyle *et al*., (1997). The sampled companies did finish its obligation in delivering annual reports for ten (10) consecutive years (2012-2021). In all, 67 non-finance firms represent the sample size of this study and the data was analyzed using moderated regression analysis technique. The specified model for this study is stated as:

Model 1:

$$FRQT_{it} = \beta_0 + \beta_1 MOWN_{it} + \beta_2 OWNC_{it} + \beta_3 IFRS_{it} + \beta_4 CFOA_{it} + \mu_{it} \dots (1)$$

Model 2:

$$FRQT_{it} = \beta_0 + \beta_1 IFRS_{it} * MOWN_{it} + \beta_2 IFRS_{it} * OWNC_{it} + \beta_3 CFOA_{it} + \mu_{it} \dots (2)$$

Where:

FRQT	=	Financial Reporting Quality
MOWN	=	Managerial Ownership
OWNC	=	Ownership Concentration
IFRS	=	IFRS Adoption
CFOA	=	Cashflow to Asset
β_0	=	Constant
β_1- β_4	=	Slope Coefficient
μ_{it}	=	Stochastic disturbance
i	=	i^{th} firm
t	=	time period

Table 1 Operationalization of Variables

Variable	Measurement	Sources
Dependent Variable		
Financial Reporting Quality (FRQT)	Jones 1995 Discretionary Accrual Model	**Yang et al., (2008)**
Independent Variables		
Managerial Ownership	Computed in percentages as directors' direct and indirect shares divided by outstanding shares	**Yang et al., (2008)**
Ownership Concentration	Computed in percentages as the share ownership concentration of all block shareholders with 5% and above controlling interest	**Al-Rassas and Kamardin (2016)**
IFRS Adoption	Computed as Dummy which takes the value of '1' for firm i at time t otherwise '0'	**Hasan and Rahman, (2017)**
Cash Flow to Asset Ratio	Computed in percentages as Net Cash flow from operations divided by Total Asset	**Kim and Yang, (2014)**

Source: Author Compilation (2023)

4.0 Results and Discussion

The study analyses the moderating effect of IFRS compliance on the relationship betweencorporate governance mechanism and financial reporting quality of listed non-finance firms during the 2012 – 2021 fiscal period. In order to achieve the objective of this study, some statistical analysis such as: Descriptive Statistics, Correlation Analysis, and Fixed and Random Effect Regression analysis where conducted. The results obtained from these analyses are presented as follows. Table 1 shows a summary of the descriptive statistics.

Descriptive Statistics Analysis

Table 1: Descriptive Statistics

VARIABLES	MEAN	SD	MIN	MAX	NO OBS
FRQT	-0.56	0.71	-7.03	5.57	670
MOWN	18.91	24.91	0	94.35	670
OWNC	57.14	20.84	0	98	670
IFRS	0.97	0.16	0	1	670
CFOA	0.08	0.15	-0.94	0.59	670

Source: Author (2023)

From the table it is observed that the mean value of financial reporting quality (FRQT) is -0.56 with a standard deviation of 0.71. In the case of the independent variables, the statistics shows that the mean value of managerial ownership (MOWN) is 18.91 with a standard deviation of 24.91 indicating that on average, the directors of the firms under study had control of about 18% of the firms' shareholding. Also, the results show that the mean value of ownership concentration (OWNC) is 57.14 with a standard deviation of 20.84 suggesting that the firms' shareholding structure is concentrated during the period under review while IFRS compliance (IFRS) is 0.97 with a standard deviation of 0.16 indicating that on average, about 97% of the observation under study had adopted IFRS during the period under investigation. The study shows that the value of cashflow from operations (CFOA) is 0.08 on average with a standard deviation of 0.14 during the period under consideration.

Correlation Analysis
In this study, spearman rank correlation analysis technique is employed and the results are presented in the table below.

Table 2: Correlation Analysis

	FRQT	MOWN	OWNC	IFRS	CFOA
FRQT	1.0000				
MOWN	0.0656	1.0000			
OWNC	-0.0478	-0.2105	1.0000		
IFRS	0.0348	-0.0421	0.0035	1.0000	
CFOA	-0.3363	-0.1339	0.0854	-0.0041	1.0000

Source: Author's (2023)

Specifically, the result shows that managerial ownership (0.0656) has a positive association with financial reporting quality while ownership concentration (-0.0478) has a negative association with financial reporting quality during the period under study. However, IFRS compliance (0.0348) has a positive association with financial reporting quality while cashflow from operations (-0.3363) has a negative association with financial reporting quality during the period under study. However, to test our hypotheses a regression results will be needed since correlation test does not capture cause-effect relationship.

Table 3 Regression Analysis Result

	Unmoderated Regression Model				Moderated Regression Model			
	FRQT Model (Pooled OLS)	FRQT Model (FIXED Effect)	FRQT Model (RANDOM Effect)	FRQT Model (HiReg)	FRQT Model (Pooled OLS)	FRQT Model (FIXED Effect)	FRQT Model (RANDOM Effect)	FRQT Model (HiReg)
CONS.	-0.484	-0.729	-0.498	-0.484	-0.433	-0.573	-0.461	-0.433
	{0.009} **	{0.005} **	{0.009} **	{0.009} **	{0.000} ***	{0.000} ***	{0.000} ***	{0.000} ***
MOWN	-0.000	-0.001	-0.000	0.001				
	{0.983}	{0.722}	{0.917}	{0.618}				
OWNC	-0.001	0.004	-0.000	0.002				
	{0.449}	{0.230}	{0.766}	{0.028}				
IFRS	0.075	0.033	0.059	0.072				
	{0.658}	{0.849}	{0.724}	{0.682}				
CFOA	-1.248	-1.090	-1.199	-1.247	-1.250	-1.098	-1.200	-1.250
	{0.000} ***	{0.000} ***	{0.000} ***	{0.000} ***	{0.000} ***	{0.000} ***	{0.000} ***	{0.000} ***
MOWN*IFRS					-2.350	-0.001	-0.000	-0.001
					{1.000}	{0.614}	{0.919}	{0.020}
OWNC*IFRS					-0.001	0.002	-0.000	-0.001
					{0.615}	{0.351}	{0.926}	{0.001}
F-statistics/WaldStat.	12.17 (0.0000)	7.68 (0.0000)	41.43 (0.0000)	12.17 (0.0000)	16.06 (0.0000)	10.04 (0.0000)	41.33 (0.0000)	16.06 (0.0000)
R- Squared	0.0683	0.0488	0.0459	0.0683	0.0676	0.0479	0.04621	0.0676
VIF Test	1.01				1.02			
Heteroscedasticity Test	44.91 (0.0000)				44.46 (0.0000)			
Hausman Test		3.55 (0.4710)				2.58 (0.4615)		

Note: (1) bracket {} are p-values; (2) **, *, implies statistical significance at 5% and 1% levels respectively**

Source: Author's (2023)

From the table it is observed from the pooled ordinary least square regression analysis an R- squared value of 0.0683 for the unmoderated model and 0.0676 for the moderated model indicating that about 7% and 7% of the systematic variations in financial reporting quality over the period of interest is jointly explained by the independent and control variables in the models respectively. The F-statistic value of 12.17 for the unmoderated model and 16.06 for the moderated model and their associated P-value of 0.0000 shows that the pooled ordinary least square regression of both models is statistically significant at 1%. The table also shows a mean Variance Inflation Factor (VIF) value of 1.02 for the unmoderated model and 1.01 for the moderated model indicating the absence of multicollinearity in both models. Also, it can be deduced that the models are free from heteroscedasticity problems since the probability values ofthe Breusch Pegan Geoffrey test are significant at 1% [44.91 (0.0000)] for both unmoderated moderated models [44.46 (0.0000)]. Therefore, owing to the issues surrounding heteroscedasticity, this study adopted the panel regression method using both fixed and random effect models. Specifically, the p-value of the Hausman test is insignificant at 1% nor 5% forboth models (moderated and unmoderated regression models), implying that the random effect results tend to be more appealing statistically when compared to the fixed effect. However, to account for the unobserved heterogeneity between the variables, this study employed the hierarchical regression analysis technique to test the study hypothesis.

Discussion of Findings

Model 1 which provides the result for the unmoderated regression, reveals that managerial ownership has no significant effect on financial reporting quality during the period under review suggesting the acceptance of the null hypothesis. Further, ownership concentration in the absence of IFRS accounting standard adoption tend to increase the values of discretionary accrual thereby worsening the quality of financial report for listed non-finance firms in Nigeria. It implies that concentrated ownership increases discretionary accruals resulting to poorer reporting quality. The coefficient maintained a positive significant effect on discretionary accruals which align with the outcomes of Adam and Bala (2015); Jusoh et., al. (2013); Peyeman and Mina (2013; Ogbonnaya et., al (2016). Table 3 reveals the moderation effect of IFRS on the relationship that included managerial andconcentrated ownership structure as they impact on financial reporting quality. The result shows that IFRS moderation with managerial ownership is negative and statistically significant on discretionary accruals, portraying that IFRS moderates managerial ownership to enhance financial reporting quality of listed non- finance firms in Nigeria. Put differently, percentage increase in the volume of managerial shareholding among non-finance firms that adopts IFRS reporting procedure will induce a significant better reporting quality.

Also, the result shows that IFRS moderation with managerial ownership is statistically significant (negative) on financial reporting quality which could mean that managers who have ownership stake in the sampled firms have the requisite accounting standard knowledge to provide better reporting quality. Therefore, the hypothesis 1b that IFRS adoption significantly moderates the relationship between managerial ownership and financial reporting quality of listed non- finance firms in Nigeria is supported. Also, IFRS/ownership concentration moderating effect on financial reporting quality is statistically negative also implies that a percentage increase in the volume of shareholders with 5% and above controlling rights in the presence of IFRS reporting standard adoption improves the quality of financial information. This outcome suggests that IFRS reporting standard improves financial report quality of non-finance firms that adopted the standard during the period under consideration. This result clearly illustrates that the IFRS standard adoption does matter when considering the impact of ownership structures on financial reporting quality in Nigeria. Therefore, the hypothesis 2b that IFRS adoption significantly moderates the relationship between ownership concentration and financial reporting quality of listed non- finance firms in Nigeria is supported. The results buttresses those of Hessayri, and Saihi (2015). Thus, the empirical analysis confirms the existence of complementarities between the fit of ownership structures and IFRS adoption among listed firms in Nigeria supporting the view that both variables need be examined jointly when exploring their efficiency and consequences. Remarkably, having introduced the moderating function in the regression, managerial and concentrated ownership structures were found to exert significant effect on financial reporting quality in Nigeria.

5.0 Conclusion and Recommendations

This study examined the moderating effect of IFRS on the association between corporate governance via ownership structure and financial reporting quality for listed non-finance firms in Nigeria. The research contributes significantly to literature in the context of a less developed market of Nigeria regarding how IFRS compliance moderates' ownership structures to strengthen financial reporting quality in the light of prevailing managerial and corruption turbulence within the environment generally. The study concludes that, while ownership structure weakens financial reporting quality in the absence of IFRS compliance, the moderating influence of IFRS with ownership structure leads to high reporting quality. The study recommends enhancing the enforcement mechanisms for IFRS compliance in Nigeria which may involve stricter monitoring, audits, and penalties for non-compliance. Improved regulatory oversight can ensure that companies adhere to the standards and maintain high-quality financial reporting practices. Further, the outcome from this study suggests the need for capacity building which may include investment in training programs and capacity building initiatives for accountants, auditors, and other professionals involved in financial reporting. Enhancing their knowledge and skills in applying IFRS standards can improve the quality of financial reporting across the board. The study recommends fostering more collaboration between regulatory authorities and professional accounting bodies, such as the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN). These bodies can play a vital role in promoting IFRS compliance and providing guidance and support to their members.

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