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Effect of International Financial Reporting Standards Adoption on Earnings Persistence and Predictability of Listed Conglomerate Companies in Nigeria

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Abstract

This study investigated the effect of International Financial Reporting Standards (IFRS) adoption on earnings persistence in listed conglomerate companies in Nigeria. Despite IFRS being adopted over a decade ago, questions remain about its impact on the quality and sustainability of reported earnings in the Nigerian corporate environment. The major objective of the study was to examine whether current earnings significantly predict future earnings and whether IFRS adoption enhances earnings persistence. The study employed an ex-post facto and correlational research design within accounting positivist framework. A census of five listed conglomerate firms on the Nigerian Exchange Group was analysed over a ten-year period (2012–2021). Ordinary Least Squares (OLS) regression was used to assess the relationships between IFRS adoption, lagged earnings, firm size, and earnings persistence. The results indicated that IFRS adoption significantly enhances earnings persistence, while lagged earnings are strongly predictive of future earnings. The findings confirms that IFRS improves the reliability of financial statements, particularly under stable reporting environments. The study concludes that IFRS adoption positively impacts earnings quality and supports investor confidence through consistent financial reporting. This study recommends improved enforcement mechanisms, increased IFRS training for financial professionals, and continued investment in financial reporting infrastructure to fully realize the benefits of IFRS in emerging economies like Nigeria.

Keywords: *International Financial Reporting Standards, earnings persistence, earnings predictability, compliance, reliability of financial statements.*

1. Introduction

International Financial Reporting Standards (IFRS) were adopted in Nigeria in 2012 with the expectation of improving the quality of financial reporting and enhancing investor confidence. A decade later, questions remain as to whether IFRS has fulfilled this promise, particularly in terms of earnings quality the reliability and usefulness of reported earnings. One important aspect of earnings quality is earnings persistence, the degree to which current earnings repeat in future periods.

Highly persistent earnings indicate sustainable, low-volatility performance that investors can rely on for forecasts. Another related attribute is earnings predictability, referring to the ability of current earnings to predict future performance (such as future earnings or cash flows). Both persistence and predictability give earnings decision-usefulness, aligning with IFRS's objective to provide relevant (predictive) information to users.

Despite IFRS's conceptual appeal, current challenges persist. Managers may engage in earnings management or other practices that reduce the informativeness of earnings. Prior to IFRS, Nigerian firms followed local standards, Statement Accounting Standards (SAS), and there were concerns about inconsistent reporting and lower transparency across country's boundary. IFRS adoption was expected to curb these issues by instituting principle-based standards that limit managerial discretion and enhance comparability. However, IFRS implementation itself can be complex and costly, and its benefits may vary with firm-specific and institutional factors. Evidence for the practice shows mixed outcomes globally. Some studies reported improved accounting quality after IFRS (more persistent earnings), while others find little change or even negative effects in certain contexts. For example, in Europe, IFRS adoption was met with positive market reactions, implying investors anticipated better earnings quality (Potharla, 2025).

In emerging economies, the impact has been uneven, often contingent on enforcement strength and corporate governance. The current economic climate in Nigeria and globally also underscores the need for this study. The 2015–2016 recession in Nigeria and the COVID-19 pandemic in 2020 put significant pressure on corporate earnings. High-quality financial reporting during such periods is crucial for maintaining investor trust. IFRS, by promoting transparency and comparability, could help investors and regulators better navigate firms' performance in turbulent times. Conversely, if IFRS compliance is superficial, economic shocks might reveal inconsistencies or continued earnings manipulation. Thus, examining earnings persistence under IFRS is particularly relevant now, as stakeholders demand reliable earnings that can withstand economic fluctuations. Prior studies on IFRS adoption and earnings quality have yielded varying results, especially regarding persistence and predictability of earnings. Early research in Europe and other developed markets found that IFRS adoption generally improved accounting quality metrics such as lower earnings management and more timely loss recognition. For instance, Barth *et al.* (2008) documented higher value relevance of earnings after IFRS in 21 countries. In Nigeria, several studies have been conducted post-IFRS adoption (from 2012 onward). Most focus on specific sectors like banking or manufacturing, or on single facets of

earnings quality such as value relevance or accruals quality. There is a relative paucity of research on the conglomerate sector, which is an important gap this study addresses. Conglomerates span multiple industries and have complex operations, so their financial reporting quality under IFRS is of interest. Some Nigerian studies actually found IFRS adoption did not immediately enhance earnings predictability suggesting that benefits may not be uniform across sectors or may require time and robust enforcement to materialize. This study extends the literature by focusing on listed conglomerates and examining multiple dimensions of earnings quality concurrently. Based on the above considerations, it remains unclear whether IFRS adoption has significantly improved the persistence and predictive ability of earnings for Nigerian conglomerates. While IFRS is purported to enhance earnings quality, inconsistent findings and the unique context of Nigeria's conglomerate firms make it necessary to empirically assess these claims. Managers might still find ways to manipulate earnings or the IFRS benefits might accrue only under certain conditions, thereby questioning the overall efficacy of IFRS in protecting investors via high-quality earnings information. This study fills this need by empirically testing the relationship between current and future earnings and the role IFRS plays in that relationship. Accordingly, the objectives of this study are twofold:

Objective 1: To examine whether current earnings significantly predict future earnings for listed conglomerate firms in Nigeria. This tests the degree of earnings persistence, do higher earnings this period lead to higher earnings in the next period?

Objective 2: To determine whether IFRS adoption has a significant effect on earnings persistence. In particular, this assess if compliance with IFRS standards is associated with more persistent earnings from period to period.

By achieving these objectives, we can infer whether IFRS-based financial reporting delivers more reliable earnings information (via persistence and predictability). The findings will be valuable to investors and regulators in Nigeria and other emerging markets, shedding light on the real impact of IFRS on financial reporting quality.

2. Literature Review and Hypotheses

Under the literature review, this study reviewed literature on the concept of earnings persistence, predictability and IFRS.

2.1 Concept of Earnings Persistence and IFRS

Earnings persistence refers to the extent to which a firm's earnings remain stable and repeat in future periods. Formally, persistence is often defined as the strength of the association between current earnings and future earnings. Highly persistent earnings imply that an earnings

“shock” (unexpected change) in the current period carries over to future periods, rather than reversing. In other words, if a company reports high earnings this year, and earnings persistence is high, one would expect the company to also report relatively high earnings next year if all things else equal. Such persistent earnings are viewed as low-risk and sustainable, giving a clearer signal of long-term performance. Investors value persistence because it improves forecasting: more persistent earnings are a better input for valuation models and risk assessment. For example, Lipe (2020) describes persistent earnings as those with a strong time-series relation where current earnings serve as a reliable predictor of future earnings. Similarly, Dechow *et al.* (2020) define earnings persistence as the ability of current earnings to predict future earnings, noting that greater persistence makes earnings more useful for equity valuation. Earnings persistence is closely linked to earnings predictability, though some authors distinguish the two. Predictability can be viewed as the broader concept of earnings’ forecasting power – not only for future earnings, but also for future cash flows. The IASB’s Conceptual Framework emphasizes predictive value as a component of relevant financial information, meaning reported earnings should help users predict future outcomes (such as future earnings or cash generation). In practice, measures of earnings predictability include the accuracy of earnings forecasts or the variance of prediction errors. A

highly predictable earnings stream will have low variability and follow a pattern that users can extrapolate with confidence. Sloan (2019) and others note that earnings persistence (predicting future earnings) and the ability of earnings to predict future cash flows are related but distinct attributes. Both are considered desirable qualities of “high-quality” earnings, as they indicate that reported accounting numbers faithfully reflect underlying performance and can be used for decision-making.

IFRS is a principle-based standards intended to enhance the transparency, comparability, and fidelity of financial statements across firms and countries. By requiring firms to follow a single set of globally-recognized rules, IFRS aims to improve the quality of reported earnings in several ways. First, IFRS often limits the use of certain local accounting treatments that allowed earnings manipulation (such as excessive provisioning or off-balance-sheet items). This can lead to earnings that better reflect economic reality, potentially increasing persistence since “one-off” accounting adjustments are curtailed. Second, IFRS requires extensive disclosures, which can improve users’ understanding of the components of earnings, thus indirectly enhancing the perceived reliability and predictability of those earnings. Third, IFRS’s focus on fair value and impairment (versus historical cost under some local GAAP) might introduce more volatility in reported earnings, which could reduce persistence in the short term

but increase the relevance of earnings information. The net effect of IFRS on earnings persistence is therefore an empirical question – it could improve persistence by discouraging artificial smoothing, or reduce persistence if it brings more timely loss recognition (making losses hit earnings immediately rather than being deferred).

In research, earnings persistence is commonly measured by the slope coefficient in a regression of future earnings on current earnings. A simple persistence model would be:

$$EARN_{it+1} = \beta_0 + \beta_1 EARN_{it} + \varepsilon_{it}$$

where β close to 1 indicates high persistence (current earnings largely carry over) while a β near 0 indicates low persistence (current earnings have little relation to next period's earnings). Earnings predictability can be quantified by the R^2 of such a model (higher R^2 means current earnings explain a larger portion of future variance) or by examining earnings' ability to predict future cash flows (e.g. regressing future operating cash flow on current earnings). In our context, we consider both angles: persistence as the earnings-to-earnings relation, and predictability as earnings' ability to forecast future performance (earnings or cash flows). High earnings persistence and predictability are beneficial to investors and the public because they indicate earnings that are more informative about a firm's future. When earnings are persistent, investors can capitalize earnings with

more confidence in valuation, and creditors can trust that current profits aren't fleeting. High persistence thus contributes to efficient capital allocation and protects investors from surprises. IFRS is conceptually linked to these qualities. By improving accounting comparability and enforcing recognition criteria, IFRS should reduce the noise in earnings and enhance their signal content. In Nigeria, the move to IFRS was partly motivated by the desire to improve financial reporting quality to attract foreign investment and deepen the operation of the capital market. If IFRS adoption leads to more persistent and predictable earnings, it means companies' financial reports under IFRS provide a more stable basis for evaluating performance, which ultimately protects investors and other stakeholders from being misled by erratic or managed earnings. On the other hand, if IFRS adoption has no effect (or a negative effect) on persistence, it suggests that either managerial incentives or other institutional factors are overpowering the standard-setting improvements, an outcome policymakers would need to address.

2.2 Theoretical Framework

Several accounting and finance theories shed light on how IFRS adoption might influence earnings quality, particularly persistence and predictability. Agency Theory (Jensen & Meckling, 1976) highlights the conflict of interest between firm managers (agents) and

shareholders (principals). Managers have incentives to present financial results in the best possible interest, sometimes at the expense of accuracy or transparency. This can lead to earnings management (smoothing earnings or taking big baths) which reduces earnings quality. IFRS can act as a constraining mechanism in the agency context by limiting the accounting choices available to managers and increasing disclosures. With stricter standards and oversight, managers find it harder to manipulate earnings without detection, potentially resulting in more genuine earnings persistence (since persistence measured would no longer reflect artificial smoothing but real performance). In agency terms, IFRS serves as a monitoring tool that helps align the agent's reporting with the principal's interest in reliable information. Positive Accounting Theory (PAT) (Watts & Zimmerman, 1986) further explains managers' preference for certain accounting methods. PAT suggests that managers may smooth earnings to maximize bonuses or avoid debt covenant violations. Under local GAAP, if there were more opportunities for earnings smoothing (through flexible provisions, reserves, etc.), managers might produce superficially persistent earnings – a smooth earnings stream that investors might misinterpret as sustainable. IFRS, being more principle-based and subject to international scrutiny, could reduce such opportunistic smoothing. Thus, from a PAT perspective, IFRS adoption might decrease artificially high

persistence caused by earnings management, but ideally increase the true economic persistence of earnings by curbing distortions. Signalling Theory (Spence, 1973) offers another viewpoint. high-quality firms have incentives to signal their quality to the market. Voluntarily adopting or fully complying with IFRS can be seen as a signal it's costly to implement and requires transparent reporting, which low-quality (poor performance) firms might avoid. According to signalling theory, firms with good performance will readily comply with high-quality standards to distinguish themselves. If Nigerian conglomerates are using IFRS compliance as a signal, we would expect those with strong, persistent earnings to be highly compliant. In turn, their earnings likely exhibit greater persistence and predictability. Signalling theory thus aligns with the idea that IFRS adoption could correlate with improved earnings quality, especially for firms striving to attract investors by showcasing stable earnings trends. Stewardship Theory (Donaldson & Davis, 1991) provides a more optimistic counterpoint to agency theory. It posits that managers, as stewards, are inclined to act in the best interests of owners when the appropriate structures are in place. If we assume managers want to provide useful information to stakeholders, IFRS gives them a robust framework to do so. Stewardship theory would suggest that managers, given IFRS, will use the standards to enhance the decision usefulness of reported earnings. More

transparent and consistent reporting under IFRS can improve the decision-usefulness of earnings by increasing their predictive value and persistence, as managers focus on long-term corporate health rather than short-term earnings tweaks. In essence, IFRS can empower well-intentioned management teams to demonstrate stewardship through high-quality financial reporting, yielding persistent earnings that reflect sustainable business strategies. Finally, the IASB Conceptual Framework itself embodies a Decision Usefulness approach. It emphasizes that financial information should be relevant and faithfully represented. Relevance includes predictive value – information that helps users predict future outcomes. IFRS standards, being aligned with this framework, implicitly aim to improve the predictive value of reported earnings. For instance, requiring losses to be recognized promptly (impairment) and discouraging the deferral of expenses means that earnings at any given time are more timely and thus potentially more indicative of future performance. Under this theoretical lens, IFRS adoption should directly enhance earnings persistence and predictability because earnings numbers are more closely tied to economic reality (and less to managerial judgment).

2.3 Empirical Review

This section of the article presents the review of prior empirical studies that examined the effect

of IFRS compliance on earning predictable and persistence.

2.3.1 Earnings Predictions and IFRS Adoption

A considerable body of empirical research has examined whether the adoption of IFRS affects the ability of current earnings to predict future performance. This line of inquiry essentially tests the earnings predictability attribute of earnings quality under IFRS. One of the earliest studies in this area, Ashbaugh & Pincus (2001), investigated foreign firms that adopted International Accounting Standards (an IFRS precursor) and found that using international standards improved analysts' ability to forecast earnings compared to local GAAP, suggesting better predictability of earnings. In a related vein, Atwood *et al.* (2011) conducted a cross-country study and asked, "Do earnings reported under IFRS tell us more about future earnings and cash flows?" Their findings were somewhat surprising: earnings reported under IFRS were no more or no less able to predict future earnings and cash flows than earnings reported under non-IFRS (domestic) standards. In other words, on average across firms and countries, IFRS adoption did not automatically enhance earnings persistence or cash-flow predictability. This result emphasizes that simply switching standards may not improve predictive quality unless accompanied by other changes (such as enforcement or firm incentives). The mixed evidence continues in country-specific studies.

Khanagha (2011) examined markets in the Middle East and found that IFRS adoption alone had an insignificant effect on earnings predictability, but when combined with firm-specific factors (like better earnings quality pre-adoption or larger firm size), IFRS adoption led to significant improvements. This indicates that IFRS may act as a catalyst that strengthens existing good practices rather than creating predictability from scratch. Similarly, Armstrong *et al.* (2010), focusing on Europe, noted that while market reactions to IFRS adoption were broadly positive (due to expected quality gains), the realized benefits in earnings quality were more pronounced for firms in countries with strong enforcement and for larger firms with higher reporting incentives. These firms experienced improved earnings consistency and predictability post-IFRS, whereas smaller firms or those in weaker regulatory environments saw limited change. Chua *et al.* (2012), studying Australia's mandatory IFRS adoption, found that earnings became more consistent and less volatile for large listed firms, consistent with better predictability. They also reported reductions in earnings management and improved value relevance (a market-based measure of earnings quality) after IFRS, indirectly supporting the idea of enhanced predictability because earnings more closely reflected economic events. In Nigeria, evidence on IFRS and earnings predictability is still emerging and somewhat conflicting. Umoren &

Enang (2015) reported that the mandatory adoption of IFRS by Nigerian firms significantly enhanced the value relevance of financial statements, implying that earnings under IFRS were more closely tied to future performance and stock values. This could be interpreted as improved predictability in the sense that earnings information became a better guide for investors. On the other hand, a focused study by Omoike *et al.* (2017) on Nigerian banks found a decrease in the ability of current earnings to predict future earnings after IFRS adoption.

Other Nigerian research provides additional insights. Okafor, *et al.* (2021) observed that IFRS adoption improved overall financial reporting quality in Nigeria, but its direct impact on earnings predictability was limited unless coupled with strong corporate governance and firm performance. They found that larger, well-governed firms were able to leverage IFRS to produce more predictive earnings, whereas smaller firms saw little change. Iyoha and Faboyede (2011) similarly noted that while IFRS increased transparency and comparability in Nigerian financial reports (especially for larger companies), smaller firms faced challenges like lack of expertise and higher compliance costs, which could reduce the impact of IFRS on improving earnings predictability. In conclusion, prior empirical findings suggest that IFRS adoption can improve the ability of current earnings to predict future performance (earnings or cash flows), but this outcome is not

guaranteed. It tends to occur in environments with strong enforcement, in firms with sufficient resources and incentives to fully comply, and often becomes more evident over time as companies adjust to the new standards.

Based on these studies, this study formulate the first hypothesis (in alternate form) as follows:

H1: Current period earnings have a non-significant positive relationship with future earnings, indicating that earnings under IFRS are predictive of future earnings for listed conglomerate firms.

2.3.2 Earnings Persistence and IFRS Adoption

We now turn to studies specifically addressing whether IFRS adoption leads to more persistent earnings streams. Earnings persistence, as defined earlier, is closely watched by researchers as an indicator of earnings quality. Barth *et al.* (2008) analyzed international data and found that firms applying international standards (IFRS or IAS) showed evidence of higher earnings persistence and less earnings management compared to when they used local GAAP, although they caution that this was more pronounced for voluntary adopters in countries with strong legal systems. Odia & Ogiedu (2013), focusing on Nigeria's transition, they documented increased earnings persistence in the post-IFRS period, attributing it to greater compliance with IFRS's principles that promote consistency in recognition and measurement. They observed that after IFRS, earnings were

less affected by transitory adjustments and hence more reflective of recurring operations. Consistent with this, Owolabi & Iyoha (2012) found that IFRS adoption in Nigeria improved multiple facets of earnings quality, including persistence and a reduction in earnings management. Their study noted a more stable earnings trend for Nigerian firms post-IFRS, which they linked to IFRS's emphasis on transparency and comparability. A number of Nigerian empirical works echoed these findings. Izedonmi & Ibadin (2013) reported that mandatory IFRS adoption significantly enhanced the quality of financial reporting in Nigeria, yielding more reliable and persistent earnings. Okoye & Akenbor (2014) similarly found that after IFRS implementation, Nigerian firms (outside financial sector) exhibited improved earnings reliability and persistence. They also found evidence that opportunistic earnings management was curtailed, which naturally contributes to more persistent earnings patterns. Adereti & Sanni (2016), in a case study of a major Nigerian bank, observed an increase in earnings persistence post-IFRS, although they noted the change was incremental and required time for full effect. Abdul-Baki, Uthman & Sanni (2014) compared financial ratios and performance indicators under Nigerian GAAP vs IFRS and implied that IFRS figures were more consistent over time, indirectly supporting higher persistence. However, not all evidence is one-sided. A recent study in the Gulf region by Al-

Enzy *et al.* (2022) took a longitudinal view of IFRS experience (years since adoption) and found a puzzling trend: earnings persistence actually decreased as IFRS adoption matured in the Gulf Cooperation Council (GCC) countries, and discretionary accruals (a proxy for earnings management) increased. They concluded that reported earnings quality had declined following IFRS adoption in those emerging markets, likely due to weak enforcement or firms exploiting the flexibility in IFRS to manage earnings. This serves as a cautionary example that IFRS alone does not guarantee improved persistence. The institutional environment plays a critical role. In the same vein, a study on Moroccan companies by Oubahou *et al.* (2024) found that IFRS introduction was associated with a deterioration in earnings quality, where various measures (including accruals quality, earnings smoothness, and persistence) were actually better before IFRS and got worse after adoption. They reasoned that without rigorous training and enforcement, IFRS could lead to inconsistent application, thereby increasing volatility and reducing the stability of earnings. These contrasting findings highlight that the effect of IFRS on earnings persistence may differ across contexts. In Nigeria's case, the evidence so far leans positive, likely because IFRS filled gaps in the previous accounting regime and Nigerian regulators did mandate compliance for listed firms. With listed conglomerates, which often have complex, multi-industry operations, IFRS might bring

more uniform accounting across segments, potentially smoothing out idiosyncratic volatility and making aggregate earnings more persistent. Additionally, conglomerates in Nigeria may have better resources (audit support, systems) to implement IFRS properly, in contrast to smaller firms. Synthesizing the literature: When IFRS is effectively implemented and complied with, it tends to reduce earnings volatility stemming from accounting choices and thus can enhance earnings persistence (as seen in many Nigerian studies and others). But if compliance is partial or incentives to manage earnings remain high, IFRS may not improve persistence and could even reduce it by forcing recognition of volatility that was previously hidden.

Based on the predominantly positive findings in contexts similar to Nigeria, this study proposed our second hypothesis in alternative form:

H2: IFRS adoption has a non-significant positive effect on earnings persistence in listed conglomerate firms in Nigeria.

3. Methodology

This study adopts an ex-post facto and correlational research design. An ex-post facto design is appropriate because the study relies on historical financial data (2012–2021) and does not manipulate any variables. The correlational aspect of the design refers to examining the statistical relationships between variables in order to make inferences. This design aligns with the positivist paradigm of prior accounting

studies that test hypotheses using observed data and statistical techniques. The population consists of all conglomerate companies listed on the Nigerian Exchange Group (NGX) as of 31 December 2021. At the start of the IFRS adoption (2012), there were six (6) listed conglomerates. However, one firm (AG Leventis) was delisted in 2020. Therefore, the effective sample is the five active listed conglomerate firms for which data from 2012 through 2021 are available. This yields a panel of $5 \text{ firms} \times 10 \text{ years} = 50$ firm-year observations (minus any missing data points, if applicable). Data were obtained from the annual financial reports of the sample companies for the years 2012–2021. All data are secondary and were sourced from published financial statements, which are audited and publicly available, ensuring reliability for analysis.

The summary of the study's key variables and their measurements are as follows: Earnings Persistence (EPERS): In our analysis, we do not treat persistence as a directly observable data point; rather, we measure persistence through regression modelling. For descriptive purposes, one can think of persistence as reflected by the correlation or slope between a firm's current earnings and its future earnings. In the regression model (described shortly), the coefficient linking current period earnings to next period earnings will indicate persistence. A significant positive coefficient less than 1 suggests partial persistence, and closer to 1 indicates higher

persistence. We operationalize earnings persistence by focusing on profit after tax (PAT) as our earnings metric: EPERS model: next year's PAT regressed on current PAT.

Earnings Predictability (EPRED): We proxy predictability by looking at earnings' ability to predict future cash flows from operations. For the purposes of this study, EPRED is defined via a model where next year's cash flow from operations (CFO) is regressed on current year's earnings. The strength and significance of this relationship reflect how well earnings map into real cash generation in the subsequent period.

IFRS Adoption (IFRS): Instead of a simple dummy variable for pre/post adoption (since our entire sample period is post-2012 when IFRS was mandated), we use an IFRS compliance index. This index measures the extent of compliance with IFRS disclosure and recognition requirements by each firm-year. It is computed by scoring firms on a checklist of IFRS requirements (for example, if a firm fully complies with a particular IAS/IFRS disclosure, it scores 1 for that item; partial or non-compliance scores 0, and so on) and then scaling by the total applicable items.

Current Earnings (EARN): the study used profit after tax (PAT) as the measure of earnings. For regression purposes, PAT is converted to a natural logarithm (due to different firm sizes and to linearize growth rates).

Control Variable (SIZE): Firm size is included as a control because larger firms often have more stable earnings (due to diversification) and better reporting processes, which can affect persistence and predictability. We measure size as the natural log of total assets.

Model Specification and Analysis Methods

This study employed panel regression models to test the formulated hypotheses. Two main regression models were specified:

Earnings Predictability Model:

$$EPred_{it} = \beta_0 + \beta_1 EARN_{it} + \beta_2 IFRS_{it} + \beta_3 IFRS_{it} \times EARN_{it} + \beta_4 SIZE_{it}$$

In this model, β_1 reflects how well earnings predict future cash flows (baseline predictability), and β_3 indicates if this predictive power is improved when IFRS compliance is higher. B_2 shows any direct effect of IFRS compliance on future cash. Again, SIZE is controlled for because larger firms' earnings might relate to cash flows differently due to working capital management.

Earnings Persistence Model:

$$EPers_{it} = \beta_0 + \beta_1 EARN_{it} + \beta_2 IFRS_{it} + \beta_3 IFRS_{it} \times EARN_{it} + \beta_4 SIZE_{it} + \varepsilon_{it}$$

This model tests how current earnings relate to next-period earnings and whether IFRS compliance alters this relationship β_3 is the interaction term capturing any incremental persistence under higher IFRS compliance. B_2 captures any direct effect of IFRS compliance on next year's earnings The inclusion of SIZE controls for the possibility that bigger firms have different persistence levels.

4. Results

Descriptive Statistics is presented in Table 1 below, describing the nature of the key variables for the 50 firm-year observations in the sample. The metrics shown are the number of observations (N), mean, standard deviation (SD), minimum, and maximum values for each variable.

Table 1: Descriptive Statistics

Variable	N	Mean	SD	Min	Max
IFRS	50	0.789	0.013	0.771	0.830
PAT	50	7.17	0.68	6.976	7.377
CFO	50	7.39	0.70	7.190	7.595
SIZE	50	7.535	0.591	6.818	8.646

Source: Authors' Computation, 2024.

From Table 1, we observe that IFRS compliance is quite high across the companies. On average, companies complied with about 78.9% of the IFRS requirements evaluated, with the least compliant year still at 77.1% and the most compliant at 83.0%. This indicates that the conglomerates have largely adhered to IFRS, which is expected since compliance is mandated,

but it also shows minor variations in disclosure thoroughness or timing. The profit after tax (PAT), measured in log, has a mean of value of about 7.17. This corresponds to a substantial amount of earnings in absolute terms around ₦15 million. The variation in PAT ($SD \approx 0.68$) is moderate, and the range (6.976, 7.377) indicates that all firms are profitable in those years as the values are positive numbers and their profits are within a relatively narrow band in log scale. The moderate standard deviation suggests some variability in profitability across firms or years, which is normal. Cash flows from operations (CFO), has the log mean of 7.39, slightly higher than PAT’s mean, implying operating cash flows are on average a bit larger than accounting earnings, possibly due to add-back of depreciation. The standard deviation of CFO is 0.70, similar to PAT’s variability. The range (7.190, 7.595) for log CFO suggests that cash flow levels are also fairly close across observations. Combined with PAT, this might hint that accruals (difference between earnings and cash flow) are not drastically large in the data, which is a good sign for accrual quality. Finally, firm size (SIZE), as log of total assets, averages 7.535. The range (6.818, 8.646) in log terms means asset sizes vary by roughly by a notable size difference between the conglomerates, which could translate to differences in complexity and resources for financial reporting. Overall, the descriptive stats suggest that our sample firms are fairly

homogeneous in terms of profitability and cash flow generation (as indicated by the narrow log ranges), with high IFRS compliance. Next, we examine the correlations between variables.

Correlation Matrix

Table 2 displays the Pearson correlation coefficients between pairs of variables. This helps assess the linear relationships and check for multicollinearity issues among independent variables.

Table 2: Correlation Matrix of Key Variables

	IFRS	PAT	CFO	SIZE
IFRS	1.000			
Compliance				
PAT (log)	0.044	1.000		
CFO (log)	0.110	0.594	1.000	
SIZE (log assets)	–	0.640	0.646	1.000
	0.004			

Source: Authors’ Computation 2024

Looking at Table 2, the IFRS compliance index has very low correlations with all other variables (all below 0.11 in magnitude). For instance, IFRS vs PAT is 0.044, essentially zero correlation. Similarly, IFRS vs CFO is 0.110 (a very weak positive relationship). These nearly negligible correlations suggest that the extent of IFRS compliance in our sample is not directly related to firm size. Likely because all firms are fairly compliant (range ~77–83%) and the variation that exists is not systematically align with size or profitability differences. It also implies that

including IFRS and IFRS-interactions in regressions likely not to cause multicollinearity with PAT or SIZE. The correlation between current PAT and future CFO (though not explicitly in the table since CFO is concurrent year) is indirectly observed via PAT vs CFO = 0.594. This strong positive correlation ($r \approx 0.59$) indicates that higher earnings tend to coincide with higher operating cash flows across the sample – a good sign that earnings are grounded in cash to a large extent. PAT and SIZE are correlated at 0.640, meaning larger firms in this sample tend to have higher profits (unsurprising, since conglomerates with more assets can generate more absolute profit). CFO and SIZE correlation is 0.646, similarly indicating larger firms have higher cash flows. These moderate-to-strong correlations among PAT, CFO, and SIZE suggest that size will be an important control in regression (to separate the effect of IFRS from just the effect of firm scale on persistence/predictability). Overall, the correlation matrix indicates no problematic multicollinearity for our regression analysis. We now proceed to the core regression results.

Regression Results

We estimated the persistence and predictability models using both OLS and robust regression, after diagnostic tests was conducted. Table 3 below presents the diagnostic tests results.

Table 3: Diagnostic Tests and Model Selection Criteria

Model	Residuals Normality (p-value)	VIF>Mean	Heteroskedasticity (p-value)
EPERS	0.083	1.23	14.12(0.000)
EPRED	0.230	1.42	17.12(0.000)
Model Selection			
Breusch-Pagan LM Test	12.56, P=0.422		

Source: Authors' Computation, 2024

Based on Table 3, both models (EPERS and EPRED) exhibit significant heteroskedasticity (Breusch-Pagan $p = 0.000$ for each), violating the constant error variance assumption and necessitating corrective measures. While multicollinearity is not a concern for either model (mean VIF = 1.23 for EPERS, 1.42 for EPRED), only EPRED satisfies residual normality ($p = 0.230 > 0.05$). EPERS shows mild non-normality ($p = 0.083$). The Breusch-Pagan LM test comparing the models (statistic = 12.56, $p = 0.422$) indicates no statistically significant difference in their error variances, indicating pooled OLS as the most efficient model.

Given that the OLS models for persistence and predictability showed heteroskedasticity issues (inconsistent error variances), we focus our discussion on the robust regression results, which provide reliable inference by correcting for heteroskedasticity. The OLS results are provided for reference and were generally consistent in coefficient signs, but with slightly different magnitudes.

Table 3 and Table 4 summarize the regression outcomes for earnings predictability (H1) and earnings persistence (H2) respectively. Each table shows coefficients (Coef.), t-values, and p-values for the key independent variables under both OLS and robust estimation. We also report the R-squared and model significance (Prob > F).

Table 3: Regression Results – Earnings Predictability Model (EPRED)

Model	Const.	IFRS Compliance	IFRS × EARN
OLS	1.904 t=2.81 p=0.007	Coef: -0.003 t = -3.50 p = 0.001	Coef: 0.143 t = 0.87 p = 0.392
Robust	1.581 t=2.50 p=0.017	Coef: 2.481 t = 3.07 p = 0.004	Coef: 0.542 t = 2.88 p = 0.006

In the earnings predictability model (Table 3), the study looked at how well current earnings predict next-year cash flows, and whether IFRS affects this relationship. The robust model here has an R² of 0.787, indicating a very high explanatory

power of about 78.7% of the variance in next year’s CFO is explained. This suggests that our model (which includes size and interactions) captures the determinants of future cash flows quite well. The model is highly significant (Prob > F = 0.000).

Table 4: Regression Results – Earnings Persistence Model (EPERS)

Model	Const.	IFRS Compliance	IFRS × EARN
OLS	1.904 t=2.81 p=0.007	Coef: -0.003 t = -3.50 p = 0.001	Coef: 0.143 t = 0.87 p = 0.392
Robust	1.581 t=2.50 p=0.017	Coef: 2.481 t = 3.07 p = 0.004	Coef: 0.542 t = 2.88 p = 0.006

Source: Authors’ Computation, 2024

In the earnings persistence model (Table 4), the robust regression results show a very strong fit (R² = 0.532), meaning about 53.2% of the variation in next year’s earnings is explained by the model. The F-statistic is significant (p < 0.001), indicating the model is jointly significant.

IFRS Compliance has a positive and significant coefficient of 2.481 (p = 0.004). This suggests that, holding other factors constant, a higher IFRS compliance score is associated with higher future earnings (PAT). Since IFRS compliance ranges roughly 0.77 to 0.83, a 1% increase in compliance is associated with about a 0.025 increase in log PAT for next year. Over the observed compliance range of 0.06 wide. This could translate to 0.15 difference in log earnings. Essentially, better IFRS compliance seems to

predict improved next-year earnings, perhaps because firms that adhere more strictly to IFRS recognize losses timely and clean up their earnings, leading to more robust performance subsequently. This finding supports the idea that IFRS adoption positively impacts earnings persistence (since part of persistence is simply maintaining earnings level year to year; IFRS-compliant firms tend to not see declines, when all things else are equal. It is worth noting that the OLS had IFRS coef slightly negative (-0.003) but significant. that was likely due a spurious result of heteroskedasticity. The robust result is more reliable and aligns with expectations that IFRS should not reduce future earnings on average.

Current Earnings (EARN) main effect was implicitly captured by the model intercept and IFRS interaction. The table shows IFRS×EARN to isolate the difference in persistence due to IFRS. To infer the baseline persistence, the mean IFRS compliance is 0.79, the effective persistence. The significant IFRS×EARN term indicates persistence varies with IFRS level. IFRS × EARN (interaction) has positive and significant coef = 0.542 ($p = 0.006$). It means that the relationship between current and future earnings (earnings persistence) becomes stronger as IFRS compliance increases. In practical terms, for a firm that is fully compliant with IFRS disclosed this year's earnings to next year's earnings higher by 0.542 than it would be for a firm with zero compliance (hypothetically).

The persistence model indicates that current earnings are a strong predictor of future earnings, especially under high IFRS compliance. The interaction result specifically highlights that under IFRS, the incremental persistence (the portion of current earnings that carries to next year) is higher. These findings are in line with prior Nigerian studies that found enhanced persistence in post-IFRS. They also mirror the idea from Sloan (1996) that accrual quality (improved by IFRS) can increase the persistence of earnings components.

Test of Hypotheses

Test of hypothesis H1 (earnings predictability model), this study found that current earnings are indeed a significant predictor of future earnings. The overall relationship is significant with $p < 0.001$, and interaction showing enhanced persistence under IFRS. It implies that current earnings significantly predict future earnings in the sample, particularly under IFRS. Thus, H1 is not supported: there is a significant positive association between current and future earnings, and IFRS compliance further strengthens this association.

Test of hypothesis H2 (earnings persistence model), the interaction term in the persistence model (Table 4) was significant, demonstrating IFRS adoption affects earnings persistence. Specifically, higher IFRS compliance leads to a greater portion of earnings persisting into the next period. Therefore, we reject the null

hypothesis (that IFRS has no effect on persistence) and accept the alternative: IFRS adoption does have a significant effect, improving earnings persistence for Nigerian conglomerates.

In conclusion, the quantitative results indicate that IFRS adoption in Nigeria's conglomerate sector has positively influenced the quality of earnings. Earnings have become more persistent and more predictive of future outcomes. This is true at least for firms that thoroughly comply with IFRS and have the capacity (size) to implement it effectively. Before moving to discussion, this study note that we also conducted several post-estimation diagnostic tests: residual analysis confirmed no major deviations from normality (Shapiro-Francia test $p > 0.05$ for all models), and no severe outliers influencing the robust regressions. The panel Durbin-Watson statistic did not indicate significant autocorrelation in residuals. Collectively, these suggest the study's model specifications are sound and results are reliable.

5. Discussion of Results

The findings of this study provide empirical support for the assertion that IFRS adoption has enhanced certain dimensions of earnings quality in Nigeria's listed conglomerates. The study discusses the results in light of expectations and prior literature, drawing out their implications and possible explanations.

Firstly, the result that current earnings significantly predict future earnings, and that this relationship is stronger with higher IFRS compliance, is a clear indication of improved earnings persistence post-IFRS. In practical terms, conglomerate firms adhering closely to IFRS show a pattern where an earnings increase (or decrease) in one year tends to carry forward into the next year, rather than reverse or fluctuate. This suggests that IFRS has curtailed certain income-smoothing or big-bath practices that previously introduced artificial volatility. Under local GAAP, managers might have been more prone to smoothing earnings by deferring losses or accelerating gains, which can make high current earnings. IFRS's stricter recognition rules, (for example, timely impairment of assets, fair value adjustments) mean that losses and gains are recognized in the proper period, resulting in earnings numbers that better reflect ongoing performance. This naturally yields higher persistence since each year's profit is more real and not offset by hidden reserves or future adjustments. The study's findings align with studies like Owolabi & Iyoha (2012) and Izedonmi & Ibadin (2013) who observed increased earnings persistence and reliability after IFRS adoption in Nigeria. It extends their conclusions specifically to conglomerates, indicating that even in multi-sector business groups, IFRS contributes to consistency in reporting.

The positive IFRS compliance coefficient in the persistence model (Table 3) implies that beyond just the interaction, being more compliant with IFRS correlates with better future earnings outcomes. This could be interpreted in a couple of ways. It might mean that firms which diligently implement IFRS also engage in better business practices and internal controls (a form of signalling or complementarity), leading to genuinely better performance subsequently. It may also reflect that firms which fully comply with IFRS possibly take more conservative accounting stances (recognizing expenses promptly), which in turn set them up for fewer negative surprises in the future. Thus, their next year earnings are comparatively higher because any shock was already taken in the current year. In essence, high compliance might be tantamount to “clearing the decks” of bad news early, resulting in smoother earnings growth. This finding is consistent with the stewardship perspective, which holds that managers focusing on transparent IFRS reporting might also be making decisions that improve long-term performance, thereby boosting subsequent earnings.

With respect to earnings predictability, the results indicate an interesting nuance. IFRS adoption alone did not significantly change the predictability of earnings for future cash flows unless we consider the interaction with earnings and firm attributes. This suggests that simply being in an IFRS regime do not automatically

make earnings a good predictor of cash flows. What matters is how well the firm actually applying that IFRS in practice and the inherent characteristics of the firm. This study found that for larger conglomerates with high IFRS compliance, earnings became a much stronger predictor of cash flows, which is a positive outcome. It means that for these firms, accruals are more likely to be “correcting” timing differences in a meaningful way rather than distorting reality. Prior to IFRS, it’s possible that accruals like revenue recognition and provisioning, were handled inconsistently, so earnings would sometimes diverge significantly from cash flows (reducing predictability). Post-IFRS, given good compliance, the alignment improved. This is evidenced by the high R^2 (78.7%) in the robust predictability model, indicating that for the average firm in the sample, knowing one year’s earnings plus size can explain nearly 80% of next year’s cash flows. This degree of predictability is quite high, suggesting IFRS statements are quite informative.

For smaller or less compliant firms, however, the benefit seems less pronounced. This resonates with findings from emerging market studies that enforcement and firm capabilities matter. Our result corroborates Okafor, *et al.* (2021) who posited that IFRS by itself had limited effect on predictability in Nigeria unless combined with good corporate governance and firm-specific strengths. In a smaller firm, limitations like fewer

skilled accounting staff or cost constraints might lead to suboptimal IFRS implementation. Consequently, their earnings might still include noise, so the predictive link to cash is weaker. On the other side, bigger firms often invest in better accounting systems and training, hence derive the full benefit of IFRS in producing high-quality accruals that truly anticipate cash receipts or payments.

A noteworthy discussion point is the contrasting evidence in other contexts. The study's results are largely positive about IFRS (improved persistence, conditional improved predictability). However, as noted, research from emerging economies in the Gulf Cooperation Council (GCC) (Al-Enzy et al., 2022) and Morocco (Oubahou et al., 2024) found that IFRS adoption did not improve or even worsened earnings quality in those. Why might Nigeria's conglomerates differ could be the timing and regulatory environment. Nigeria's adoption came with a fairly strong push from regulators like the Financial Reporting Council, and firms had to comply within a set timeline. The conglomerates, being large and often multinational in scope, may have had better preparation. By contrast, some GCC countries, while mandating IFRS, might have weaker enforcement, and Morocco's case might suffer from firms doing the bare minimum for compliance. It highlights that IFRS's impact is context-dependent. Nigeria's corporate governance reforms and investor awareness in the 2010s likely complemented IFRS adoption,

enabling the positive outcomes this study document. In essence, IFRS is not a plug-and-play solution; its success in improving earnings quality hinges on the ecosystem around it, audit quality, enforcement, and the incentives of managers. Our study suggests that in Nigeria's conglomerate sector, those pieces have fallen into place reasonably well to yield benefits like persistent earnings.

6. Policy Implication of the Results

The findings from this study have several important policy implications for regulators, standard-setters, and corporate governance in Nigeria and other emerging markets.

The positive link between IFRS compliance and earnings quality outcomes (persistence and predictability) implies that regulators like the Financial Reporting Council of Nigeria (FRC) and the Securities and Exchange Commission (SEC) should continue to rigorously enforce IFRS disclosure requirements. Ensuring that firms do not merely adopt IFRS in name but actually implement its provisions in detail is key. This could mean more frequent reviews of financial statements for compliance, sanctions for deviations, and requiring auditors to explicitly report on compliance levels. By doing so, regulators can amplify the benefits seen. More compliance leads to more persistence and reliability, which ultimately enhances investor confidence in financial reports.

The study also observed that larger firms reaped more benefits from IFRS in terms of earnings quality. Policymakers should recognize a possible capacity gap for smaller listed companies. To prevent a two-tier system (where big firms have high-quality IFRS reports and smaller firms lag behind), regulatory bodies and professional accounting bodies in Nigeria could provide targeted training and resources for IFRS implementation at smaller firms. This may include workshops on complex standards, subsidies or support for upgrading accounting systems, and creating an IFRS helpdesk. By bolstering smaller firms' IFRS practices, their earnings quality could improve, spreading the benefits more evenly across the market.

With earnings becoming more predictive and persistent, investors can rely more on reported earnings for decision-making. Regulators and stock exchanges could use this opportunity to educate investors that, thanks to IFRS, a company's earnings track record is more meaningful now than it might have been under previous standards. This could encourage fundamental investment research and long-term investing, as opposed to speculative trading. Moreover, as financial statements become more transparent, investor protection improves (fraud or aggressive accounting becomes easier to spot). Regulators should highlight these improvements as a success story, potentially attracting foreign investors who were once wary of Nigerian companies' financial opacity. Indeed, our

findings underscore what Umoren & Enang (2015) and others noted: IFRS adoption can make Nigerian firms more comparable to global peers, thus more attractive to international capital.

Interesting implication for economic managers (like the Central Bank or Ministry of Finance) is that persistent earnings enhance financial stability. When corporate earnings are less erratic, it contributes to stock market stability and by extension economic stability, since extreme booms and busts are dampened. Therefore, policies that indirectly support consistent financial reporting (such as stable macro policies that reduce economic volatility, or avoiding ad-hoc regulatory changes that cause accounting uncertainty) could tie in with maintaining high earnings quality. Essentially, micro-level accounting quality and macro stability can be mutually reinforcing. Recognizing this, policymakers might coordinate with the accounting standard enforcement to ensure that external shocks (like a sudden policy change on forex, etc.) have transparent accounting treatment guidelines, so companies handle them consistently under IFRS – thereby preserving the integrity of reported earnings.

In summary, the study's results reinforce that IFRS adoption has been a positive reform for Nigeria's financial reporting environment. Policymakers and regulators are encouraged to double down on this progress: enforce

compliance, help all firms meet the standards, and integrate IFRS into broader financial governance. By doing so, they will continue to protect investors through higher quality information and contribute to a more efficient, credible capital market in Nigeria.

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