

THE IMPACT OF FINANCIAL REGULATIONS ON PROFITABILITY, GROWTH AND RISK DISPERSION: EMPIRICAL EVIDENCE FROM AN EMERGING MARKET CONTEXT

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ABSTRACT

This study examines the effect of International Financial Reporting Standards (IFRS) adoption on firm performance among companies listed on the Johannesburg Stock Exchange (JSE) in South Africa. Using a balanced panel of 206 firms and 2,060 firm-year observations, the analysis compares pre-IFRS (2000–2004) and post-IFRS (2019–2023) periods based on changes in mean, median, and standard deviation of key accounting ratios. The results show that IFRS adoption is associated with notable improvements in average performance, with return on assets increasing by 45.480% and asset turnover by 0.660%. Growth opportunities also rise significantly by 72.890%, while firm size expands by 31.200%. However, return on equity declines marginally by 0.330% and cash flow by 5.410%. Importantly, variability increases substantially, with standard deviation rising by 202.630% for ROA and 441.390% for growth, indicating greater dispersion in firm outcomes. The findings suggest that IFRS enhances transparency and average performance but also reveals underlying heterogeneity. The study concludes that institutional quality and firm-specific factors are critical in shaping the IFRS–performance relationship.

Introduction

Small The global harmonization of accounting standards has gained significant momentum due to the increasing integration of financial markets, technological advancement, and cross-border investments. The adoption of International Financial Reporting Standards (IFRS) represents a major step toward eliminating financial reporting disparities that previously hindered comparability across countries. IFRS, which succeeded the International Accounting Standards (IAS), has become widely accepted as a global reporting framework for listed firms. Empirical evidence suggests that over 120 countries have adopted or permitted IFRS, reinforcing its importance in global financial reporting. The widespread adoption is often viewed as one of the most transformative developments in modern accounting practice (Daske et al., 2008; Barth et al., 2008). In Africa, countries such as South Africa have played a pioneering role by adopting IFRS in

its purest form as early as 2005, thereby positioning themselves as early adopters within emerging markets and enhancing financial reporting credibility.

Theoretically, IFRS adoption is expected to improve the quality, transparency, and comparability of financial information, which in turn influences firm performance and investor decision-making. Prior studies document that IFRS enhances accounting quality by reducing information asymmetry and improving earnings informativeness (Barth et al., 2008; Houque et al., 2014). Furthermore, IFRS adoption has been associated with improved capital market outcomes, including increased market liquidity and reduced cost of capital (Daske et al., 2008; Armstrong et al., 2010). The value relevance of accounting information also improves under IFRS, enabling investors to make more efficient economic decisions (Alali & Foote, 2012; Aharony et al., 2010). However, these benefits are not automatic, as they largely depend on institutional factors such as enforcement mechanisms, legal systems, and corporate governance structures across countries.

Despite the anticipated benefits, the empirical evidence on IFRS adoption and firm performance remains mixed, particularly in developing economies. Some studies report that IFRS adoption enhances firm performance by improving financial reporting quality and facilitating access to international capital markets (Samaha & Khelif, 2016; Elbannan, 2011). Conversely, other studies suggest that the impact may be insignificant or even negative due to implementation costs, weak enforcement, and institutional inefficiencies (Agyei-Boapeah, 2015; Lassou & Hopper, 2016). In Africa, the effectiveness of IFRS is often constrained by structural challenges such as regulatory capacity and compliance issues, which may limit the realization of its full benefits. Consequently, the relationship between IFRS adoption and firm performance continues to attract scholarly debate and warrants further empirical investigation.

In the South African context, IFRS adoption has been relatively successful compared to other African countries due to stronger institutional frameworks and well-developed capital markets. Studies focusing on South Africa provide evidence that IFRS adoption improves financial reporting practices and enhances the credibility of financial statements (Sellami & Slimi, 2016; Mohamed et al., 2019). Additionally, IFRS implementation has been linked to improvements in corporate performance and reporting quality among firms listed on the Johannesburg Stock Exchange (JSE) (Yeboah & Takacs, 2018; Sirembe et al., 2024). Nonetheless, the extent to which these improvements translate into measurable firm performance indicators, such as return on assets and return on equity, remains inconclusive, particularly in the post-adoption period.

Moreover, IFRS adoption is expected to influence managerial behavior, especially in relation to earnings management practices. Prior literature suggests that high-quality accounting standards can constrain opportunistic earnings

manipulation by increasing transparency and disclosure requirements (Gbadebo, 2023; Sellami & Slimi, 2016). However, the persistence of earnings management under IFRS in some contexts indicates that accounting standards alone may not be sufficient to eliminate managerial discretion. This underscores the importance of complementary institutional factors such as corporate governance and regulatory enforcement in determining the effectiveness of IFRS. In South Africa, while some evidence points to reduced earnings management, further empirical validation is required to establish consistent conclusions.

Against this backdrop, this study examines the effect of IFRS adoption on firm performance in South Africa, with a particular focus on listed firms. By analyzing key financial performance indicators, the study contributes to the ongoing debate on whether IFRS adoption leads to tangible economic benefits in emerging markets. It also addresses the gap in existing literature, which has largely focused on accounting quality and capital market outcomes rather than firm-level performance. Given South Africa's status as an early IFRS adopter with relatively strong institutional structures, the findings are expected to provide valuable insights for policymakers, regulators, and investors. Ultimately, the study extends the literature by offering updated empirical evidence on the IFRS–performance nexus within the African context.

Literature Review

IFRS Ramification in South Africa

The formulation of national financial and accounting reporting standards in SA started in 1971, and obtained legislative provision in 1973. The Companies Act of 1973 contain that firms should prepare financial reporting in accordance with the SA-GAAP. Initially, the advance of the SA reporting standards exhibits an inductive and subjective approach. Then the regulators would hardly admit any proposals that digress from its constituents incumbent accounting practice. In the 1980s, the standard setters and regulators consider to take documentation of some works from the IAS Committee. The standards provide by the APB and the SAICA from this point onward progressively converged with those of the IAS. The standards were the reference in the harmonization of the SA-GAAP with the IFRS. The SA-GAAP was used by all companies (listed, unlisted, and private). In 1993 the regulatory bodies commenced a formal process for the harmonization of SA GAAP and IASC standards. The harmonization process happened at same period when the IOSCO and the IASC established a set of new standards involving domestic and cross-border offerings and listings. By 1995, the APB agreed to harmonise the SA-GAAP with the IFRS with minor modifications.

The harmonization event involves adapting the SA-GAAP to the improved and approved standard by IASB, issuing new set of IAS in SA and aligning the current SA-GAAP to the original contexts of IFRS. The process subsequently enhances the SA-GAAP to be exact replica of IFRS. In 2003, the APB delivered the IFRS as the new SA GAAP no amendment. Also, a dual numbering approach for the SA-GAAP which provide each standard with IFRS- and SAGAAP- number was introduced. The SA accounting principles were reviewed to be consistent with the IFRS. So effective from 1st January, 2005, all JSE listed firms are mandated to henceforth present financial report according to the IFRS. Currently, the SA now requires some firms to apply IFRS, while others are allowed to use IFRS Standard/IFRS for SMEs.

More recent development to the corporate legislation for SA firms strengthened the listing conditions and extended legislative provisions for the IFRS to some categories of unlisted enterprises. These categories depend on the degree of public interest for the unlisted enterprises, hence based on the public interest scores. A company with high scores is required to use the IFRS/IFRS for SMEs , while those with lower scores are permitted to comply with IASB's financial standards/SA-GAAP. Since May 2011, the Companies Act Regulations now consider and directly refer to the IFRS Standards as documented by the IASB.

Literature Review

The literature on IFRS adoption is deeply rooted in the argument that a unified accounting framework enhances financial reporting quality and comparability across firms and jurisdictions. Early empirical evidence suggests that IFRS adoption improves accounting quality by reducing earnings management and increasing the transparency of reported financial information (Barth et al., 2008; Daske et al., 2008). These improvements are often attributed to stricter disclosure requirements and enhanced measurement principles embedded in IFRS. However, the extent of these benefits varies across institutional environments, particularly in emerging economies where enforcement mechanisms may be weak. In Africa, Agyei-Boapeah (2015) highlights that while IFRS adoption has improved reporting quality, its effectiveness depends largely on regulatory strength and compliance levels. This suggests that accounting standards alone are insufficient without complementary institutional support systems.

Beyond accounting quality, IFRS adoption has been linked to capital market outcomes, particularly in terms of market efficiency and investor response. Studies such as Armstrong et al. (2010) show that markets react positively to IFRS adoption due to improved credibility of financial statements. Similarly, Aharony et al. (2010) and Alali and Foote (2012) find that IFRS enhances the value relevance of accounting information, thereby improving investors' ability to assess firm value. These

findings are reinforced by Elbannan (2011), who documents significant stock market benefits following IFRS adoption. However, such outcomes are not universal, as differences in institutional quality and investor protection can moderate these effects. Consequently, while IFRS has the potential to improve capital market performance, its actual impact is contingent upon the broader economic and regulatory environment.

A critical dimension of the IFRS debate relates to earnings management and managerial discretion. Foundational studies by Burgstahler and Dichev (1997) and Degeorge et al. (1999) provide evidence that managers often manipulate earnings to meet benchmarks, raising concerns about financial reporting integrity. IFRS is expected to mitigate such practices by imposing stricter reporting standards. However, empirical findings remain mixed. Gbadebo (2023) finds that IFRS adoption influences earnings management behavior among JSE-listed firms, although the extent of reduction varies across firms. Similarly, Shen and Chih (2005) argue that investor protection and institutional quality play a crucial role in limiting earnings manipulation. These findings imply that while IFRS can constrain opportunistic behavior, it does not completely eliminate managerial incentives to manipulate financial outcomes.

The relationship between IFRS adoption and firm performance has also attracted significant scholarly attention. A number of studies suggest that IFRS adoption enhances firm performance by improving access to capital and reducing information asymmetry (Samaha & Khlif, 2016; Salah, 2020). Improved financial reporting quality can lead to better resource allocation and increased investor confidence, ultimately translating into higher firm value. However, other studies caution that the benefits of IFRS adoption may be offset by implementation costs and complexity, particularly for firms in developing economies. Lassou and Hopper (2016) argue that institutional challenges in Africa may hinder the effective implementation of IFRS, thereby limiting its impact on firm performance. This highlights the need for context-specific analysis when evaluating the IFRS-performance relationship.

In the African context, IFRS adoption has been associated with broader economic implications, including foreign direct investment (FDI) and financial integration. Nnadi and Soobaroyen (2015) find that IFRS adoption enhances FDI inflows by improving the transparency and comparability of financial information. This suggests that IFRS can serve as a signal of financial credibility to international investors. However, the benefits of increased transparency may not be evenly distributed across firms, particularly in countries with weak institutional frameworks. Studies also emphasize that corporate governance plays a significant role in determining the effectiveness of IFRS adoption (Samaha et al., 2012). Strong

governance structures can reinforce the benefits of IFRS by ensuring compliance and reducing opportunistic behavior, thereby enhancing overall firm performance.

From a behavioral perspective, the adoption of IFRS can also be analyzed through the lens of decision-making theories. Prospect theory, as developed by Kahneman and Tversky (1979), suggests that managers' financial reporting decisions are influenced by risk perceptions and loss aversion. This is further supported by Fiegenbaum (1990), who finds that risk-return relationships vary across firms and industries. Koonce and Mercer (2005) argue that psychological factors play a significant role in accounting judgments, particularly under complex reporting standards such as IFRS. These insights imply that even with high-quality standards, managerial discretion and cognitive biases may influence financial reporting outcomes, thereby affecting the overall impact of IFRS on firm performance.

Empirical studies focusing on South Africa provide mixed but insightful evidence on the impact of IFRS adoption. Mohamed et al. (2019) report that accounting practitioners perceive IFRS as enhancing reporting quality and comparability. Similarly, Sirembe et al. (2024) find improvements in financial reporting quality among SMEs adopting IFRS-based standards. However, Sellami and Slimi (2016) highlight that earnings management persists despite IFRS adoption, suggesting that the standards alone are insufficient to fully eliminate opportunistic behavior. Furthermore, Tchouaken Monkam (2022) finds that the adoption of specific standards such as IFRS 15 has varying effects on firm financial performance, depending on industry characteristics and implementation challenges.

Finally, the broader literature emphasizes the importance of contextual and institutional factors in shaping the outcomes of IFRS adoption. Studies such as Houque et al. (2014) and Jiao et al. (2012) demonstrate that improvements in information quality and analyst forecasts are more pronounced in countries with strong investor protection. Additionally, Yeboah and Takacs (2018) provide evidence that IFRS adoption positively influences corporate performance in South Africa, although the magnitude of the effect varies across firms. These findings underscore the need for further empirical research to understand the nuanced relationship between IFRS adoption and firm performance, particularly in emerging markets where institutional conditions differ significantly.

Research Method

This study adopts a quantitative approach to examine the effect of IFRS adoption on firm performance among companies listed on the Johannesburg Stock Exchange (JSE). The analysis is based on annual firm-level data covering the period from 2000 to 2023. Data are sourced primarily from the McGregor BFA database

and complemented with firms' published financial statements where necessary. The JSE classifies firms into ten industrial sectors based on the Industry Classification Benchmark (ICB); however, due to data availability constraints, this study focuses on firms across eight sectors. Firms with incomplete or inconsistent financial records are excluded during the sample screening process, resulting in a final balanced panel of 206 firms and 2,060 firm-year observations.

To ensure comparability and reduce bias arising from uneven sample distribution, the study adopts a balanced design by selecting equal time windows for the pre- and post-IFRS periods. Specifically, the pre-IFRS period spans 2000–2004, while the post-IFRS period covers 2019–2023, each contributing 1,030 firm-year observations. This approach is consistent with prior studies that emphasize the importance of symmetric sampling to avoid clustering effects and ensure robustness in comparative analysis (Dimitropoulos et al., 2013; Odoemelam et al., 2019; Adedokun et al., 2022). The balanced structure enhances the reliability of inferences drawn regarding changes in firm performance across regulatory regimes.

The study focuses on key accounting-based performance indicators and firm characteristics. The variables examined include asset turnover (ATO), return on assets (ROA), return on equity (ROE), and cash flow from operations (CFO) as measures of firm performance. In addition, firm-specific control variables such as growth opportunities (GROW), firm size (SIZE), leverage (LEVG), and book-to-market ratio (BTMV) are incorporated to capture structural and financial attributes of the firms. These variables are widely used in empirical accounting and finance literature to assess operational efficiency, profitability, financial structure, and market valuation.

The methodological strategy is primarily descriptive and comparative, focusing on the examination of changes in the distributional properties of the selected variables across the two periods. Specifically, the study evaluates the mean, median, and standard deviation of each variable to capture central tendency and dispersion before and after IFRS adoption. The use of mean values provides insight into average performance, while median values help mitigate the influence of outliers and skewness in financial data. Standard deviation is employed to assess the variability and stability of firm performance over time. This combination offers a comprehensive understanding of how IFRS adoption may have altered the financial characteristics of firms.

Furthermore, the analysis distinguishes between financial and non-financial firms to account for sector-specific differences in reporting practices and regulatory requirements. Of the total sample, 430 firm-year observations (20.87%) belong to financial firms, while 1,630 observations (79.13%) represent non-financial firms. This classification is important given that financial institutions are often subject to

additional regulatory frameworks, which may influence the extent and nature of IFRS implementation. By incorporating this distinction, the study enhances the depth of analysis and allows for more nuanced interpretations of the results.

Table 1: Sample Breakdown and Distribution

Categories	#Firm-Year	%Distr.
Reporting Standard		
Pre-IFRS firm-year (2000–2004)	1,030	50.00%
Post-IFRS firm-year (2019–2023)	1,030	50.00%
Complete sample	2,060	100.0%

Note: Number of firms (#Firms) and percentage distribution (%Distr.) are computed as the ratio of firm-year observations to total observations (2,060), multiplied by 100.

Results and Discussion

Results

The descriptive statistics presented in Table 2 provide an initial overview of the distributional properties of firm performance and financial structure variables across the full sample. The mean asset turnover (ATO) of 1.050 and median of 0.840 indicate moderate operational efficiency among JSE-listed firms, although the relatively high standard deviation of 0.990 suggests considerable heterogeneity across firms. Profitability indicators reveal notable dispersion, as return on assets (ROA) records a mean of 0.250 with a substantially lower median of 0.100 and a high standard deviation of 3.620, indicating the presence of extreme values and skewness. Such divergence between mean and median aligns with prior evidence that financial ratios often exhibit non-normal distributions in emerging markets (Elbannan, 2011; Jiao et al., 2012). These patterns suggest that while IFRS aims to enhance comparability, firm-specific conditions continue to drive variability in reported performance outcomes.

Further insights from the full-sample correlation matrix reveal strong positive associations between profitability and cash flow measures. Specifically, ROA and CFO exhibit a high correlation of 0.910, while growth (GROW) is strongly correlated with both ROA (0.970) and CFO (0.840). This supports the argument that improved reporting frameworks under IFRS enhance the linkage between accrual-based and cash-based performance measures (Houqe et al., 2014). However, the weak correlations between leverage (LEVG) and performance indicators suggest that capital structure decisions may not be strongly aligned with profitability in the sample. This finding resonates with prior studies emphasizing that financial leverage in emerging markets is often influenced by institutional and market imperfections rather than firm fundamentals (Nnadi & Soobaroyen, 2015; Lassou & Hopper, 2016).

Examining the pre-IFRS period, the statistics indicate relatively lower variability in firm performance compared to the full sample. For instance, ROA has

a mean of 0.200 and a standard deviation of 1.610, significantly lower than the post-IFRS dispersion. Similarly, growth opportunities (GROW) display a mean of 1.860 and standard deviation of 9.550, reflecting more stable firm dynamics prior to IFRS adoption. The relatively lower volatility during this period may reflect conservative reporting practices under previous accounting regimes. This aligns with the view that pre-IFRS standards allowed greater smoothing of earnings, thereby reducing observed variability (Burgstahler & Dichev, 1997; Degeorge et al., 1999). Additionally, the strong correlation between ROA and CFO (0.930) suggests that even prior to IFRS, firms maintained a consistent relationship between accounting earnings and cash flows.

In contrast, the post-IFRS period is characterized by increased dispersion across most variables, particularly profitability and growth measures. ROA exhibits a mean of 0.300 and a significantly higher standard deviation of 4.860, while GROW shows an extreme increase in variability with a standard deviation of 51.680. This heightened dispersion may reflect improved recognition of economic realities under IFRS, which reduces the scope for earnings smoothing and enhances the transparency of financial statements (Barth et al., 2008; Daske et al., 2008). However, it may also indicate increased exposure to market volatility and economic shocks. The stronger correlation between ROA and CFO (0.960) in the post-IFRS period further supports the notion that IFRS enhances the alignment between accrual and cash-based measures, thereby improving financial reporting quality.

Table 3 provides a comparative analysis of changes in central tendency and dispersion measures between the pre- and post-IFRS periods. The results indicate a modest increase in ATO mean by 0.660%, suggesting slight improvements in operational efficiency following IFRS adoption. However, the more pronounced increase in ROA mean by 45.480% highlights a substantial improvement in profitability. This finding is consistent with studies suggesting that IFRS enhances firm performance through improved transparency and reduced information asymmetry (Samaha & Khlif, 2016; Salah, 2020). Nevertheless, the minimal change in ROE (-0.330%) suggests that gains in asset efficiency may not fully translate into shareholder returns, possibly due to changes in equity structure or dividend policies.

The median changes provide additional insights into the distributional shifts in firm performance. The median ROA increases by 6.730%, while ATO and ROE record modest increases of 1.810% and 1.160%, respectively. These results indicate that improvements in performance are not limited to a few outliers but are more broadly distributed across firms. However, the decline in median SIZE (-0.750%) suggests a slight contraction in firm scale or changes in asset valuation under IFRS. This may reflect fair value adjustments and stricter asset recognition criteria, which

can alter balance sheet structures (Aharony et al., 2010; Alali & Foote, 2012). The slight decline in leverage median (-1.330%) also indicates a marginal shift toward less debt reliance.

Table 2. Descriptive Statistics

	mean	median	Standard deviaion	ATO	ROA	ROE	CFO	GR OW	SI ZE	LEV G	BT MV
Full-sample											
ATO	1.05	0.84	0.99	1.00							
ROA	0.25	0.10	3.62	0.02	1.00						
ROE	0.10	0.09	0.53	0.02	0.08	1.00					
CFO	0.13	0.08	1.09	0.00	0.91	0.04	1.00				
GROW	2.54	1.10	37.16	0.02	0.97	0.00	0.84	1.00			
SIZE	8.16	8.08	2.46	-0.03	-0.11	-0.01	-0.11	-0.11	1.00		
LEVG	0.20	0.15	0.26	-0.04	-0.02	0.02	-0.01	-0.02	0.07	1.00	
BTMV	1.43	0.57	7.85	-0.02	0.00	0.01	0.00	0.00	0.02	0.00	1.00
Pre-IFRS											
ATO	1.04	0.83	0.97	1.00							
ROA	0.20	0.09	1.61	-0.01	1.00						
ROE	0.10	0.09	0.43	0.01	0.22	1.00					
CFO	0.13	0.08	0.87	-0.03	0.93	0.05	1.00				
GROW	1.86	1.10	9.55	0.01	0.79	0.00	0.82	1.00			
SIZE	6.20	8.11	2.42	-0.01	-0.08	-0.02	-0.09	-0.08	1.00		
LEVG	0.20	0.15	0.25	-0.04	-0.01	0.03	0.00	-0.02	0.10	1.00	
BTMV	1.28	0.55	4.50	-0.02	0.01	0.01	0.03	0.01	0.02	-0.01	1.00
Post-IFRS											
ATO	1.05	0.85	1.00	1.00							
ROA	0.30	0.10	4.86	0.03	1.00						
ROE	0.10	0.09	0.61	0.04	0.05	1.00					
CFO	0.13	0.08	1.27	0.01	0.96	0.03	1.00				
GROW	3.22	1.10	51.68	0.02	0.99	0.00	0.93	1.00			
SIZE	8.13	8.05	2.50	-0.05	-0.13	0.00	-0.12	-0.14	1.00		
LEVG	0.19	0.15	0.27	-0.05	-0.02	0.01	-0.01	-0.02	0.05	1.00	
BTMV	1.58	0.59	10.16	-0.02	0.00	0.01	-0.01	0.00	0.04	0.01	1.00

The most striking results are observed in the changes in standard deviation, which reveal substantial increases in variability across nearly all variables. ROA standard deviation increases by 202.630%, while GROW records an extreme rise of 441.390%. Similarly, CFO and ROE variability increase by 46.400% and 41.360%, respectively. These findings suggest that IFRS adoption is associated with greater dispersion in firm performance, possibly due to enhanced disclosure and reduced earnings smoothing. Prior literature supports this interpretation, arguing that high-quality accounting standards expose underlying economic volatility rather than

masking it (Sellami & Slimi, 2016; Gbadebo, 2023). This increased variability may pose challenges for investors but also provides a more accurate representation of firm risk.

Overall, the results indicate that while IFRS adoption is associated with improvements in average performance measures, it also leads to greater heterogeneity among firms. This dual effect highlights the complex nature of IFRS implementation, where increased transparency may simultaneously enhance performance and reveal underlying disparities. The findings are consistent with broader empirical evidence suggesting that the benefits of IFRS depend on firm-specific and institutional factors (Agyei-Boapeah, 2015; Mohamed et al., 2019; Sirembe et al., 2024). Furthermore, the increased variability underscores the importance of considering distributional changes rather than relying solely on mean effects when evaluating the impact of accounting reforms.

Table 3: Change in statistics estimates

	ATO	ROA	ROE	CFO	GROW	SIZE	LEVG	BTMV
Change in mean	0.66%	45.48%	-0.33%	-5.41%	72.89%	31.20%	-4.02%	23.40%
Change in med	1.81%	6.73%	1.16%	3.07%	0.15%	-0.75%	-1.33%	5.74%
Change in standard deviation	3.28%	202.63%	41.36%	46.40%	441.39%	3.12%	6.58%	125.56%

Source: Author (2025)

Policy Implications

The findings of this study carry important implications for policymakers and accounting standard setters, particularly in emerging markets such as South Africa. While IFRS adoption appears to enhance average firm performance and reporting transparency, the significant increase in variability across firms suggests uneven implementation and outcomes. Regulators should therefore prioritize strengthening enforcement mechanisms to ensure consistent application of IFRS across firms. This includes improving monitoring systems, enhancing audit quality, and imposing stricter penalties for non-compliance. Evidence suggests that the benefits of IFRS are more pronounced in environments with strong institutional frameworks (Houque et al., 2014; Daske et al., 2008). Consequently, regulatory bodies such as financial reporting councils should invest in institutional capacity to support effective IFRS implementation and reduce disparities in reporting practices.

Another key implication relates to the role of corporate governance in reinforcing the effectiveness of IFRS adoption. The persistence of earnings variability and potential managerial discretion highlights the need for stronger

governance structures within firms. Policymakers should encourage the adoption of robust governance practices, including independent boards, effective audit committees, and transparent disclosure policies. Prior studies indicate that corporate governance significantly enhances the credibility and reliability of financial reporting under IFRS (Samaha et al., 2012; Elbannan, 2011). Strengthening governance frameworks can help mitigate opportunistic behavior and ensure that the intended benefits of IFRS—such as improved comparability and reduced information asymmetry—are fully realized. This is particularly relevant in emerging markets where governance weaknesses may undermine the effectiveness of global standards.

The observed increase in performance dispersion also has implications for investors and capital market participants. While IFRS improves the informativeness of financial statements, it also exposes underlying economic volatility, which may complicate investment decisions. Policymakers should therefore promote investor education initiatives to enhance understanding of IFRS-based financial reports. Improved financial literacy can enable investors to better interpret complex accounting information and assess firm performance accurately. Research shows that IFRS adoption enhances the value relevance of accounting information, thereby supporting more efficient capital allocation (Aharony et al., 2010; Alali & Foote, 2012). However, without adequate user understanding, these benefits may not fully materialize. Thus, investor awareness programs are essential to complement regulatory reforms.

From a firm-level perspective, the results suggest that management should focus on improving internal reporting systems and financial controls to adapt to the demands of IFRS. The increased variability in performance indicators indicates that firms may face challenges in aligning accounting practices with economic realities. Firms should invest in staff training, accounting systems, and internal controls to ensure accurate and consistent financial reporting. Empirical evidence suggests that successful IFRS implementation requires significant organizational commitment and technical expertise (Lassou & Hopper, 2016; Mohamed et al., 2019). By strengthening internal capabilities, firms can not only comply with IFRS requirements but also leverage the standards to improve decision-making and operational efficiency.

In addition, the findings highlight the need for sector-specific regulatory considerations, particularly given the differences observed between financial and non-financial firms. Financial institutions are often subject to additional regulatory requirements, which may interact with IFRS in complex ways. Policymakers should consider developing tailored guidelines that address the unique reporting challenges faced by different sectors. This approach can enhance the relevance and effectiveness of IFRS implementation across industries. Evidence from prior studies

suggests that sectoral differences can significantly influence the outcomes of IFRS adoption, particularly in terms of financial reporting quality and performance (Agyei-Boapeah, 2015; Sirembe et al., 2024). A differentiated regulatory approach can therefore improve the overall impact of accounting reforms.

Finally, the broader economic implications of IFRS adoption should not be overlooked. By improving transparency and comparability, IFRS can enhance a country's attractiveness to foreign investors and facilitate cross-border capital flows. Policymakers should leverage IFRS adoption as part of a broader strategy to promote financial market development and economic integration. Studies indicate that IFRS adoption is associated with increased foreign direct investment and improved market efficiency (Nnadi & Soobaroyen, 2015; Samaha & Khlif, 2016). However, these benefits depend on the overall quality of the institutional environment. Therefore, efforts to strengthen legal systems, enforcement mechanisms, and governance structures should accompany IFRS adoption to maximize its economic impact.

Conclusion

The study set out to examine the effects of IFRS adoption on firm performance among JSE-listed firms by comparing pre- and post-adoption periods using descriptive distributional measures. The findings reveal that IFRS adoption is associated with improvements in average performance indicators, particularly return on assets, suggesting enhanced efficiency in resource utilization. However, these improvements are accompanied by substantial increases in variability across firms, indicating that the benefits of IFRS are not uniformly distributed. This dual outcome highlights the complex nature of accounting reforms, where increased transparency may both improve performance metrics and reveal underlying heterogeneity. The evidence therefore suggests that IFRS adoption contributes to better financial reporting outcomes, but its impact on firm performance remains context-dependent.

Furthermore, the study shows that while IFRS enhances the alignment between accrual-based and cash-based performance measures, it does not fully eliminate earnings variability or managerial discretion. The persistence of dispersion in key variables such as growth and profitability underscores the role of firm-specific characteristics and institutional factors in shaping financial outcomes. This implies that accounting standards alone are insufficient to drive uniform improvements in performance without strong enforcement, governance, and regulatory frameworks. The South African context, as an early adopter of IFRS, demonstrates relatively stronger outcomes compared to other emerging markets, yet still reflects challenges related to consistency and comparability. Thus, the

effectiveness of IFRS is closely tied to the broader institutional environment within which firms operate.

In conclusion, IFRS adoption represents a significant advancement in financial reporting practices, with notable implications for firm performance, investor confidence, and market efficiency. However, the findings emphasize that the transition to IFRS is not a panacea for all reporting and performance-related challenges. Policymakers and stakeholders must complement IFRS implementation with robust institutional support, including governance reforms, enforcement mechanisms, and capacity building. For firms, adapting to IFRS requires continuous investment in accounting systems and expertise to fully realize its benefits. Overall, this study contributes to the growing body of evidence on IFRS in emerging markets by demonstrating that while IFRS improves transparency and average performance, it also amplifies variability, thereby necessitating a more nuanced interpretation of its economic effects.

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