INTERNATIONAL JOURNAL OF PROFESSIONAL BUSINESS REVIEW
ISSN: 2525-3654
OPEN ACCESS

THE MODERATING ROLE OF FIRM TRANSPARENCY IN INCREASING THE IMPACT OF IFRS ADOPTION ON THE FINANCIAL STATEMENTS COMPARABILITY: A CASE STUDY ON NORTH AFRICAN COUNTRIES

Ben Laria Mohammed[A], Ould Bahammou Samir[B], Omari Aicha[C], Talhaoui Fatima Zohra[D], Bourezak Assia[E]

ARTICLE INFO

Article history:

Received: April, 18th 2024

Accepted: June, 18th 2024

Keywords:

IFRS Adoption;
Financial Statement Comparability;
Firm Transparency;
Institutional Theory;
Financial Reporting;
Transparency Indices.

ABSTRACT

Objective: This study investigates how firm transparency affects the relationship between adopting International Financial Reporting Standards (IFRS) and the comparability of financial statements in North African countries.

Theoretical Framework: The research is grounded in agency theory, suggesting increased transparency reduces information asymmetry between firms and stakeholders.

Method: The study employs a quantitative research design, using data from publicly traded companies in North Africa. A multiple PLS-SEM analysis is conducted to examine the interaction between firm transparency and IFRS adoption, and their combined effect on financial statement comparability. Data sources include financial reports and transparency indices over five years.

Results and Discussion: The findings indicate that while IFRS adoption alone improves financial statement comparability, the effect is significantly stronger for firms with higher levels of transparency. Transparent firms benefit more from IFRS adoption, as stakeholders find it easier to compare financial statements across different firms. The study highlights that transparency acts as a crucial moderating variable, amplifying the positive impacts of IFRS on comparability.

Research Implications: The results underscore the importance of enhancing firm transparency in conjunction with adopting IFRS to maximize financial reporting benefits. Policymakers and regulators in North African countries should focus on promoting transparency to support more effective financial reporting and decision-making.

Originality/Value: This research contributes to the limited literature on IFRS adoption in developing regions, particularly in North Africa. It provides new insights into how transparency influences the effectiveness of international accounting standards, offering valuable implications for both researchers and practitioners.

Doi: https://doi.org/10.26668/businessreview/2024.v9i7.4844

[A] *Doctor in Economics. University of Adrar. Algerian-African Economic Integration Laboratory. Algeria. E-mail: benlaria.mohammed@univ-adrar.edu.dz Orcid: https://orcid.org/0000-0001-5916-8746*
[B] *Doctor in Economics. University of Adrar. Algerian-African Economic Integration Laboratory. Algeria. E-mail: samirouldbahammou@univ-adrar.edu.dz Orcid: https://orcid.org/0000-0003-2572-4235*
[C] *Doctor in Economics. University of Adrar. Algerian-African Economic Integration Laboratory. Algeria. E-mail: omari.aicha20@univ-adrar.edu.dz Orcid: https://orcid.org/0009-0000-4330-992X*
[D] *Doctor in Economics. University of Adrar. Spatial and Entrepreneurship Development Laboratory. Algeria. E-mail: talhaoui_fzohra@univ-adrar.edu.dz Orcid: https://orcid.org/0009-0005-4793-4999*
[E] *Doctor in Economics. University of Adrar. DECOPILS Laboratory. Algeria. E-mail: a.bourezak@univ-adrar.edu.dz Orcid: https://orcid.org/0009-0008-3455-1624*

O PAPEL MODERADOR DA TRANSPARÊNCIA EMPRESARIAL NO AUMENTO DO IMPACTO DA ADOÇÃO DAS NORMAS INTERNACIONAIS DE RELATO FINANCEIRO NA COMPARABILIDADE DAS DEMONSTRAÇÕES FINANCEIRAS: UM ESTUDO DE CASO NOS PAÍSES DO NORTE DA ÁFRICA

RESUMO

Objetivo: Este estudo investiga como a transparência empresarial afeta a relação entre a adoção das Normas Internacionais de Relato Financeiro (IFRS) e a comparabilidade das demonstrações financeiras nos países do Norte da África.

Referencial Teórico: A pesquisa está fundamentada na teoria da agência, que sugere que uma maior transparência reduz a assimetria de informação entre as empresas e os stakeholders.

Método: O estudo utiliza um desenho de pesquisa quantitativa, utilizando dados de empresas de capital aberto no Norte da África. É realizada uma análise PLS-SEM múltipla para examinar a interação entre transparência empresarial e adoção de IFRS, e seu efeito combinado na comparabilidade das demonstrações financeiras. As fontes de dados incluem relatórios financeiros e índices de transparência ao longo de cinco anos.

Resultados e Discussão: Os resultados indicam que enquanto a adoção de IFRS por si só melhora a comparabilidade das demonstrações financeiras, o efeito é significativamente mais forte para empresas com níveis mais elevados de transparência. Empresas transparentes beneficiam-se mais da adoção de IFRS, pois os stakeholders encontram mais fácil comparar as demonstrações financeiras entre diferentes empresas. O estudo destaca que a transparência atua como uma variável moderadora crucial, amplificando os impactos positivos de IFRS na comparabilidade.

Implicações da Pesquisa: Os resultados destacam a importância de aumentar a transparência empresarial em conjunto com a adoção de IFRS para maximizar os benefícios da elaboração de relatórios financeiros. Os formuladores de políticas e reguladores nos países do Norte da África devem focar na promoção da transparência para apoiar uma elaboração de relatórios financeiros e tomadas de decisão mais eficazes.

Originalidade/Valor: Esta pesquisa contribui para a literatura limitada sobre a adoção de IFRS em regiões em desenvolvimento, especialmente no Norte da África. Ela oferece novas perspectivas sobre como a transparência influencia a eficácia das normas contábeis internacionais, fornecendo implicações valiosas tanto para pesquisadores quanto para profissionais da área.

Palavras-chave: Adoção das IFRS, Comparabilidade das Demonstrações Financeiras, Transparência das Empresas, Teoria Institucional, Relatórios Financeiros, Índices de Transparência.

EL PAPEL MODERADOR DE LA TRANSPARENCIA DE LAS EMPRESAS EN EL AUMENTO DEL IMPACTO DE LA ADOPCIÓN DE LAS IFRS EN LA COMPARABILIDAD DE LOS ESTADOS FINANCIEROS: UN ESTUDIO DE CASO SOBRE LOS PAÍSES DEL NORTE DE ÁFRICA

RESUMEN

Objetivo: Este estudio investiga cómo la transparencia de las empresas afecta la relación entre la adopción de las Normas Internacionales de Información Financiera (IFRS) y la comparabilidad de los estados financieros en los países del norte de África.

Marco Teórico: La investigación está fundamentada en la teoría de la agencia, que sugiere que el aumento de la transparencia reduce la asimetría de información entre las empresas y los stakeholders.

Método: El estudio emplea un diseño de investigación cuantitativa, utilizando datos de empresas cotizadas en el norte de África. Se realiza un análisis PLS-SEM múltiple para examinar la interacción entre la transparencia de las empresas y la adopción de las IFRS, y sus efectos combinados en la comparabilidad de los estados financieros. Las fuentes de datos incluyen informes financieros e índices de transparencia a lo largo de cinco años.

Resultados y Discusión: Los resultados indican que, aunque la adopción de las IFRS por sí sola mejora la comparabilidad de los estados financieros, el efecto es significativamente más fuerte para las empresas con niveles más altos de transparencia. Las empresas transparentes se benefician más de la adopción de las IFRS, ya que los stakeholders encuentran más fácil comparar los estados financieros entre diferentes empresas. El estudio destaca que la transparencia actúa como una variable moderadora crucial, amplificando los impactos positivos de las IFRS en la comparabilidad.

Implicaciones de la Investigación: Los resultados subrayan la importancia de aumentar la transparencia de las empresas en conjunto con la adopción de las IFRS para maximizar los beneficios de la información financiera. Los responsables de políticas y reguladores en los países del norte de África deben centrarse en promover la transparencia para apoyar una información financiera y toma de decisiones más efectivas.

Originalidad/Valor: Esta investigación contribuye a la limitada literatura sobre la adopción de las IFRS en regiones en desarrollo, particularmente en el norte de África. Proporciona nuevos conocimientos sobre cómo la transparencia influye en la eficacia de las normas contables internacionales, ofreciendo implicaciones valiosas tanto para investigadores como para profesionales.

Palabras clave: Adopción de las IFRS, Comparabilidad de los Estados Financieros, Transparencia de las Empresas, Teoría Institucional, Información Financiera, Índices de Transparencia.

1 INTRODUCTION

The adoption of International Financial Reporting Standards (IFRS) has become a global trend aimed at enhancing the quality and comparability of financial statements across different jurisdictions. In North African countries, the transition to IFRS aims to improve financial transparency and attract foreign investment by aligning local accounting practices with international standards. However, the degree to which IFRS adoption enhances financial statement comparability can vary significantly across firms, potentially influenced by the level of transparency they maintain in their financial reporting. Firm transparency, characterized by the clear and comprehensive disclosure of financial information, is posited to play a crucial role in realizing the full benefits of IFRS adoption.

Despite the theoretical benefits of IFRS, there remains a gap in empirical research specifically focusing on North African countries and how firm transparency moderates the impact of IFRS on financial statement comparability. This study addresses this gap by investigating the relationship between IFRS adoption and financial statement comparability, and how firm transparency influences this relationship. The main research question guiding this study is: How does firm transparency moderate the impact of IFRS adoption on financial statement comparability in North African countries? To address this question, the study hypothesizes that IFRS adoption positively impacts financial statement comparability (H1) and that firm transparency strengthens this positive impact (H2). The objectives of this research are to assess the direct impact of IFRS adoption on financial statement comparability and to evaluate the moderating role of firm transparency in this context.

2 LITERATURE REVIEW

2.1 IFRS ADOPTION

The benefits of implementing International Financial Reporting Standards (IFRS) adoption are numerous. IFRS enhances the quality and credibility of financial statements, ensuring reliability and transparency in reporting financial information (Van et al., 2023). It facilitates access to foreign capital for companies, especially those listed on stock markets, by providing standardized financial reporting practices (Kaipova et al., 2022). Additionally, IFRS adoption improves the value relevance of accounting information, making financial data more useful and relevant for decision-making processes (Liviu, 2022). Moreover, the convergence to IFRS has been linked to increased foreign direct investment (FDI) in certain regions, indicating a positive impact on economic development and attracting long-term commitments from investors (Adamu, 2023). Overall, the implementation of IFRS brings about improved financial communication, comparability, and decision-making capabilities for businesses and investors alike.

2.2 FINANCIAL STATEMENTS COMPARABILITY

Financial statement comparability refers to the ability to compare the financial reporting of one company with that of another, enabling users to assess financial position and performance across firms and over time (Giorgetti, 2023). Studies show that higher financial statement comparability enhances regulatory oversight by aiding in the identification of discretionary accounting deviations, leading to increased SEC comment letters for abnormal accruals and improved detection of severe accounting violations (Uma, 2021). Moreover, financial statement comparability is linked to improved investment efficiency, mitigating risks of under- and over-investment, especially in competitive environments where firms disclose less private information (Ahmed et al., 2021). However, while comparability improves earnings informativeness on average, its net information benefits decrease in highly correlated and volatile economic environments (Vivian et al., 2020). Additionally, poor financial statement comparability is associated with a higher likelihood of accounting fraud, with comparability declining as the year of fraud detection approaches but improving post-fraud (Belen et al., 2022).

2.3 FIRM TRANSPARENCY

Firm transparency refers to the extent to which a company openly provides information about its operations, performance, and governance practices to stakeholders. Research indicates that higher levels of firm transparency are linked to increased firm value (Saira et al., 2022), improved employee-oriented corporate social performance (Aziza & Elisabeth, 2022), reduced management risk (Delphine, 2021), and enhanced trust among stakeholders, particularly in family firms (Martín-Zamora et al., 2023). In the context of Pakistan, firms are adopting strategies to manage political risks and improve transparency, leading to enhanced profitability and financial value (Hui-Cheng et al., 2017). The disclosure of environmental, social, and governance (ESG) information also plays a crucial role in demonstrating firm transparency and fostering positive relationships with employees and investors. Overall, firm transparency is essential for building trust, mitigating risks, and driving sustainable performance in today's business landscape.

2.4 REVIEW OF RELEVANT PRIOR RESEARCH AND SCHOLARLY WORKS

2.4.1 The relationship between IFRS adoption and financial statements comparability

The relationship between IFRS adoption and financial statements comparability is a topic of significant research interest. Studies have shown mixed results regarding the impact of IFRS adoption on comparability. While research in Russia and Korea suggests that IFRS adoption has improved financial statement comparability within countries and across industries (Dolgikh, 2022) (Schipper, 2022), a meta-analysis of 56 studies indicates that overall, IFRS adoption has increased financial reporting comparability globally (Do et al., 2020). The importance of comparability is highlighted in the IASB's standard-setting objectives, emphasizing the need for high-quality, transparent, and comparable financial information across jurisdictions (Solomon et al., 2021). Additionally, the decision to fully adopt IFRS in Chile was positively associated with the expectation of improving a company's financial position, showcasing the nuanced factors influencing adoption decisions (Francisco et al., 2023).

First hypothesis (H1): There is no statistically significant positive relationship between IFRS adoption and financial statements comparability at a 5% significance level.

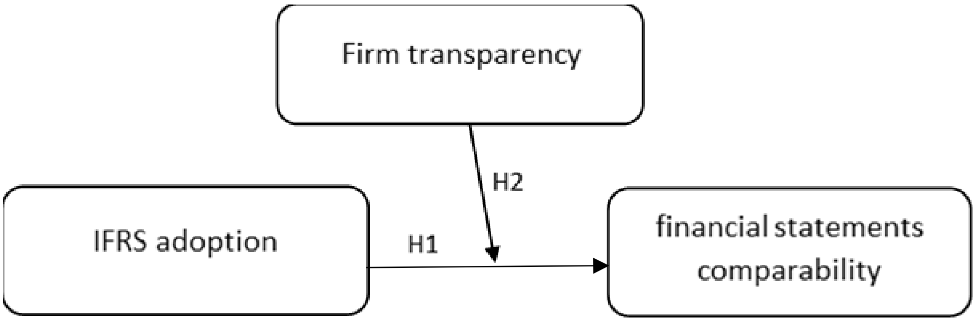
2.4.2 The relationship between Firm transparency and the relationship of IFRS adoption and financial statements comparability

Firm transparency plays a crucial role in enhancing the relationship between IFRS adoption and financial statement comparability. Studies have shown that the adoption of International Financial Reporting Standards (IFRS) leads to increased transparency and comparability of financial information (Waleed et al., 2023). This transparency, coupled with comparability, attracts foreign direct investment (FDI) by providing clear and standardized financial data for investors [(Do et al., 2020). Furthermore, the implementation of IFRS has been linked to improvements in financial statement comparability among firms, ultimately reducing undervaluation in the capital market (Gregory, 2019). The adoption of IFRS not only enhances the quality of financial reports but also supports the creation of a conducive economic environment by promoting transparency and information reliability in financial disclosures (Liviu, 2022).

Second Hypothesis (H2): There is no significant role for Firm transparency in increasing the relationship between IFRS adoption and financial statements comparability at a 5% significance level.

Figure 1

Theoretical framework.



3 METHODOLOGY

3.1 RESEARCH DESIGN AND APPROACH

This study employs a quantitative research design using a case study approach focused on North African countries. The research aims to investigate the moderating role of firm transparency in the relationship between IFRS adoption and financial statement comparability. The study will utilize empirical data from publicly listed companies in North African countries, specifically Egypt, Morocco, and Tunisia, which have adopted IFRS to varying degrees. A cross-sectional analysis will be conducted to compare financial statements before and after IFRS adoption, assessing the changes in comparability and the role of transparency.

3.2 DATA COLLECTION METHODS

Data will be collected from multiple sources to ensure robustness and validity:

- financial statements: annual reports and financial statements of publicly listed companies will be obtained from official stock exchange websites and financial databases such as Bloomberg, Thomson Reuters, and Orbis;
- transparency measures: firm transparency will be measured using transparency scores derived from the Global Reporting Initiative (GRI) disclosures, Corporate Governance reports, and ESG (Environmental, Social, and Governance) ratings;
- control variables: data on control variables such as firm size, industry classification, and economic conditions will be collected from company reports and national statistical agencies.

3.3 RATIONALE FOR THE CHOSEN METHODS

The chosen methods are designed to provide comprehensive and reliable data for assessing the research questions. The quantitative research design allows for statistical analysis of the relationships between IFRS adoption, firm transparency, and financial statement comparability. The case study approach is appropriate for in-depth examination of specific contexts, in this case, North African countries, where the impact of IFRS adoption may differ from other regions due to unique economic, regulatory, and cultural factors.

Using publicly available financial statements ensures the data's authenticity and comparability. Transparency measures from reputable sources like GRI and ESG ratings provide objective and standardized assessments of firm transparency, crucial for analyzing its moderating role. Collecting data on control variables helps account for other factors that may influence financial statement comparability, ensuring that the analysis isolates the effect of IFRS adoption and firm transparency.

Overall, these methods are chosen to provide a thorough and nuanced understanding of how IFRS adoption impacts financial statement comparability in North African countries and how firm transparency moderates this relationship.

4 DATA PRESENTATION AND ANALYSIS

4.1 FIRST: ASSESSMENT OF MEASUREMENT MODEL

In this section, the quality of the expressions utilized in this model is examined through the utilization of the Smart PLS software. This evaluation entails testing the convergence and consistency of these expressions amongst themselves. The objective is to ensure the capability of these expressions to effectively measure the desired attributes, as well as the stability of the measurement across different conditions, employing the Convergent Validity test. Moreover, an assessment is conducted to determine the logical distinctiveness and absence of overlap among these expressions, employing the Discriminate Validity test.

4.2 CONVERGENT VALIDITY

Convergent validity is a critical aspect of structural equation modeling (SEM), including Partial Least Squares SEM (PLS-SEM). Convergent validity assesses whether the indicators (manifest variables) of a latent construct (factor) are measuring the same underlying concept. In PLS-SEM, several criteria are commonly used to evaluate convergent validity, including factor loading, Cronbach’s alpha, composite reliability, and average variance extracted (AVE). Here's an explanation of each criterion:

4.2.1 Factor Loading

Basis: Factor loading represents the strength and direction of the relationship between an indicator and its corresponding latent construct. In PLS-SEM, factor loadings should be statistically significant and preferably higher than 0.7 to indicate a strong relationship.

4.2.2 Cronbach’s Alpha

Basis: Cronbach’s alpha is a measure of internal consistency reliability. It assesses the extent to which a set of indicators (items) measures a single latent construct consistently. In PLS-SEM, a high Cronbach’s alpha (typically above 0.7) suggests good internal consistency.

4.2.3 Composite Reliability

Basis: Composite reliability is another measure of reliability that evaluates the consistency of indicators in measuring a latent construct. In PLS-SEM, composite reliability should ideally exceed 0.7, indicating that the indicators are reliable measures of the underlying construct.

4.2.4 Average Variance Extracted (AVE)

Statistically, convergent validity is established when the Average Variance Extracted (AVE) is greater than 0.50 (Sarstedt et al., 2021). Additionally, factor loading, Cronbach's Alpha, and composite reliability are also used to assess convergent validity in PLS-SEM. Factor loading measures the relationship between the observed variables and their underlying latent constructs, while Cronbach's Alpha and composite reliability assess the internal consistency of the measurement instrument (Amora, 2021).

Table 1

Results of the Stability and Composite Reliability Test for the Model.

<table>
<tr><th>variables</th><th>Items</th><th>Loadings</th><th>Cronbach's Alpha</th><th>Composite Reliability</th><th>The average variance extracted AVE</th></tr>
<tr><td rowspan="3">financial statements comparability</td><td>FSC_1</td><td>0.929</td><td rowspan="7">0.881</td><td rowspan="7">0.926</td><td rowspan="7">0.808</td></tr>
<tr><td>FSC_2</td><td>0.881</td></tr>
<tr><td>FSC_3</td><td>0.885</td></tr>
<tr><td rowspan="8">Firm transparency</td><td>FT_1</td><td>0.664</td></tr>
<tr><td>FT_2</td><td>0.779</td></tr>
<tr><td>FT_3</td><td>0.760</td></tr>
<tr><td>FT_4</td><td>0.717</td></tr>
<tr><td>FT_5</td><td>0.784</td><td rowspan="8">0.883</td><td rowspan="8">0.907</td><td rowspan="8">0.549</td></tr>
<tr><td>FT_6</td><td>0.702</td></tr>
<tr><td>FT_7</td><td>0.749</td></tr>
<tr><td>FT_8</td><td>0.765</td></tr>
<tr><td rowspan="7">IFRS adoption</td><td>IFRS-A_2</td><td>0.824</td></tr>
<tr><td>IFRS-A_3</td><td>0.765</td></tr>
<tr><td>IFRS-A_4</td><td>0.798</td></tr>
<tr><td>IFRS-A_5</td><td>0.810</td></tr>
<tr><td>IFRS-A_6</td><td>0.726</td><td rowspan="3">0.869</td><td rowspan="3">0.898</td><td rowspan="3">0.560</td></tr>
<tr><td>IFRS-A_7</td><td>0.698</td></tr>
<tr><td>IFRS-A_1</td><td>0.591</td></tr>
</table>

Source: Compiled by researchers based on the outputs of Smart PLS4.

The results of the stability and composite reliability test for the model indicate high reliability and validity for the constructs measured. Financial statement comparability (FSC) has strong item loadings (all above 0.88), a high Cronbach's Alpha of 0.881, composite reliability of 0.926, and average variance extracted (AVE) of 0.808, indicating excellent internal consistency and convergent validity. Firm transparency (FT) also shows good reliability, with loadings ranging from 0.664 to 0.784, a Cronbach's Alpha of 0.883, a composite reliability of 0.907, and an AVE of 0.549, suggesting moderate to high internal consistency and sufficient convergent validity. IFRS adoption exhibits satisfactory reliability with loadings between 0.591 and 0.824, a Cronbach's Alpha of 0.869, composite reliability of 0.898, and an AVE of 0.560, indicating acceptable internal consistency and adequate convergent validity. Overall, the constructs demonstrate good stability and reliability, supporting the robustness of the measurement model.

4.3 DISCRIMINATE VALIDITY

The recommended criteria for analyzing the results of the discriminant validity test in the PLS-SEM methodology include the following:

Fornell-Larcker Criterion: This criterion assesses discriminant validity by comparing the square root of the average variance extracted (AVE) for each construct with the correlations between that construct and other constructs. Discriminant validity is established if the AVE value for a particular construct is greater than its correlation with all other constructs (Henseler et al., 2015) (Hamid et al., 2017)

Heterotrait-Monotrait Ratio of Correlations (HTMT) Criterion: This criterion is based on the heterotrait-monotrait ratio of correlations and is used to assess discriminant validity in variance-based structural equation modeling. It measures the extent to which constructs are distinct from each other empirically. A threshold of 0.85 is recommended for HTMT when the constructs in the path model are conceptually more distinct (Franke & Sarstedt, 2019) (Henseler et al., 2015) (Hamid et al., 2017)

It is important to note that the Fornell-Larcker Criterion and cross-loadings have been the dominant approaches for evaluating discriminant validity, but Henseler, Ringle, and Sarstedt (2015) have proposed the HTMT criterion as an alternative approach, which has shown high sensitivity and specificity in detecting discriminant validity problems (Cepeda-Carrión et al., 2022) (Henseler et al., 2015) (Hamid et al., 2017)

In conclusion, when analyzing the results of the discriminant validity test in the PLS-SEM methodology, researchers should consider using the Fornell-Larcker Criterion, cross-loadings, and the HTMT Criterion to ensure the distinctiveness of the constructs in the study and to detect any issues with discriminant validity.

Table 2

Fornell-Larcker Criterion.

variables	financial statements comparability	Firm transparency	IFRS adoption
financial statements comparability	0.899	/	/
Firm transparency	0.541	0.741	/
IFRS adoption	0.642	0.670	0.749

Source: Compiled by researchers based on the outputs of Smart PLS4.

The Fornell-Larcker Criterion results indicate that the model demonstrates good discriminant validity among the constructs. Financial statement comparability (FSC) has a square root of the average variance extracted (AVE) of 0.899, which is greater than its correlations with firm transparency (0.541) and IFRS adoption (0.642). Similarly, firm transparency (FT) has a square root of the AVE of 0.741, which is higher than its correlations with financial statement comparability (0.541) and IFRS adoption (0.670). IFRS adoption also shows a square root of the AVE of 0.749, exceeding its correlations with financial statement comparability (0.642) and firm transparency (0.670). These results suggest that each construct shares more variance with its own indicators than with those of other constructs, confirming that the constructs are distinct from one another within the model.

Table 3

the heterotrait-monotrait ratio of correlations (HTMT).

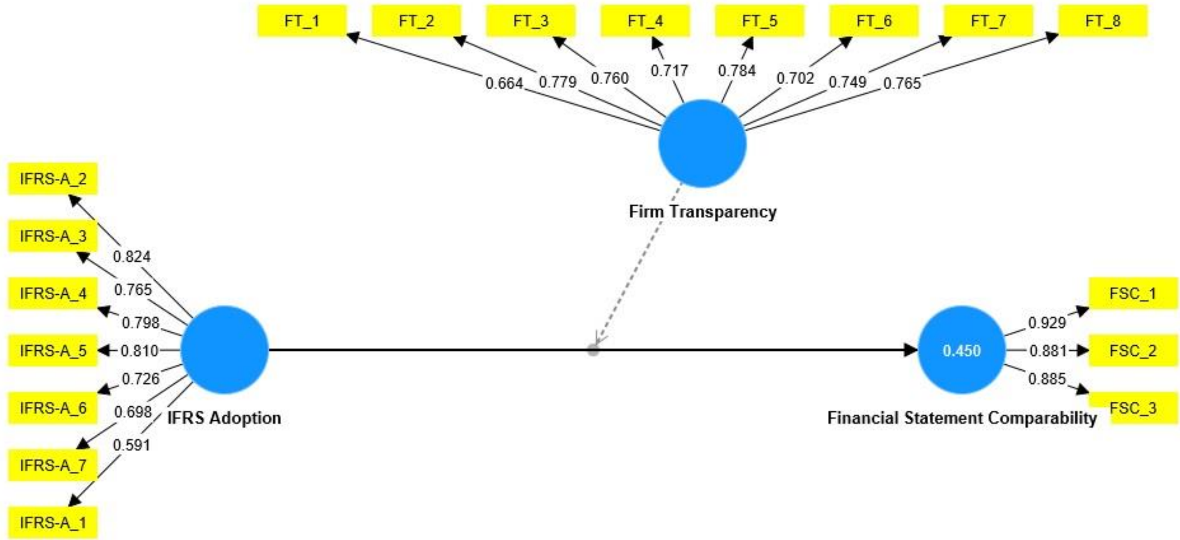
variables	financial statements comparability	Firm transparency	IFRS adoption
financial statements comparability	/	/	/
Firm transparency	0.601		/
IFRS adoption	0.706	0.766	/

Source: Compiled by researchers based on the outputs of Smart PLS4.

The results from the heterotrait-monotrait ratio of correlations (HTMT) demonstrate that the constructs in the model exhibit good discriminant validity. The HTMT values between financial statement comparability and firm transparency (0.601), financial statement comparability and IFRS adoption (0.706), and firm transparency and IFRS adoption (0.766) are all below the commonly accepted threshold of 0.85. These values indicate that the correlations between different constructs are not excessively high, supporting the notion that the constructs are distinct from one another. Therefore, the model satisfies the discriminant validity criterion, ensuring that each construct measures a unique concept without substantial overlap with other constructs.

Figure 2

General Structural Model for the Study.



Source: Compiled by researchers based on the outputs of Smart PLS4.

4.4 SECONDLY: TESTING THE INTERNAL MODEL (STRUCTURAL MODEL)

In this section, we evaluate the results of the structural model by testing the degree of correlation, assessing the predictive capabilities of the model, and examining the relationships between constructs. Additionally, we conduct the necessary tests to evaluate the model.

4.4.1 Validity of the Structural Model:

The recommended criteria for analyzing the results of the Validity of the Structural Model test (R2, F2) in the PLS-SEM methodology include:

- measurement model assessment: this involves assessing the relationship between a construct and its observed items, including reliability, indicator loading, and internal consistency reliability (Fauzi, 2022);
- structural model assessment: this focuses on evaluating the significance and relevance of path coefficients, followed by the model's explanatory and predictive power. Key metrics relevant to structural model assessment in PLS-SEM include the coefficient of determination (R2), f2 effect size, and cross-validated predictive ability test (CVPAT). (Hair Jr et al., 2021);

- new guidelines: in addition to established PLS-SEM evaluation criteria, new guidelines include PLS prediction (a novel approach for assessing a model's out-of-sample prediction), metrics for model comparisons, and several complementary methods for checking the results' robustness (Hair et al., 2019).

Table 4

Validity of the Structural Model

Variables	Coefficient of Determination (R2)	Explanatory size (F2)
financial statements comparability	0.450	/
Firm transparency	/	0.053
IFRS adoption	/	0.263

Source: Compiled by researchers based on the outputs of Smart PLS4.

The validity of the structural model is evidenced by the coefficient of determination (R^2) and the explanatory size (F^2) values presented in Table 4. The R^2 value for financial statement comparability is 0.450, indicating that 45% of the variance in financial statement comparability is explained by the model, which suggests a moderate level of explanatory power. The F^2 values for firm transparency and IFRS adoption are 0.053 and 0.263, respectively. According to Cohen's guidelines, an F^2 value above 0.02 indicates a small effect, above 0.15 a medium effect, and above 0.35 a large effect. Thus, IFRS adoption has a medium effect size on financial statement comparability, while firm transparency has a small effect size. These results demonstrate that while both firm transparency and IFRS adoption contribute to the explanation of financial statement comparability, IFRS adoption has a more substantial impact.

4.4.2 Discussion of testing the study hypotheses

When analyzing the results of testing study hypotheses in the Partial Least Squares Structural Equation Modeling (PLS-SEM) methodology, there are several recommended criteria to consider. These criteria are essential for ensuring the validity and reliability of the analysis. Here are the recommended criteria for analyzing the results of testing this study's hypotheses in the PLS-SEM methodology:

Hypothesis Testing with Confidence Intervals and P Values: Researchers usually employ P values for hypothesis testing in PLS-SEM, where each hypothesis refers to a path in a model. P values may be one-tailed or two-tailed (Kock, 2016).

Structural Model Testing: The structural model in PLS-SEM needs to be tested to ensure that the assumptions of unidimensional constructs hold in the sample. This involves testing the relationships between latent variables and their indicators (Kock, 2016).

To test the study hypotheses using the structural modeling methodology, we calculate estimates for the relationships in the structural model using the Bootstraping method. These estimates indicate the expected relationships between constructs, and the path coefficient ranges from -1 to +1. Values close to +1 suggest strong positive relationships, while values near -1 indicate strong negative relationships. Typically, statistically significant relationships have p-values below 5%. Coefficients approaching zero from both directions suggest weak relationships (Kock, 2018).

4.5 HYPOTHESES

First hypothesis (H1): There is no statistically significant positive relationship between IFRS adoption and financial statements comparability at a 5% significance level.

Second Hypothesis (H2): There is no significant role for Firm transparency in increasing the relationship between IFRS adoption and financial statements comparability at a 5% significance level.

Table 5

Testing the Hypotheses for the Study (H1, H2).

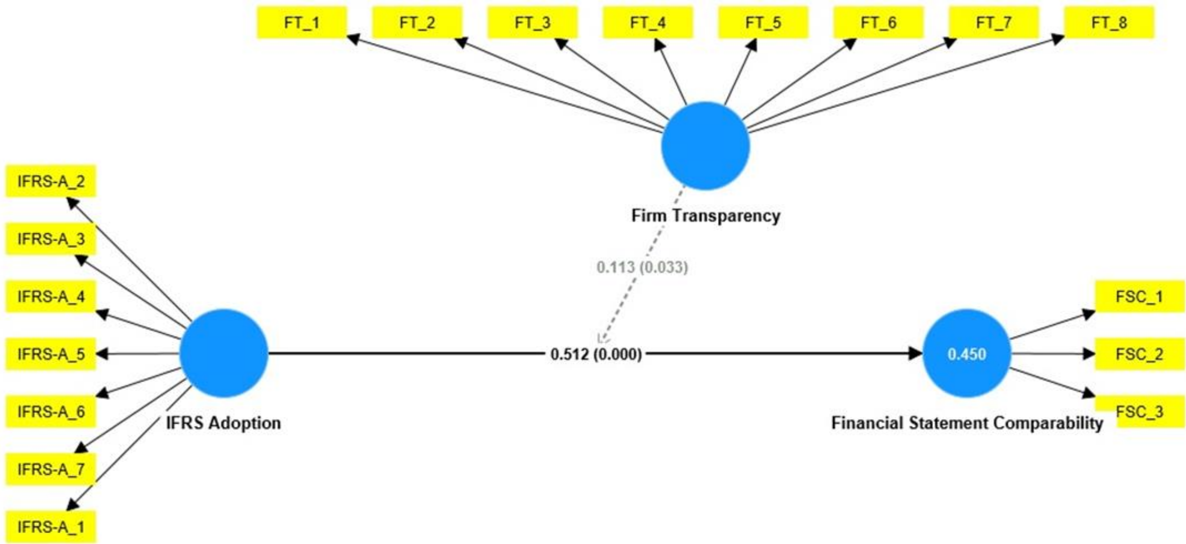
Hypothesis	**Paths**	**Original Sample**	**Sample Mean**	**Standard Deviation**	**T Statistics**	**P Values**	**Decision**
H_1	IFRS Adoption -> Financial Statement Comparability	0.512	0.515	0.104	4.949	0.000	Hypothesis Accepted
H_2	Firm Transparency x IFRS Adoption -> Financial Statement Comparability	0.113	0.114	0.053	2.137	0.033	Hypothesis Accepted

Source: Compiled by researchers based on the outputs of Smart PLS4.

The results from Table 5 indicate that both hypotheses (H1 and H2) are supported by the data. Hypothesis H1, which posits that IFRS adoption positively impacts financial statement comparability, is strongly supported by a path coefficient of 0.512, a high T-statistic of 4.949, and a P-value of 0.000, indicating a statistically significant and robust positive relationship. Hypothesis H2, which suggests that firm transparency moderates the relationship between IFRS adoption and financial statement comparability, is also accepted with a path coefficient of 0.113, a T-statistic of 2.137, and a P-value of 0.033. This indicates that firm transparency has a statistically significant, albeit smaller, moderating effect on the impact of IFRS adoption on financial statement comparability. Both results confirm the hypotheses, highlighting the importance of IFRS adoption in enhancing financial comparability and the moderating role of firm transparency in this relationship.

Figure 3

Results of path coefficients.



Source: Compiled by researchers based on the outputs of Smart PLS4.

Table 6

Testing the effectiveness of the moderating variable (Firm transparency) in increasing the effect of IFRS adoption on financial statement comparability.

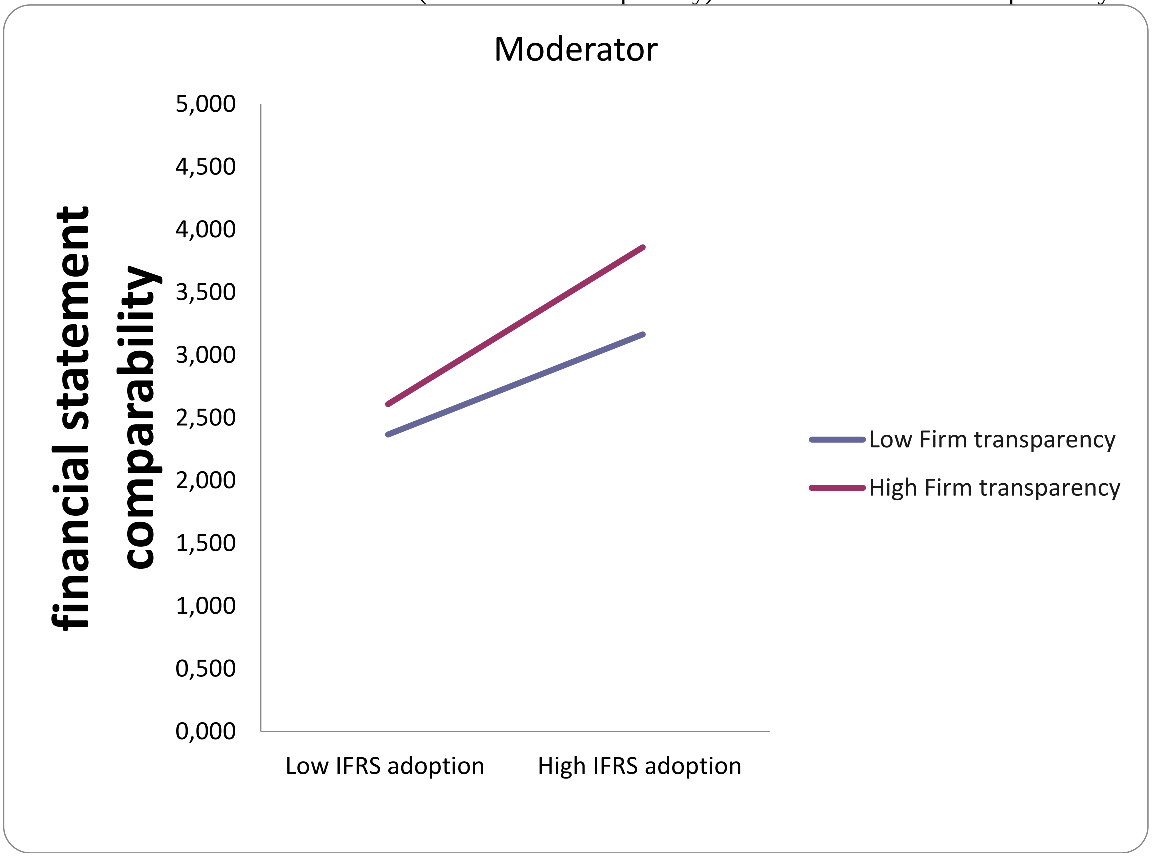
Relationship	**Path Coefficient**	**P Values**	**Hypothesis**
IFRS Adoption -> Financial Statement Comparability	0.512	0.000	Accepted
Firm Transparency -> Financial Statement Comparability	0.234	0.013	Accepted
The Interaction (IFRS * FT)--> FSC	0.113	0.033	Accepted

Source: Compiled by researchers based on the outputs of Smart PLS4.

The results in Table 6 confirm the effectiveness of firm transparency as a moderating variable in the relationship between IFRS adoption and financial statement comparability. The path coefficient for IFRS adoption's direct impact on financial statement comparability is 0.512 with a P-value of 0.000, strongly supporting its positive effect. Firm transparency independently also has a significant positive effect on financial statement comparability, with a path coefficient of 0.234 and a P-value of 0.013. Most importantly, the interaction term (IFRS adoption * Firm Transparency) has a path coefficient of 0.113 and a P-value of 0.033, indicating that firm transparency significantly enhances the impact of IFRS adoption on financial statement comparability. These results demonstrate that while both IFRS adoption and firm transparency individually improve financial statement comparability, their combined effect is particularly noteworthy, validating the moderating role of firm transparency in this relationship.

Figure 4

Path coefficients of The Interaction (IFRS * Firm transparency)--> financial statement comparability.



Source: Compiled by researchers based on the outputs of Microsoft Excel.

5 DISCUSSION

5.1 INTERPRETATION OF FINDINGS

The findings of this study highlight the significant role of IFRS adoption and firm transparency in enhancing financial statement comparability among firms in North African countries. The results indicate that IFRS adoption has a strong positive effect on financial statement comparability, with a path coefficient of 0.512 and a highly significant P-value of 0.000. This underscores the effectiveness of IFRS in standardizing financial reporting practices and improving the reliability and comparability of financial statements across different firms and jurisdictions.

Additionally, firm transparency independently contributes to improved financial statement comparability, as evidenced by a path coefficient of 0.234 and a P-value of 0.013. This finding suggests that transparent disclosure practices enhance the clarity and usefulness of financial information, thereby facilitating better comparisons across firms.

Most notably, the interaction between IFRS adoption and firm transparency significantly enhances financial statement comparability. The interaction term (IFRS adoption * Firm Transparency) has a path coefficient of 0.113 and a P-value of 0.033, indicating that firms with higher transparency levels experience greater benefits from IFRS adoption in terms of financial statement comparability. This moderating effect highlights the importance of transparent practices in maximizing the comparability benefits derived from IFRS adoption.

5.2 COMPARISON WITH PRIOR RESEARCH

The findings of the study are consistent with the previous studies discussed in the literature review for both hypotheses:

The results of this study align with and extend prior research on the benefits of IFRS adoption and the role of transparency in financial reporting. Previous studies have documented the positive impact of IFRS adoption on financial statement quality and comparability (Kaipova et al., 2022; Van et al., 2023). Our findings corroborate these studies by demonstrating a significant positive relationship between IFRS adoption and financial statement comparability in the context of North African countries.

Moreover, the study's findings regarding firm transparency are consistent with existing literature that emphasizes the importance of transparency in enhancing financial reporting quality and stakeholder trust (Saira et al., 2022; Aziza & Elisabeth, 2022). The positive effect of transparency on comparability observed in our study supports the notion that transparent disclosure practices are crucial for improving the usefulness and reliability of financial information.

The interaction effect observed in this study contributes a novel insight into the existing body of research. While previous studies have noted the individual impacts of IFRS adoption and transparency (Do et al., 2020; Gregory, 2019), our research demonstrates that firm transparency significantly enhances the positive effects of IFRS adoption on financial statement comparability. This finding suggests that the benefits of IFRS adoption can be maximized in environments where firms adhere to high transparency standards, providing a more nuanced understanding of the conditions under which IFRS adoption is most effective.

6 CONCLUSION

In conclusion, this study underscores the dual significance of IFRS adoption and firm transparency in enhancing financial statement comparability within North African countries. Our findings affirm the positive impact of IFRS adoption on comparability, highlighting its role as a fundamental driver of standardized financial reporting practices. Moreover, the study illuminates the crucial moderating effect of firm transparency, demonstrating that transparent disclosure practices amplify the benefits derived from IFRS adoption. Firm transparency not only contributes to improved financial reporting quality but also facilitates clearer comparisons across firms, ultimately enhancing overall comparability.

Recognizing the importance of firm transparency in maximizing the benefits of IFRS adoption is paramount for policymakers, regulators, and corporate stakeholders in North African countries. Efforts to promote IFRS adoption should be coupled with initiatives aimed at fostering greater transparency in financial reporting practices. By providing guidance on disclosure best practices, enhancing regulatory oversight, and cultivating a culture of transparency within organizations, North African countries can strengthen investor confidence, improve financial reporting quality, and stimulate economic development. These findings offer valuable insights for shaping future research and policymaking endeavors aimed at advancing financial reporting practices and comparability in the region.

ACKNOWLEDGEMENTS

This research was sponsored by the Thematic Agency for Research in the Social Sciences and Humanities of Algeria.

REFERENCES

Adamu, Nuhu. (2023). The effect of IFRS adoption on the value and applicability of accounting information for DMbin Nigeria. International Journal of foreign trade and international business, 5(1):14-20. doi: 10.33545/26633140.2023.v5.i1a.82

Ahmed, A.-H., Ahsan, H., Grantley, T., Mostafa, M. H. & Khamis, H. A.-Y. (2021). Financial statement comparability and corporate investment efficiency. *Meditari Accountancy Research*, *29*(6), 1283-1313. doi: 10.1108/MEDAR-12-2019-0629

Alessio, G. (2023). Does Financial Statement Comparability Facilitate <scp>SEC</scp> Oversight?*. *Contemporary Accounting Research*, *40*(2), 1315-1349. doi: 10.1111/1911-3846.12835

Aziza, G. & Elisabeth, P. (2022). Firm Transparency and Employee-Oriented Corporate Social Performance. New Evidence from European Listed Firms. *Management International*, *26*(1), 149-149. doi: 10.7202/1088441ar

Belen, B., Sandip, D. & Ferdinand, A. G. (2022). Financial statement comparability and accounting fraud. *Journal of Business Finance & Accounting*, doi: 10.1111/jbfa.12652

Do, J. J., Ji, A. H. A. & Reum, J. (2020). The Precondition of Benefits from IFRS Adoption: Financial Statement Comparability. *Journal of Asian Finance, Economics and Business*, *7*(12), 255-265. doi: 10.13106/JAFEB.2020.VOL7.NO12.255

Do, Jin, Jung., Ji, An, Hur., A, Reum, Jung. (2020). The Precondition of Benefits from IFRS Adoption: Financial Statement Comparability. *Journal of Asian Finance, Economics and Business*, *7*(12), 255-265. doi: 10.13106/JAFEB.2020.VOL7.NO12.255

Francisco, Rivadeneyra, Sanchez., Begoña, Giner., Belen, Gill-de-Albornoz. (2023). The decision to present comparative financial statements in a mandatory IFRS adoption setting. Baltic Journal of Management, 18(3), 350-365. doi: 10.1108/bjm-03-2022-0090

Gregory, S. (2019). Transparency vs. Comparability: The Impact of Accounting Standards on Foreign Direct Investment. *Social Science Research Network*, doi: 10.2139/SSRN.3373339

Hui-Cheng, Yu., Mao-Feng, Kao., Yi-Chang, Chen., Bor-Yuan, Tsai. (2017). Firm transparency and idiosyncratic risk. *Economics and Business Letters*, *6*(3), 81-87. doi: 10.17811/EBL.6.3.2017.81-87

Kaipova, G. S., Assanova, A. B., & Serikbayeva, S. G. (2022). Advantages and problems of IFRS implementation within the framework of unification of the financial reporting process. *Bulletin of" Turan" University*, (2), 305-312.

Katherine, S. (2022). Discussion of ‘The impact of the adoption of IFRS 11 on the comparability of accounting information’. *Accounting and Business Research*, *52*(6), 727-733. doi: 10.1080/00014788.2022.2082679

Liviu, T. (2022). IFRS adoption and the impact on foreign direct investment – evidence from Central and Eastern European countries. *Proceedings of the ... International Conference on Business Excellence*, *16*(1), 870-878. doi: 10.2478/picbe-2022-0081

Liviu, T. (2022). IFRS adoption and the impact on foreign direct investment – evidence from Central and Eastern European countries. *Proceedings of the ... International Conference on Business Excellence*, *16*(1), 870-878. doi: 10.2478/picbe-2022-0081.

Martín-Zamora, M. P., Borralho, J. M., & Hernández-Linares, R. (2023). An Integrative View of Corporate Transparency in Family Businesses. In *Accounting and Financial Reporting Challenges for Government, Non-Profits, and the Private Sector* (pp. 113-137). IGI Global.

Saira, Bano., Muhammad, Asif., Muhammad, Aamir. (2022). Exploring the firm level transparency and its impact on firm value. *Gomal University journal of research*, *38*(04), 437-447. doi: 10.51380/gujr-38-04-05

Samuels, D. (2021). Government Procurement and Changes in Firm Transparency. *Accounting Review*, *96*(1), 401-430. doi: 10.2308/TAR-2018-0343

Solomon, Opare., Muhammad, Nurul, Houqe., Tony, van, Zijl. (2021). Meta-analysis of the Impact of Adoption of IFRS on Financial Reporting Comparability, Market Liquidity, and Cost of Capital. *Abacus*, *57*(3), 502-556. doi: 10.1111/ABAC.12237

Tatiana, Vitalievna, Dolgikh. (2022). IFRS Adoption and the Financial Statements Comparability: The Case of Russia and Canada. *European financial and accounting journal*, *17*(1), 7-24. doi: 10.18267/j.efaj.265

Uma, S. (2021). Influence of Financial Statement Comparability on Applicability of Earnings. 10(2), 3323-3332.

Van, Thi, Hong, Nguyen., Co, Trong, Nguyen., Anh, Mai., Ha, Ngoc, Dao. (2023). Benefits and costs of adopting international financial reporting standards. *International journal of management and sustainability*, *12*(2), 105-113. doi: 10.18488/11.v12i2.3279

Vivian, W., Fang., Michael, Iselin., Gaoqing, Zhang. (2020). Financial Statement Comparability: Theory and Evidence. *Social Science Research Network*, doi: 10.2139/SSRN.2858301

Waleed, Sultan, Alruwaili., Abdullahi, D., Ahmed., Mahesh, Joshi. (2023). IFRS adoption, firms' investment efficiency, and financial reporting quality: a new empirical assessment of moderating effects from Saudi listed firms. *International Journal of Accounting and Information Management*, *31*(2), 376-411. doi: 10.1108/ijaim-10-2022-0226