




“The impact of IFRS introduction by listed Moroccan companies on financial performance: The mediating role of the cost of capital”

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THE IMPACT OF IFRS INTRODUCTION BY LISTED MOROCCAN COMPANIES ON FINANCIAL PERFORMANCE: THE MEDIATING ROLE OF THE COST OF CAPITAL

Abstract

This study aims to examine the direct and indirect impact of IFRS adoption on the financial performance of Moroccan companies listed on the Moroccan financial market. The analyses are based on data drawn from the financial statements of 21 Moroccan companies listed on the Casablanca Stock Exchange. By measuring financial performance using three stock market measures, namely the Mariss ratio, the Price Earnings Ratio, and the Tobin Q ratio, and using the structural equation method with SPSS AMOS software, the results indicate that before the introduction of the cost of capital variable, IFRS significantly affect financial performance, with an estimated coefficient of 0.395 significant at the 5% threshold. By introducing the cost of capital variable, the results show that the direct and significant relationship between IFRS and performance disappears, recording an estimated coefficient of 0.241 with a non-significant probability level of 0.243. On the other hand, the results show that the estimated coefficients for the indirect effect of IFRS on financial performance are negative, i.e., a coefficient of -0.099 estimating the direct effect of IFRS on the cost of capital and a coefficient of -2.621 estimating the direct effect of the cost of capital on financial performance, significant at the 1% and 5% thresholds, respectively. This confirms the hypothesis that the transition to IFRS indirectly and totally influences financial performance via the cost of capital variable.

Keywords

Moroccan standards, cost of capital, investment choices, IFRS, emerging market, financial performance, information asymmetry

JEL Classification

G11, G15, M41

INTRODUCTION

Since the emergence of the new society, which separates ownership from management, capital markets have played an unprecedentedly important role in financing companies. Their success, and even their long-term survival, depends on the willingness of investors. By deciding whether or not to invest in a company, investors influence its value and performance. In the current economic climate, marked by the globalization and internationalization of companies, as well as by technological advances, the quality of financial information disclosed is a key factor in the growth of these companies.

Moreover, the assessment of a company's financial health and the correct evaluation of its development prospects through the operationalization of financial indicators depend not only on the rigor with which management applies accounting standards but also, to a large extent, on the ability of the accounting framework applied to generate reliable,

understandable and internationally comparable information. On the other hand, the use of national standards specific to each country does not enable these objectives to be achieved, which implies the use of IFRS in preparing and communicating information in an international language comprehensible to all parties.

Furthermore, since the introduction of these standards in Europe on January 1, 2005, following EC regulation no. 1606/2002 of July 19, 2002, and their extension to certain neighboring countries, many researchers have attempted to demonstrate the consequences of their application on the financial health of companies and their performance, decision-making choices, the relevance of information, the quality of results and the behavior of investors on the financial markets. This study attempts to present solid evidence of the impact of the introduction of IFRS in the Moroccan context on financial performance and seeks to answer the following question: To what extent does the transition of listed Moroccan groups to IFRS influence their financial performance?

1. LITERATURE REVIEW AND HYPOTHESES

Assessing a company's financial state and performance requires the use of financial ratios and indicators, the results of which depend largely on the accounting standards applied. Against a backdrop of international accounting standardization, embodied in the adoption of IFRS as quality standards, this study attempts to assess the effect of the transition of listed Moroccan companies to these standards on financial performance. A review of the empirical literature divides studies on the effect of IFRS on financial performance into two parts. The first deals with the direct effect of IFRS on financial performance. The second focuses on the indirect effect of IFRS on financial performance.

In order to estimate the direct impact of IFRS on financial performance, previous studies have focused on the effect of these standards either on performance measures, or on financial performance itself. The impact of adopting IFRS on performance measures is mainly attributable to the impact of applying the fair value principle. Researchers such as Sahut and Souissi (2007), Šteker and Otrusínova (2011), Beranová and Polák (2014), Avwokeni (2018), Outa et al. (2017), Barth et al. (2023), and Laouane and Torra (2023) have confirmed that the measures used changed after the adoption of IFRS as a result of the application of this principle. Contradictory conclusions were drawn by Beuren et al. (2008) and Barneto and Gregorio (2011), who found a neutral effect of the introduction of the fair value principle on financial performance.

Regarding the effect of IFRS on financial performance, Taiwo and Adejare (2014) found a significant positive correlation between IFRS and the financial performance of the companies studied, due to the reduction in company costs. They add that by increasing corporate efficacy and productivity, the adoption of IFRS has effectively improved business performance and contributed to an appropriate allocation of resources which contradicts the results found by Umobong and Ibanichuka (2015) and Junior et al. (2015). Lainez and Callao (2000) examine the extent to which the international accounting variety influences certain corporate financial ratios, namely solvency, indebtedness, profitability, and liquidity. Statistical tests show that these ratios depend to a large extent on the accounting principles applied when drawing up their financial statements.

In examining the indirect effect of IFRS on financial performance, previous studies have highlighted the mediating role played by the cost of capital. To explain this indirect relationship, researchers have split it into two direct relationships: the first directly links IFRS adoption to the cost of capital variable, while the second directly links the cost of capital variable to financial performance.

In studying the direct effect of IFRS on the cost of capital, Daske (2006) and Cuijpers and Buijink (2005) confirm that IFRS do not help to reduce the cost of capital and may even, in some cases, increase it. This finding can be explained both by the weak incentives for managers to adopt these standards rigorously and seriously and by the comparability of accounts between companies due to the growing divergence between the accounting policies of

companies applying IFRS and those using national standards. Daske et al. (2012) add that the lack of a significant impact of IFRS on the cost of capital is explained by the fact that after the voluntary transition to IFRS, the level of liquidity and the cost of capital remains fixed, which is no longer the case when adoption becomes mandatory, where liquidity tends to increase and the cost of capital to decrease. These authors confirm that the impact of IFRS on the cost of capital depends on how the standards are applied, and they have observed a better quality of accounts when these standards are adopted on a mandatory basis. These results are challenged by Kim et al. (2013), who point out that it is difficult to identify companies that fully adopt IFRS and those that partially adopt them.

On the other hand, Moura et al. (2020) point out that IFRS have alleviated problems of asymmetric information and led to a significant reduction in the cost of capital. Turki et al. (2020) have shown that the introduction of IFRS in the French context is accompanied by a low cost of capital. Nevertheless, this effect remains linked to the strength of the standards' implementation, which increases the comparability of accounts and improves communication (Li, 2010). In the same vein, Laouane (2024) confirms a negative and significant association between IFRS and the cost of capital for listed Moroccan companies. Similar conclusions were drawn by Bart et al (2008). In addition, Góis et al. (2018) find a reduction in the cost of equity after the transition to IFRS. In the Korean context, Kim and Ryu (2018) find a significant correlation between IFRS and the cost of equity of listed Korean companies between 2000 and 2013, justifying this result by the improvement in financial communication following the adoption of IFRS. Furthermore, Tweedie (2006) points out that any reduction in the risk perceived by investors must be accompanied by a reduction in the cost of capital, the development of diversification strategies and, consequently, an improvement in the returns on said investments.

Focusing on the direct effect linking the cost of capital to financial performance, Laouane (2024) confirms that a low cost of capital improves the financial performance of listed companies. Modigliani and Miller (1958) study the relationship between financial leverage and the cost of capital for a large sample of US companies, confirming that, indepen-

dently of fluctuations in financial leverage, capital structure has no impact on the cost of capital, firm value, or investment decisions. Turki et al. (2020) report a significant negative association between cost of capital and financial performance for 87 French groups. Similarly, Jensen (1986) shows that when cash is available, managers may invest it in unprofitable projects, which has an impact on financial profitability. On the other hand, in the presence of debt, managers are obliged to invest in the most profitable projects, thereby covering debt costs and minimizing the risk of bankruptcy.

Simerly and Li (2000) point out that indebtedness enables managers to discipline their behavior in the use of resources. However, a high level of debt limits managers' ability to be more competitive, which will have a negative impact on future projects and cast doubt on the company's future. Kebewar (2012) asserts that the capital structure of the French companies studied has no significant impact on profitability. However, as Lahmini and Ibenrissoul (2015) suggests, this impact varies according to the type of debt, with a positive effect of short-term debt and a negative impact of long-term debt. Interestingly, the reason for studying the effect of capital structure as a reflection of the cost of capital on financial profitability is that debt is a risky element that can be detrimental to a company's survival.

Concentrating on the effect of the cost of capital itself on financial performance, Pástor et al. (2008) confirm that the cost of capital is associated with return on equity. This notion of cost is useful for establishing the relationship between risk and return over time, even when earnings forecasts are poor (Hussain & Chakraborty). Pouraghajan et al. (2012) show that improved financial performance is conditioned by a high cost of capital. This is due, on the one hand, to the fact that investors and lenders expect a reasonable return in exchange for financing and, on the other, to the fact that companies seek to achieve the expected return on financing by eliminating the need for it and achieving a high level of profitability. This is in line with the findings of Mohamad and Saad (2012) and Swanson and Viinanen (2006) and contradicts the studies of Ibrahim and Ibrahim (2015), Moh'd Al-Tamimi and Obeidat (2013), and Rehman and Zaman (2011). On the other hand, Bushman and Smith (2001) argue that better identification of profitable projects,

good governance, and reduced information asymmetry are the three main channels through which financial performance can be improved and that reducing investor risk involves improving these three channels and, consequently, a lower cost of capital is expected. Furthermore, Brigham and Gapenski (1996) point out that, to enhance a company's value and performance, management must define the optimal level of the cost of capital and ensure that it is maintained at an appropriate threshold.

In light of the results of these studies, accounting divergences can be seen as the main obstacle to global economic development and the smooth functioning of financial markets. The vast majority of results suggest that the transition to IFRS has brought a series of advantages over local standards, notably the reliability of information and the comparability of financial statements, enabling investors to rationalize and optimize their decisions. However, the heterogeneity of the results and the lack of studies examining the effect of these standards on corporate financial performance in the context of emerging markets suggest that this issue needs to be studied in greater depth.

The aim of this study is to examine the direct and indirect impact of IFRS adoption on the financial performance of Moroccan companies listed on the Moroccan financial market. In order to estimate this impact, the present study seeks to test two main hypotheses, which can be formulated as follows:

- H1: The adoption of IFRS has a significant direct effect on the financial performance of listed Moroccan groups.*
- H2: The adoption of IFRS has a significant indirect impact on the financial performance of listed Moroccan groups through the cost of capital.*

2. METHODS

2.1. Sample

To assess the impact of Moroccan groups' transition to IFRS on their financial performance, the base sample is made up of 76 companies listed on the Moroccan financial market up to the end of 2021. Nevertheless, to guarantee a degree of homogeneity in the sample and avoid difficulties during the analysis, more than half of the companies have been excluded, notably financial and insurance companies for reasons of comparability of financial statements, companies that do not adopt IFRS, companies whose statutory accounts are prepared in accordance with foreign standards, and companies with missing data. The final sample is made up of 21 groups listed on the Casablanca Stock Exchange (see Appendix) with data collected from three different sources: the database of the Moroccan Capital Markets Authority, the official website of the Casablanca Stock Exchange, and the official websites of the groups concerned.

As regards the study period, the transition to IFRS is still optional in the Moroccan context, and there is no standardized IFRS transition date for all listed Moroccan companies. This specificity is therefore taken into account in data collection, and each company is treated separately according to its transition date.

2.2. Conceptual model and variable measurements

The conceptual model of this study consists of three variables: first, financial performance as the variable to be explained; second, the IFRS variable, which is the explanatory variable; and third, the cost of capital, which acts as a mediator to test the hypothesis relating to the indirect effect

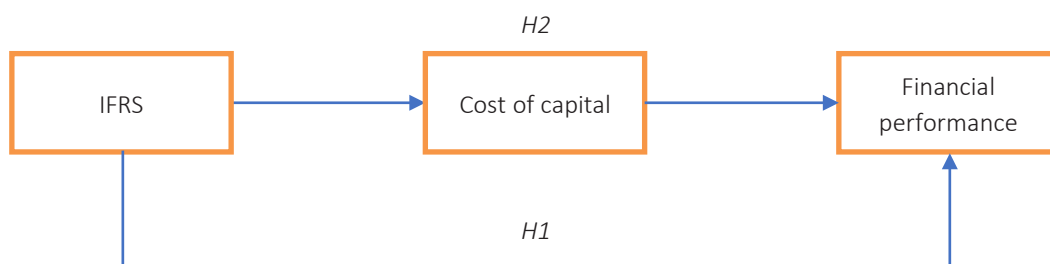


Figure 1. Conceptual research model

of IFRS on financial performance. The conceptual research model can be schematized as shown in Figure 1.

2.2.1. Financial performance

This concept has been measured in the literature using three stock market ratios: the Marris ratio, Tobin's Q ratio, and the price-earnings ratio. There are several reasons for this choice. Firstly, they allow us to evaluate management decisions and take sector-specific factors into account. Secondly, they give a clear picture of potential performance. Finally, these indicators are unlikely to be manipulated by company managers and are rarely influenced by accounting options.

The Marris ratio is calculated by dividing the value of market capitalization by the book value of a company's equity. Market capitalization represents the market value of a company's securities, measured by multiplying the number of shares outstanding by the market price.

$$\text{Mariss ratio} = \frac{MC}{BVOE}, \quad (1)$$

where MC – Market Capitalization, $BVOE$ – Book Value of Equity.

Tobin's Q ratio is attributed to the American economist James Tobin, who had a considerable influence on the world economy in the 20th century. This ratio is an indicator that describes the relationship between a company's market value and the replacement value of its invested capital. When this ratio is greater than 1, the company is in a good position to increase its wealth, which also boosts shareholder confidence and enables it to pay higher dividends. On the other hand, if this ratio is below 1, shareholders are rather pessimistic about the company. As a result, the company will find it difficult to raise funds, make investments, and pay dividends to its shareholders. However, this measure of corporate performance reaches its limits when speculative bubbles form.

Referring to the work of Mard et al. (2014), the most commonly used formula can be written as follows:

$$\text{Tobin's } Q = \frac{EMV}{EBV}, \quad (2)$$

where EMV – Equity Market Value, EBV – Equity Book Value.

The Price Earnings Ratio is one of the most widely used ratios for valuing a company. It occupies a special place insofar as it measures the number of years of earnings an investor is willing to pay for a share, as well as investors' expectations of the company's earnings trend. According to Pava and Krausz (1996), this ratio is measured by dividing a company's share price by its earnings per share.

$$PER = \frac{MVPS}{EPS}, \quad (3)$$

where $MVPS$ – Market Value Per Share, EPS – Earnings Per Share.

2.2.2. IFRS variable

IFRS is a dichotomous variable reflecting the effect of Moroccan groups' transition to IFRS on financial performance, taking the value one if the observations correspond to the post-IFRS period, and zero if they correspond to the pre-IFRS period.

2.2.3. Cost of capital

The cost of capital is the model's mediating variable. It combines the cost of different sources of financing (debt and equity) and measures the profitability required by these different types of financing. There are various formulas for calculating it, but some authors (Nahar et al., 2016; Urquiza et al., 2012; Li, 2010; Kim et al., 2013) indicate that the formula proposed by Easton (2004) is a robust measure because it takes into account the different costs specific to the company. As in previous studies, this study uses Easton's (2004) formula to calculate the cost of capital.

$$COC = \sqrt{\frac{EPS_2 - EPS_1}{P_0}}, \quad (4)$$

where COC – Cost of Capital, EPS_2 and EPS_1 – 2-year and 1-year earnings per share forecasts respectively, P_0 – Current Share Price.

3. RESULTS

Before testing the hypotheses using the results of the chosen data analysis software (AMOS), it would be useful for the models deployed to pass

Table 1. Suitability index values for the direct model (without mediator variable)

Indices	CMIN/DF	GFI	AGFI	CFI	NFI	RMSEA	TLI
Values	2.000	0.987	0.934	0.988	0.977	0.08	0.965

a number of validity tests, which is the question most frequently asked when modeling with structural equations.

Table 1 summarizes the results of the main adequacy indices before taking into account the cost of capital variable.

Analysis of the results in Table 1 shows that the values of the various indices belonging to the first category attest to the consistency of the reference model with the observed data. The GFI (0.987) and AGFI (0.934) are above the 0.9 threshold and very close to 1, while the RMSEA (0.08) is within the normal range. Analysis of the second category of incremental indices (NFI, TLI, and CFI) shows that all values exceed the 0.9 threshold and are very close to 1, i.e. (0.977) for NFI, (0.965) for TLI, and (0.988) for CFI). In addition, the table shows that the CMIN/DF index has a value of 2.000 below the threshold of 3, which is in line with the standard.

In short, all the values found are satisfactory; confirming that the model tested is consistent with the observed pattern.

Table 2 summarizes the results of the fit tests for the model including the mediator variable.

Analysis of the results presented in Table 3 shows that the absolute and incremental indices are, on average, above the 0.9 thresholds and very close

to 1, i.e. (0.971) for GFI, (0.890) for AGFI, (0.945) for NFI, (0.905) for TLI, and (0.962) for CFI. The RMSEA index of 0.069 is below the norm (0.08), confirming the empirical acceptance threshold. Furthermore, analysis in terms of the CMIN/DF index shows a coefficient (2.938) below the threshold of 3.

In short, the various index categories are relatively satisfactory, confirming that the sample data and the hypothetical model are acceptable for analysis.

To estimate the effect of IFRS on financial performance and to test the various research hypotheses, the remainder of this section presents the results of the various tests applied to the models identified using AMOS software.

Table 3 presents the results of the causal links between the various variables and the validity of the hypotheses.

The results presented in Table 3 can be divided into two categories: First, results assessing the strength of the direct link between IFRS and financial performance without the mediator variable; second, results assessing the direct and indirect links between IFRS and financial performance, taking into account the cost of capital variable.

Excluding the mediator variable and focusing on the direct relationship between IFRS adoption and financial performance, the results show that

Table 2. Fit indices after introduction of the median variable

Indices	CMIN/DF	GFI	AGFI	CFI	NFI	RMSEA	TLI
Values	2.938	0.971	0.890	0.962	0.945	0.069	0.905

Table 3. Test results on the relationship between IFRS and financial performance

Causality	Estimate	P-value	Assumptions
Without mediator variable			
IFRS → Financial performance	0.395	0.035**	Accepted
with mediator variable			
IFRS → Financial performance	0.241	0.243	Accepted
IFRS → Cost of capital	-0.099	0.002***	
Cost of capital → Financial performance	-2.621	0.000***	

Note: ** Significant coefficient at 5%; *** Significant coefficient at 1%.

the coefficient estimate obtained is 0.395 and its probability level (0.035) is significant at the 5% level, meaning that the introduction of IFRS by Moroccan groups listed on the Moroccan financial market has a direct and significant impact on financial performance. The first hypothesis is therefore confirmed.

On the other hand, if we include the cost of capital as a mediating variable, the results for the direct relationship between IFRS adoption and financial performance show an estimated coefficient of 0.241 with a non-significant probability level of 0.243. This result leads to the conclusion that the introduction of the mediating variable weakens this significant relationship between IFRS and financial performance.

The additional results also reveal that the estimated coefficients for the link between IFRS and the cost of capital and the link between the cost of capital and financial performance are -0.099 and -2.621 , respectively, with probability levels of 0.002 and 0.000. This means that the adoption of IFRS reduces the cost of capital and consequently improves companies' financial performance, thus confirming the second hypothesis.

Table 4 shows that, including the cost of capital, IFRS directly explains financial performance by 0.241, and indirectly by 0.260. In other words, IFRS explains financial performance with an overall coefficient of 0.501, with the remainder corresponding to other company-specific factors.

Table 5 summarizes the significance of the direct and indirect links between the explanatory variable and the variable to be explained. Starting with the direct link in the absence of the mediator variable, as already argued in the analysis of

results in Table 3, IFRS have a direct impact on financial performance, with a probability level of 0.035 significant at the 5% threshold. Contrary findings are observed when the mediator variable is introduced: the results suggest that the relationship between IFRS and financial performance is not significant, with a probability level of 0.243 above the 5% threshold. On the other hand, the results show that the introduction of IFRS indirectly and significantly affects companies' financial performance via the cost of capital, with a probability level of 0.004 significant at the 1% threshold.

4. DISCUSSION

In the absence of the cost of capital variable, IFRS have a significant impact on financial performance. This result is not surprising, given that the objective of these standards is to satisfy the expectations of the company's various stakeholders, including investors, by guaranteeing them credible information, limiting management's accounting choices, ensuring the overall compatibility of the accounts, and improving financial profitability. On the other hand, when the variable cost of capital is introduced, the results indicate that the direct relationship between IFRS and the financial performance of the Moroccan companies studied is no longer significant. This is in line with the results of Laouane (2024) and Turki et al. (2020), who confirm the absence of any significant direct effect linking the adoption of IFRS and financial performance before and after the introduction of the cost of capital, demonstrating that IFRS affect accounting measures of performance based on accounting figures drawn up in accordance with this international benchmark, rather than stock market measures based on the financial market.

Table 4. Overview of the effect of IFRS adoption on financial performance

Causal link	Direct impact	Indirect impact	Total impact
IFRS → Financial performance	0.241	0.260	0.501

Table 5. Significance of the relationships established between IFRS and financial performance

Causal link	Direct effect (without mediator variable)	Direct effect (with mediator variable)	Indirect effect
IFRS → Financial performance	0.035**	0.243	0.004***
Significance of links	Significant	Not significant	Significant

Note: ** Significant coefficient at 5%; *** Significant coefficient at 1%.

The indirect effect is reflected in the analysis of two direct effects, the first of which links IFRS and the cost of capital. The results confirm that by adopting IFRS, the cost of capital tends to fall significantly, which is in line with the findings of Turki et al. (2020) and Laouane (2024). In this perspective, Leuz and Wysocki (2016) demonstrate that IFRS financial reporting boosts investor confidence in accounting figures, which significantly reduces companies' cost of capital.

The second direct link connects the cost of capital and financial performance. The results found are in line

with those of Turki et al. (2020) and Laouane (2024) and confirm the hypothesis that lowering the cost of capital significantly improves corporate financial performance. In addition, Hussain and Chakraborty (2010) and Mohamed and Saad (2012) note that the lower cost of capital resulting from IFRS adoption systematically increases the informative power of published accounting indicators. In other words, reducing the risk perceived by investors contributes to reducing the level of uncertainty regarding the company's financial health, and will increase investors' confidence in their companies, which in turn will increase the size of the investor base.

CONCLUSION

The aim of this study is to examine the direct and indirect impact of IFRS adoption on the financial performance of Moroccan companies listed on the Moroccan financial market. The study is based on a sample of 21 Moroccan groups listed on the Casablanca Stock Exchange. From a methodological point of view, the structural equation method was used, and to measure financial performance, the present study refers to the three stock market measures most widely used in the literature, namely the Mariss ratio, Tobin's Q ratio, and the PER ratio. In addition, to assess the indirect effect of IFRS on financial performance, the cost of capital variable was introduced as a mediating variable.

By analyzing the data using SPSS-AMOS software, the results indicate that prior to the introduction of the cost of capital variable, IFRS had a significant direct impact on financial performance. By introducing the cost of capital variable, the significant direct effect linking IFRS and financial performance disappears, and the results suggest that IFRS has a significant effect on financial performance thanks to a low cost of capital, thus confirming the two research hypotheses.

Like any study, this study has its limitations. Firstly, the small number of observations is due to the recent and gradual introduction of IFRS in the Moroccan context. Secondly, the study of a single country can be considered a major limitation of this research. Thirdly, only three performance indicators were used in this study. Nevertheless, this study can be extended by broadening the sample to include other countries, and by studying the impact of IFRS on financial performance, focusing on the financial sector.

In terms of implications, this study first contributes to the debate on the direct and indirect contributions of IFRS to financial performance. Secondly, the conclusions drawn may be useful to investors wishing to invest in this market. Finally, the results of this study may encourage non-adopting countries to adopt them, as these are quality standards that meet the needs of various key users, including investors, who are at the heart of corporate development and growth.

AUTHOR CONTRIBUTIONS

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Data curation: Yassine Oubahou.

Formal analysis: Yassine Oubahou.

Funding acquisition: Yassine Oubahou.

Investigation: Yassine Oubahou.
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 Supervision: Khalid El Ouafa.
 Validation: Khalid El Ouafa.
 Visualization: Khalid El Ouafa.
 Writing – original draft: Yassine Oubahou.
 Writing – review & editing: Khalid El Ouafa.

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APPENDIX A

Table A1. List of sample companies

Company name	Business sectors
ALUMINIUM DU MAROC	Building and Construction Materials
AUTO HALL	Distributors
CIMENTS DU MAROC	Building and Construction Materials
COSUMAR	Food and Production
CTM	Transport
DELATTRE LEVIVIER MAROC	Engineering and Industrial Capital Goods
DISWAY	Hardware, Software and Services
FENIE BROSSETTE	Distributors
HPS SA	Hardware, Software and Services
LABEL VIE	Distributors
LAFARGEHOLCIM MAROC	Building and Construction Materials
LESIEUR CRISTAL	Food and Production
MINIERE TOUSSIT	Mines
OULMES	Beverages
SOCIETE DES BOISSONS DU MAROC	Beverages
SONASID	Building and Construction Materials
SOTHEMA	Pharmaceutical industry
STROC INDUSTRIE	Engineering and Industrial Capital Goods
UNIMER	Food and Production
TIMAR	Transport
ZELLIDJA S.A	Portfolio companies / Holdings