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Translation Methods and Reporting Profits of Listed Pharmaceutical Companies in Nigeria

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Abstract
The study focuses on the significance of pharmaceutical companies listed on the stock exchange, highlighting their obligation to maintain strict financial reporting standards for stakeholders' benefit. It emphasizes the critical role of reported profits as a key indicator of a company's operational efficiency, profitability, and value creation potential. Consequently, the research aims to investigate the influence of translation methods employed by Nigerian-listed pharmaceutical firms on their reported profits. The study utilized an ex post facto research design and gathered data from the annual reports and financial statements of seven pharmaceutical companies listed on the Nigerian Exchange Group (NGX). Census sampling was employed due to the small population size, enabling the examination of the entire population as the sample size. Data were collected over an eleven-year period from 2012 to 2022, and both descriptive and inferential statistics were used for data analysis. The analysis of the results revealed a significant adverse effect of translation methods on the reported profit (specifically, earnings per share) of these companies. This finding indicates that the translation methods employed had a detrimental influence on the reported profit or earnings per share of the pharmaceutical companies. In conclusion, the study reveals that translation methods play a critical role in shaping the reported profits of listed pharmaceutical companies in Nigeria. Pharmaceutical companies should meticulously evaluate and select translation methods that minimize the negative impact on reported profits.
Keywords: Translation methods, Reported profit, Current exchange rate, Temporal exchange rate, Pharmaceutical companies.
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Introduction

The pharmaceutical industry in Nigeria stands as a crucial pillar of the nation's healthcare infrastructure, catering to the medical needs of its populace while also contributing significantly to its economy. Within this dynamic sector, the reporting of financial performance by listed pharmaceutical companies assumes paramount importance (Ajala, 2021; Egolum et al., 2020). However, the translation methods employed in financial reporting can significantly influence the reported profits of these entities, thereby shaping investor perceptions, regulatory oversight, and strategic decision-making processes. With a population exceeding 200 million and a high burden of disease, including communicable and non-communicable ailments, the demand for pharmaceutical products and services remains robust, underpinning the sector's growth and resilience (Kennedy & Mweshi, 2023; Duru et al., 2018).

Listed pharmaceutical companies, as key players within this industry, are subject to rigorous financial reporting requirements aimed at providing stakeholders with transparent and reliable information regarding their performance and financial health. Among the critical metrics disclosed in financial statements, reported profits hold particular significance, serving as a barometer of a company's operational efficiency, profitability, and value-creation potential (Ezuma, 2022; Oladipupo & Onotaniyohuwo, 2011). However, the determination of reported profits in the context of multinational pharmaceutical companies operating in Nigeria is often influenced by various factors, with currency translation methods standing out as a significant determinant. Nigeria's economy, characterized by fluctuations in currency values, multiple exchange rate regimes, and inflationary pressures, presents a challenging environment for financial reporting, particularly for entities engaged in cross-border transactions and operations (Osho & Efuntade, 2019; Enekwe et al., 2014).

Nigeria, characterized by a volatile economic landscape and currency market, presents a unique backdrop for examining the translation methods adopted by pharmaceutical firms. The prevalence of multiple exchange rate regimes, coupled with the challenges of currency devaluation and inflationary pressures, underscores the significance of this investigation (Kehinde et al., 2022; Owoeye & Ogunmakin, 2013). Translation methods used to convert foreign currency-denominated financial statements into the reporting currency can have a profound impact on the reported profits of listed pharmaceutical companies. Whether historical exchange rates, current

rates, or a combination of both are employed, the choice of translation method can significantly alter the perceived financial performance of these entities, influencing investor decisions, regulatory assessments, and strategic planning initiatives (Ndayako et al., 2022; Buabeng et al., 2018). Moreover, the Nigerian pharmaceutical industry operates within a regulatory framework governed by agencies such as the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN), which mandate compliance with international financial reporting standards (IFRS). As such, the selection and application of appropriate translation methods assume critical importance in ensuring compliance with regulatory requirements and maintaining the integrity and comparability of financial information (Owolabi & Adegbite, 2017).

Hence, this study seeks to explore the effect of translation methods employed by listed pharmaceutical companies in Nigeria on their reported profits. By examining the rationale behind the choice of translation methods, analyzing their implications on financial performance metrics, and assessing stakeholder perceptions and reactions, this research aims to contribute valuable insights to the discourse on financial reporting practices within the Nigerian pharmaceutical sector. This study underscores the significance of reported profits in financial reporting, the complexities associated with currency translation methods, and the broader context of the Nigerian pharmaceutical industry's regulatory and economic landscape. Through a systematic investigation, this research endeavors to enhance understanding, transparency, and decision-making processes within the sector, ultimately fostering sustainable growth and development. Furthermore, this research endeavors to shed light on the implications of translation methods on stakeholders' perceptions and decision-making processes. Investors, analysts, regulatory bodies, and policymakers rely on accurate financial information to gauge the performance and viability of pharmaceutical companies, thereby influencing investment flows, market dynamics, and policy formulation.

Literature Review

Translation Method

Translation methods play a pivotal role in the field of international business and finance, where transactions frequently span across borders and involve multiple currencies. At its core, a translation method is a strategic approach or technique employed to convert financial statements or records denominated in one currency into another currency for reporting purposes (Abubakar, 2020). This process is fundamental for ensuring that financial information remains accurate, consistent, and comparable across different currencies and jurisdictions. The significance of translation methods cannot be overstated, as they serve as a bridge between the diverse economic environments and currencies in which businesses operate. By employing appropriate translation methods, organizations can present financial data in a format that is understandable and meaningful to stakeholders, including investors, regulators, analysts, and creditors (Hossin & Mondol, 2020). The selection of a translation method is influenced by a multitude of factors, each requiring careful consideration. Regulatory requirements play a crucial role, as accounting standards and regulations often prescribe specific methods or guidelines for translating financial statements. For example, International Financial Reporting Standards (IFRS) guide translation methods to ensure consistency and comparability in financial reporting across jurisdictions (Setiawanta et al., 2020).

Moreover, the nature of transactions and the complexity of a company's operations also influence the choice of translation method. Companies engaged in diverse business activities, such as multinational corporations with subsidiaries in different countries, may need to employ sophisticated translation methods to accurately reflect the financial performance of each entity (Ahmad et al., 2020). The economic environment, including factors such as exchange rate volatility, inflation rates, and currency controls, also weighs heavily on the selection of translation methods. Fluctuations in exchange rates can have a significant impact on reported financial figures, affecting profitability, equity value, and financial ratios. Therefore, companies must carefully assess the economic landscape and choose translation methods that mitigate the risks associated with currency fluctuations (Buabeng et al., 2018). Ultimately, the choice of translation method rests on management's judgment, informed by a comprehensive understanding of the organization's operations, regulatory requirements, and economic conditions. Effective translation methods enable companies to present financial information in a manner that is relevant, reliable, and comparable across different currencies and jurisdictions. By doing so, they enhance transparency, foster investor confidence, and facilitate informed decision-making processes among stakeholders (Alali et al., 2018).

Temporal Rate Method

This is otherwise known as the historical rate method. The method of translating foreign currency-denominated assets and liabilities at historical exchange rates prevailing at the time of their initial recognition is known as the Historical Rate Method (Santosa, 2019). This approach is a fundamental aspect of accounting for transactions denominated in foreign currencies and is particularly relevant for multinational corporations conducting business

in diverse economic environments. Under the Historical Rate Method, when a company acquires assets or incurs liabilities denominated in a foreign currency, the initial recognition of these items on the balance sheet occurs at the exchange rate prevailing at the time of the transaction. This historical exchange rate is then used to translate the value of these assets or liabilities into the reporting currency of the company's financial statements (Hussain et al., 2020). For example, if a U.S.-based company purchases inventory from a supplier in Japan and the transaction is denominated in Japanese yen, the value of the inventory on the balance sheet will be recorded using the exchange rate between the U.S. dollar and the Japanese yen at the date of purchase. Similarly, when it comes to liabilities, such as accounts payable or long-term debt, the Historical Rate Method dictates that the value of these obligations is translated into the reporting currency using the exchange rate in effect at the time the liability was incurred (Mulinya & olweny, 2020).

It is important to note that while assets and liabilities are translated at historical exchange rates, income statement items are typically translated at average exchange rates for the reporting period. This ensures consistency in the translation process and helps to smooth out any fluctuations in exchange rates that may occur throughout the accounting period (Opaluwa et al., 2012). For instance, when calculating revenues and expenses denominated in a foreign currency for the income statement, companies often use the average exchange rate for the reporting period. This approach provides a more accurate representation of the company's financial performance over time, rather than using a single exchange rate at the beginning or end of the period, which may not reflect the true economic reality (Elhussein & Osman, 2019). The Historical Rate Method provides a systematic and consistent approach to translating foreign currency-denominated items into the reporting currency of a company's financial statements. By using historical exchange rates, this method aims to reflect the economic substance of transactions at the time they occurred, thereby enhancing the reliability and comparability of financial information across different currencies and accounting periods (Hussain et al., 2021).

Current Rate Method

The method described refers to the Current Rate Method, an essential approach used in translating financial statements from one currency to another for reporting purposes. This method entails converting all assets and liabilities into the reporting currency at the prevailing exchange rate as of the balance sheet date (Mate et al., 2022). Meanwhile, income statement items are typically translated at the average exchange rate for the entire reporting period. When employing the Current Rate Method, a company takes the exchange rate in effect on the date of the balance sheet to translate its foreign currency-denominated assets and liabilities. This means that the value of these items is recorded on the balance sheet using the exchange rate that reflects the current economic environment at the reporting date. For example, if a U.S.-based company has investments in a foreign subsidiary denominated in euros, the value of those investments on the balance sheet will be translated into U.S. dollars using the prevailing exchange rate on the balance sheet date. Similarly, liabilities denominated in a foreign currency, such as accounts payable or long-term debt, are translated using the current exchange rate. This ensures that the company accurately reflects its financial obligations in the reporting currency, considering the exchange rates prevailing at the balance sheet date (Mohammed & Hasan, 2023; Omoke, 2010).

Income statement items, on the other hand, are generally translated at the average exchange rate for the entire reporting period. This means that revenues, expenses, gains, and losses denominated in a foreign currency are converted into the reporting currency using the average exchange rate over the period in which the transactions occurred (Nydahl, 1999). By using the average exchange rate, companies aim to smooth out any fluctuations in exchange rates that may occur during the reporting period, providing a more accurate representation of their financial performance over time. The Current Rate Method provides a snapshot of the company's financial position at a specific point in time, using current exchange rates to reflect the economic reality as of the balance sheet date. By translating assets and liabilities at the current exchange rate and income statement items at the average exchange rate, this method helps companies present financial information that is relevant, reliable, and comparable across different currencies and accounting periods (Abubakar, 2020).

Reported Profits

Reported profits refer to the net income or earnings that a company discloses in its financial statements for a specific accounting period. These profits represent the surplus generated by the company's operations after deducting all expenses, taxes, and other costs from its total revenues (Asubiojo et al., 2023; Dada et al., 2023). Reported profits are typically presented in the income statement, also known as the profit and loss statement, which provides a summary of a company's financial performance over a defined period, such as a quarter or fiscal year (Adewara et al., 2023; Akinadewo et al., 2023). The income statement outlines the company's revenues, including sales of goods or services, as well as various expenses incurred in generating those revenues, such as cost of goods sold, operating expenses, taxes, and interest payments. The reported profits of a company serve as a key indicator of its financial health and performance. They reflect the extent to which the company's

revenues exceed its expenses and provide insights into its profitability and efficiency in generating earnings from its core business activities (Awotomilusi et al., 2023; Kolawole et al., 2023).

Reported profits are of significant interest to various stakeholders, including investors, creditors, analysts, and regulators. Investors use reported profits to assess the company's ability to generate returns on investment and to make informed decisions about buying, holding, or selling its stock (Boluwaji et al., 2024). Creditors evaluate reported profits to gauge the company's ability to repay its debts and manage financial obligations. Analysts analyze reported profits to assess the company's financial strength, growth prospects, and overall value. It is important to note that reported profits may differ from actual cash flows generated by a company, as they include non-cash items such as depreciation and amortization expenses (Dagunduro et al., 2023; Oluwagbade et al., 2023). Additionally, reported profits can be influenced by accounting policies, adjustments, and one-time events, which may impact their comparability and reliability for decision-making purposes. Therefore, it is essential for stakeholders to carefully analyze reported profits in the context of the company's financial statements, business operations, and industry dynamics (Dagunduro et al., 2022).

Earnings Per Share (EPS)

Earnings Per Share (EPS) is a financial metric used to measure a company's profitability on a per-share basis. It is calculated by dividing a company's net earnings (after taxes and preferred stock dividends) by the average number of outstanding shares over a specific period, usually quarterly or annually (Owolabi & Adegbite, 2013). EPS is a key indicator for investors as it provides insight into a company's profitability relative to its outstanding shares, allowing for comparisons across different companies and industries. It's often used as a component in various financial ratios and analyses, aiding investors in assessing a company's financial health and growth potential. High EPS typically indicates higher profitability and potential for dividend payouts or reinvestment in the company's growth (Alali et al., 2018).

Translation Methods and Reported Profits

The relationship between translation methods and reported profits is intricate and significant, particularly for multinational companies operating in diverse economic environments with multiple currencies. Translation methods directly impact how foreign currency-denominated transactions and financial statements are converted into the reporting currency, ultimately influencing the reported profits of a company (Bhattarai, 2018). Translation methods affect how assets, liabilities, and equity are represented on the balance sheet. Different methods, such as the Historical Rate Method, Current Rate Method, or Temporal Method, may result in varying valuations of foreign currency-denominated assets and liabilities. These differences in valuation can directly impact the reported equity of the company, which in turn affects net income and reported profits (Moyo & Tursoy, 2020). Translation methods can also influence the recognition of revenues and expenses in the income statement. For multinational companies with foreign operations, revenues and expenses generated in different currencies must be translated into the reporting currency using the chosen translation method. The choice of method may affect the timing and magnitude of revenue and expense recognition, consequently impacting reported profits (Hussain et al., 2020).

The choice of translation method can introduce volatility in reported profits, especially in environments characterized by fluctuating exchange rates. Methods that rely on historical or average exchange rates may smooth out currency fluctuations, resulting in more stable reported profits over time. Conversely, methods that use current exchange rates may reflect immediate currency movements, leading to greater volatility in reported profits (Burns & Grove, 2003). Translation methods can also impact how companies manage currency risk. For example, some companies may strategically choose translation methods that minimize the impact of adverse currency movements on reported profits. Conversely, other companies may opt for methods that provide a more accurate reflection of economic reality, even if it leads to greater reported profit volatility (Elhussein & Osman, 2019).

Reported profits are crucial indicators of a company's financial performance and value (Asubiojo et al., 2023). The choice of translation method can influence stakeholders' perceptions of a company's profitability, financial health, and growth prospects. Investors, analysts, and creditors may adjust their investment decisions, valuation models, and risk assessments based on their understanding of how translation methods impact reported profits (Hossin & Mondol, 2020). Translation methods play a pivotal role in determining how foreign currency transactions and financial statements are converted into the reporting currency, directly influencing reported profits. The choice of method can impact the valuation of balance sheet items, timing of revenue and expense recognition, volatility in reported profits, management of currency risk, and stakeholder perception and decision-making. As such, understanding the relationship between translation methods and reported profits is essential for assessing the financial performance and value of multinational companies (Ahmad et al., 2020).

Theoretical Framework

This research was based on the Theory of Purchasing Power Parity (PPP). The PPP theory was developed by Professor Gustav Cassel of Sweden in 1916. According to this theory, the exchange rate between two countries is determined by the relative purchasing power of their respective currencies. In essence, the exchange rate should be such that it equalizes the purchasing power of the two currencies. Cassel (1916) introduced the idea that the exchange rate of currencies should correspond to the ratio of total price levels between two countries. This suggests that one unit of currency from one country should have the same purchasing power in another country. Coakley and O'Reilly (2005) suggested that the theory could also be viewed as an inflation-based explanation of exchange rate fluctuations, as it highlights changes in price levels as a key factor in exchange rate movements. PPP can be either absolute or relative, where absolute PPP implies that the local currency maintains its purchasing power when exchanged for foreign currency.

Coakley and O'Reilly (2005) argued that local currency should be able to purchase the same quantity of goods globally. Relative PPP, on the other hand, observes that changes in national costs reflect differences between countries. PPP serves as a tool for traders to assess whether an asset is overvalued or undervalued (Platt & Marjorie, 1995). It is commonly used in analyzing forex stock pairs. Traders can use the gap between the PPP rate and the exchange rate to evaluate a currency's long-term outlook and valuation (Reid & Joshua, 2004). Purchasing power parity is relevant to this study because it is a widely used metric for measuring exchange rate fluctuations. By comparing choices of translating values across different periods, we can gauge a firm's level of reported profits, which can impact a firm's financial performance positively or negatively.

Empirical Review

Mohammed and Hasan (2023) explored the various methods by which translation could be integrated into information systems and project management. The study's objectives include summarizing the benefits, drawbacks, and potential enhancements of this process when incorporated into information systems and project management procedures. Insights were derived from statistical and qualitative data analysis, evaluating the integration's impact on cooperation, process streamlining, quality assurance, and costs. These findings highlight both effective practices and potential challenges. The research utilized mixed methods, with literature reviews establishing the study's theoretical underpinnings.

Kennedy and Mweshi (2023) aimed to assess the impact of fluctuations in foreign exchange rates on the financial performance of mining companies listed in Zambia. Primary data were collected through surveys of respondents, while secondary data were obtained from the annual reports of First Quantum Minerals. Employing a mixed-methods approach involving quantitative and qualitative research within a descriptive research design, the study covered the period from 2018 to 2022. It revealed a weak yet positive correlation between transaction exposure, particularly trade receivables, and company financial performance.

Mate et al. (2022) investigated the influence of interest rates on the financial performance of listed manufacturing firms in Kenya, guided by the efficient market hypothesis and arbitrage pricing theory. Adopting a descriptive correlational research design with panel data spanning six years from 2015 to 2020 and focusing on eight listed manufacturing companies, the study found a significant rejection of the null hypothesis regarding the impact of exchange rates (EXR) on return on assets (ROA). It concluded that exchange rate fluctuations negatively affected the financial performance of listed manufacturing companies in Kenya, possibly due to the depreciation of the Kenyan shilling during the period, leading to increased import costs for raw materials.

Hussain et al. (2021) investigated the relationship between exchange rates and financial performance, particularly focusing on cash conversion cycle (CCC) management patterns in Pakistani manufacturing companies from 1999 to 2015. Utilizing data from the State Bank of Pakistan, the study revealed the exchange rate's direct and moderating roles in the efficient execution of the cash conversion cycle. Employing fixed effects as the static panel model and system GMM as the dynamic panel model, the investigation showed that the exchange rate significantly moderates the relationship between the cash conversion cycle and financial performance. The study's findings suggest a positive moderating effect of the exchange rate on return on assets and return on equity in static panel analysis, whereas in dynamic panel data analysis using GMM, the exchange rate exhibited a substantial negative impact on these financial metrics.

Setiawanta et al. (2020) sought to examine the direct effect of a company's financial performance on firm value, with the former as the independent variable and the latter as the dependent variable, from an investor's viewpoint. The exchange rate was introduced as a moderating factor in this relationship. Investors may take into account the fluctuations in the Indonesian rupiah against other currencies before making investment decisions, though financial performance plays a crucial role in determining the company's market value. The study's sample included 50 companies observed over a four-year period, and data analysis was performed using the Eviews

statistical software. The results revealed that financial performance, as indicated by capital structure, affected firm value, while profitability did not. Additionally, the moderating effect of exchange rates was found to impact the relationship between capital structure and firm value but not the relationship between profitability and firm value. This research highlights the importance of exchange rates in investment decisions, particularly in the context of investors' evaluation of financial performance based on capital structure rather than profitability.

The effect of changes in the value of the Bangladeshi rupee on the profitability of banking institutions was investigated by Hossin and Mondol (2020). Using secondary data culled from bank consolidated financial statements and the World Bank database online, they combed through theoretical and empirical research on the topic of exchange rates and financial performance. The data were described using descriptive statistics, including measures of central tendency, while correlation analysis was conducted to examine the relationships between Return on Assets (ROA), inflation rates, interest rate spreads, and exchange rates. Additionally, multiple linear regression analysis was employed, with return on assets as the dependent variable and exchange rate fluctuations as the independent variables. The results indicated a weak negative relationship between exchange rate fluctuations and financial performance. Additionally, the study observed an increase in inflation rates over the study period, with a positive impact on returns on assets. Moreover, lending rates increased over time, while deposit rates by banks did not show a similar trend.

Hussain et al. (2020) investigated how the cash conversion cycle, firm size, age, and exchange rate movements influence financial decisions within firms. They used static panel data analysis techniques, including pooled OLS, random effects, and fixed effects models. To evaluate the impact of exchange rates on the cash conversion cycle, they introduced interaction techniques, multiplying exchange rates with the key components of the cash conversion cycle, such as days receivables and days payables. The findings revealed a significant negative relationship between return on assets and exchange rates during the study period, with the cash conversion cycle showing a negative beta value. In contrast, firm age and size positively and significantly affected return on assets.

The effect of changes in the value of the naira on the bottom lines of Nigerian publicly listed corporations was studied by Egolum et al. (2020). The authors used secondary data from the yearly reports of eight listed Nigerian conglomerates and data from the yearly statistical bulletin of the Central Bank of Nigeria to formulate and evaluate three hypotheses. The research used SPSSv21 for multiple regression analysis and covered the years 2007–2018. The outcomes showed that ROCE and ROE were markedly negatively affected by changes in exchange rates, whereas ROA was positively affected, though not in a statistically significant way.

From 2003 to 2019, Moyo and Türsoy (2020) studied the impact of inflation and exchange rates on the financial performance of Standard Bank, Nedbank, Capitec Bank, and FirstRand Bank the four biggest commercial banks in South Africa. They set inflation and the exchange rate as independent variables and ROI as dependent. In order to examine the data, the research used the ARDL, FMOLS, and DOLS models. While there was a moderate correlation between exchange rates and ROE, the results demonstrated a strong adverse association between inflation and ROE.

Abubakar (2020) examined the impact of exchange rate volatility on the financial performance of deposit money banks in Nigeria, focusing specifically on its effects on Return on Capital Employed (ROCE) and Return on Assets (ROA). The study adopted an ex-post facto research design and gathered secondary data from nine deposit money banks listed on the Nigerian Stock Exchange. Using multivariate regression analysis to assess the variations in the variables, the study concluded that exchange rate volatility had no significant effect on either ROA or ROCE.

Buabeng et al. (2019) explored how exchange rate fluctuations affected the performance of manufacturing firms in Ghana from 1990 to 2018. Using the bounds test approach to cointegration within an autoregressive distributed lags model, the study identified a negative and significant relationship between exchange rates and monetary policy rates with the performance of manufacturing firms. In contrast, inflation, trade openness, and investment were found to have significant positive impacts on manufacturing firm performance in Ghana. The study suggests that government and private sector partnerships should effectively manage exchange rate fluctuations and encourages manufacturing firms to adopt locally produced capital goods in response to a depreciating exchange rate.

The impact of changes in the value of the currency on the assessments of MNCs in Nigeria's performance was studied by Osho and Efuntade (2019). The study utilised secondary data derived from sources such as pertinent literature, the Central Bank of Nigeria Statistical Bulletin, and the annual reports of chosen multinational corporations. The data was grounded in theories such as transaction cost theory, liquidity theory, inflation theory,

and the managerial theory of firm performance. The results demonstrated that changes in the currency rate significantly affected the profitability of MNCs operating in Nigeria, according to the Ordinary Least Square Linear Regression study.

Mulinya and Olweny (2019) sought to determine the impact of foreign exchange determinants on the financial performance of multinational companies in Kenya. The study focused on four multinational companies operating in Kenya between 2002 and 2017, analyzing factors such as the balance of payments, government debt, terms of trade, and inflation. Results showed that government debt positively affected ROA, whereas the balance of payments dramatically decreased it, according to panel data analysis. On the other side, ROA was positively impacted by inflation and terms of trade, however these impacts were not statistically significant. Furthermore, return on equity was discovered to be negatively and statistically significantly affected by both inflation and the balance of payments.

Santosa (2019) aimed to identify variables influencing stock returns on the Indonesia Stock Exchange, focusing on liquidity, efficiency, profitability, and solvency proxies. Employing multiple regression analysis and moderated regression analysis (MRA) before and after mediating the IDR-USD exchange rate, the study found significant effects of these variables on stock returns, both before and after mediation. This underscores the influence of exchange rates on financial performance factors, with implications for capital market practitioners and investors.

From 2002 to 2017, Elhussein and Osman (2019) looked at how changes in the exchange rate affected the financial results of banks in Sudan. The study found that fluctuations in foreign exchange rates had a weak negative impact on the financial performance of Sudanese banks, despite previous empirical studies to the contrary. The reason behind this is that Sudan was kept out of the international financial system and its currency risk was reduced due to the tight economic embargo that was in place during the research period.

Conceptual Framework

Figure 1 shows the interaction between the independent variable (Translation Methods) and the dependent variable (Reported Profits).

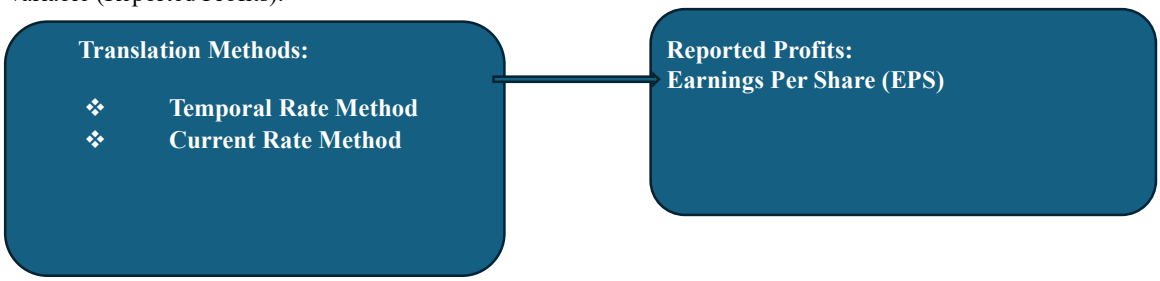

Figure 1: Conceptual Framework
Source: Authors' Concepts (2024)

Methodology

This study employed an ex post facto research design and collected data from the annual reports and financial statements of pharmaceutical companies listed in Nigeria. The total population comprised seven pharmaceutical companies listed on the Nigerian Exchange Group (NGX). Census sampling techniques were utilized to examine the entire population as the sample size, given the relatively small size of the population. Data were gathered over eleven years, from 2012 to 2022. Analysis of the data involved both descriptive and inferential statistics.

Model Specification

While following a three-stage approach to regression analysis, the theoretical assumption that form the basis of this study is specified using regression model. Driven by this theoretical consideration, the model specified is consistent with the theory, objectives, hypothesis and a prior expectation. In this regard, the study adopted a theoretical framework from Kennedy and Mweshi (2023)'s study which examined the effects of foreign exchange rate fluctuation on the financial performance of supply chain for mining companies in Zambia. The functional model for analysing both the independent and dependent variables is provided by the following functional relationship.

EPS = f (TRA)

$EPS = \beta_0 + \beta_1 TRA + \mu t$

Where:

EPS = Earnings per share

TRA = Translation methods
β_0 and β_1 represent the intercept and mean coefficients, while μt represents unexplained variables.

Specification Test
A regression model's specification needs to be verified before being estimated. While correct model specification improves the robustness and reliability of regression model estimation, this study performed three tests. Thus, specification checking is built under the headings of selecting correct independent variable, functional form, and stochastic term. The independent variable(s) selected should satisfy the study's objectives and theoretical underpinnings. On the other hand, a specific functional form needs to be used to characterize the classical linear regression model. To avoid biased and invalid OLS estimator through misspecification error, a linearly parameterized functional form must be a fair approximation of the actual data creation process.

Table 1: Operationalization of Variables

Variable	Type	Source	Description and Measurements of Variables	Reference
Earnings Per Share (EPS)	Dependent	Audited Annual report	It is calculated by dividing a company's net earnings (after taxes and preferred stock dividends) by the number of ordinary shares over a specific period	Owolabi and Adegbite (2017)
Temporal Rate Method (TRM)	Independent	Audited Annual report	Expressed as the rates employed by a company to convert its currency values into the reporting currency at the time of recognition or transaction dates, designated an index number of 1 for the firm utilizing this approach.	Buabeng et al. (2019)
Current Rate Method (CRM)	Independent	Audited Annual report	Expressed as the rates employed by a company to convert its currency values into the reporting currency at the balance sheet or reporting dates, designated an index number of 2 for the firm utilizing this approach.	Kennedy and Mweshi (2023)

Source: Researcher's Compilation (2024)

Data Analysis and Discussion of Findings

This section presents the data analysis and relevant findings.

Descriptive Statistics
The earning per share (EPS) average was 0.1151 with a standard deviation of 0.7496, as Table 2 below demonstrates. This indicates that the average rate of increase in earnings per share was 11.51%. At 74.96%, the variation from the mean is highly substantial representing a wider dispersion from the mean. The range from -1.49 to 3.34 representing both the minimum and maximum scores respectively. The distribution is right-skewed, as indicated by the skewness of 1.1130. While the distribution is stretched to the right side of the mean, the value is considered acceptably normal. With a kurtosis of 7.5025, the leptokurtic distribution is higher than usual and indicative of a distribution more peaked than normal. For translation methods (TRA), 66.67% of the sample firms used current rate method or while 33.33% used temporal rate method in the financial statements translation.

Table 2: Descriptive Statistics

Variable	EPS	TRA
OBS	66	66
Mean	0.1151	
Std. Dev	0.7496	
Freq (TRA)0		22(33.33%)
Freq (TRA)1		44(66.67%)
Skewness	1.1130	
Kurtosis	7.5025	
Minimum	-1.49	0
Maximum	3.34	1

Sources: Researchers' Computation (2024)

Post Estimation Test and Regression Diagnostics.

The results of a simple regression analysis between the independent variable (translation methods as represented by TRA) and dependent variable (firm performance as represented by EPS) are displayed in Table 3 below. A few suppositions support the conclusions drawn from this inquiry. The Shapiro-Wilk W test for normal data was performed to determine if the residuals were normal. If the p-value is higher than the significance level of 0.05, it implies that the residual is normally distributed. If not, there is an irregular distribution. The test's result indicates a p-value of 0.00002 for EPS. This suggests that the distribution of the data is not normal. As a result, the variables were changed to become regularly distributed. For TRA, the test's result indicates a p-value of 0.55694, indicating a normal distribution. The Harris-Travails test statistics were used to perform the panel unit root test to determine if each panel variable was stationary. The series is not stationary if there are unit roots. If there are no unit roots, the series is stationary. If the p-value is less than the significance threshold of 0.05, the null hypothesis is rejected. In this case, the corresponding z-statistics for EPS and TRA, were -5.0439 and -7.2407. EPS and TRA had p-values of 0.0000 and 0.0000, in that order. This suggests that each time the null hypothesis was tested, it was rejected. This suggested that the variables were stationary because they showed no signs of a trend over time.

Once more, the degree of multicollinearity among the explanatory variable was assessed using the variance inflation factor (VIF). The average VIF value of Table 3 below, 1.00, which is significantly less than the 10-point threshold. This suggests that multicollinearity is not a characteristic of the independent variables. The output of regression models was also subjected to an autocorrelation check using the Durbin Watson statistic. There is no autocorrelation when the DW statistic value is 2.0, which can be anywhere between zero and four. Values above 2.0 imply negative autocorrelation, whereas values below 2.0 indicate positive autocorrelation. The Durbin-Watson d-statistic test result is 1.2833, indicating positive autocorrelation. The Breusch-Pagan test was also employed to assess the heteroscedasticity of a regression model. There is heteroscedasticity, according to the alternative hypothesis, but homoscedasticity is stated in the null hypothesis. The null hypothesis is accepted if the test's p-value is less than a significance level of 0.05 and rejected otherwise. The results of the heteroskedasticity test, using the Breusch-Pagan/Cook-Weisberg method, show a chi2 (1) of 2.83 and a p-value of 0.0927. This implies that the regression model did not contain heteroscedasticity.

Regression Analysis

Table 3 presented the findings of the regression analysis conducted to ascertain the impact of translation techniques on the reported profit of pharmaceutical businesses that are listed on the Nigerian stock group. The translation methods used by these firms influence the dependent variable (earning per share). The results of the regression equation are as follows:

$EPS = 0.4302 - 0.4727_{TRA}$

According to the regression equation, if the independent variable is held constant, earnings per share will increase by 0.4302 units, or 43.02% in absolute terms. The coefficient of translation rate method is positive and significant with 0.4727 units. Based on this, the model presumes that these variations hold true regardless of the translation technique applied. Therefore, with TRA set to zero, the constant β_0 measures the average earning per share using temporal rate method, while the average earnings for current rate method is $\beta_0 + \beta_1$. The average earning per share difference between temporal rate method and current rate method is represented by $\beta_0 - (\beta_0 + \beta_1)$. This suggests that -47.27% (- β1) less on average. In this regard, earning per share reduces by 47.27% when

current rate method was used as a translation method in financial statements of pharmaceutical firms selected in Nigeria. In other words, earning per share increases by 47.27% when temporal rate method was used.

Table 3: Linear Regression Estimate

Variables	Coefficient	Std. Err.	t-value	p-value
TRA	-0.4727	0.1882	-2.51	0.015
Constant	0.4302	0.1537	2.80	0.007
F-statistic	6.31			
Probability	0.0145			
R-Squared	0.0897			

Source: Researchers' Computation, (2024)

Discussion of Findings

Pharmaceutical companies listed on the stock exchange play a pivotal role in the industry and are obligated to adhere to stringent financial reporting standards, ensuring stakeholders receive accurate and transparent insights into their performance and financial well-being. Among the key indicators disclosed in financial reports, reported profits are of paramount importance, serving as a vital gauge of a company's operational effectiveness, profitability, and potential for value creation. Therefore, this research aims to delve into the impact of translation methods utilized by listed pharmaceutical firms in Nigeria on their reported profits. The analysis of the results revealed a significant adverse effect of translation methods on the reported profit (specifically, earnings per share) of these companies. This finding indicates that the translation methods employed had a detrimental influence on the reported profit or earnings per share of the pharmaceutical companies. Essentially, the selection or execution of translation methods led to lower reported profits compared to what might have been anticipated otherwise.

This observation suggests that the chosen translation methods could have introduced inconsistencies in the reported financial data. Possible reasons for these inconsistencies include currency fluctuations, disparities in accounting standards across different countries, or the timing of currency conversions. The negative impact suggests that these discrepancies resulted in diminished reported profits or earnings per share for the pharmaceutical companies. This underscores the importance of meticulous consideration when selecting translation methods, as well as the necessity for transparent and precise financial reporting practices, particularly in a globalized business environment where currency-related challenges can arise.

Conclusion and Recommendations

The study investigated the impact of translation methods on the reported profits of listed pharmaceutical companies in Nigeria. It highlighted the significance of reported profits as a key indicator of operational efficiency and value creation within the pharmaceutical industry. Through an analysis of the results, it was found that translation methods had a negative significant effect on the reported profits of these companies. This suggests that the choice or execution of translation methods led to lower reported profits compared to expectations, potentially due to factors such as exchange rate fluctuations and differences in accounting standards. In conclusion, the study reveals that translation methods play a critical role in shaping the reported profits of listed pharmaceutical companies in Nigeria. The negative effect observed underscores the importance of careful consideration and transparency in the selection and execution of translation methods. Additionally, it highlights the need for standardization and alignment of accounting practices across borders to mitigate discrepancies in reported financial figures.

Based on the findings, several recommendations can be made:

i. Pharmaceutical companies should meticulously evaluate and select translation methods that minimize the negative impact on reported profits.
ii. Regulatory bodies should provide guidance and oversight to ensure consistency and transparency in financial reporting practices, particularly concerning translation methods.

iii. Companies should consider hedging strategies to mitigate the impact of currency fluctuations on reported profits.
iv. Further research could explore the specific factors contributing to the negative effect of translation methods and develop best practices for their implementation in multinational pharmaceutical companies.

This study contributes to the existing body of knowledge by providing empirical evidence of the impact of translation methods on reported profits in the context of listed pharmaceutical companies in Nigeria. It sheds light on the intricacies of financial reporting practices in multinational settings and underscores the importance of transparency and accuracy in reporting. Additionally, it highlights the need for further research and potential regulatory interventions to address the challenges posed by translation methods in financial reporting.

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