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FINANCIAL REPORTING AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN LAGOS STATE, NIGERIA: THE CRUCIAL ROLE OF FINANCIAL REPORTING EDUCATION

This study investigates the impact of adopting International Financial Reporting Standards (IFRS), financial reporting quality, and financial reporting education on the performance of listed Small and Medium Enterprises (SMEs) in Lagos State, Nigeria.A primary data were used for this study. The research design was a survey research design, and a well structured questionnaire was employed to gather the data.The findings reveal significant positive impacts. IFRS adoption positively influences SMEs performance in Lagos State ($\beta = 2.027$; $p < .05$). and there exists a significant positive relationship between financial reporting quality and SMEs performance ($\beta = 1.991$; $p < .05$). Additionally, the current level of financial reporting education among SME owners significantly impacts their business performance ($\beta = 2.159$; $p < .05$).The study recommends proactive measures such as promoting IFRS adoption and implementing financial reporting education programs tailored for SME owners.These initiatives are anticipated to enhance transparency, facilitate informed decision-making, and improve overall business performance.

Keywords: financial reporting, international financial reporting standards, financial reporting quality, financial reporting education, performance.

1. INTRODUCTION

SMEs fall under a specified size range regarding employee count, annual revenue, or total assets. The requirements for classifying a company as an SME differ by country and location (Adelekan, Eze, Majekodunmi, 2021). In a developing economy like Nigeria, SMEs dominate various sectors such as agriculture, construction, manufacturing, trade, commerce, and industry services. Adelekan, Eze and Majekodunmi (2021) provided the importance of SMEs by highlighting their contribution to GDP and employment, with more than 55 percent of GDP and 65 percent of total employment in developed economies and a significant role in developing economies, where they contribute 60 percent to GDP and more than 70 percent of total employment (SMEDAN, 2012; National Bereau of Statistics, 2022).

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The significance of SMEs extends to financial reporting, where their financial reports serve as the bedrock for financial planning, analysis, benchmarking, and decision-making (Ramajeyam et al., 2023). These financial reports contain reliable and relevant information utilized by various stakeholders, including management, employees, directors, creditors, government bodies, shareholders, investors, and investment advisers, and provide valuable information about the financial position, performance, and cash flows of an organization (Amah, Amauwa, 2019). It encompasses the entire process, including accounting policies, judgments, and behavior, which reduce stakeholder information asymmetries (Ahannaya, 2022).

Importantly, companies that provide better financial information tend to exhibit improved subsequent performance, as the market values transparency and information quality (Amiram et al., 2018). A good grasp of managers' behavior, judgment, actions, accounting standards, and corporate strategy is crucial in identifying the causes of a company's performance (Monah, Okojie, 2018). However, SMEs requently grapple with accounting and financial management challenges stemming from inadequate record-keeping, inefficient use of financial information, and the unreliability of data (Aminu, Shariff, 2015), as against adequate accounting practices which are essential for informed decision-making and, in extreme cases, the survival of SMEs.

Moreover, many Small and Medium-scale Enterprises lack the basic knowledge of managing ventures beyond the subsistence level, hence, their financial reporting falls short of the standard accounting practice. In addition, the demand for increased attention to improve and enforce financial reporting disclosures around the world has been heightened by the developments in the global financial and economic crunch (Babatunde, Adeniyi, 2019), especially as a requirement for SMEs which represent a more significant percentage of the economy, especially, in Lagos State, Nigeria which tends to be more susceptible to attrition and failure. How does the financial education of SMEs owners help in bringing about quality to their financial reporting is a crucial area that tend to bring about a strong comnnection between the adoption of IFRS for the purpose of ensuring financial quality and eventually boosting the performance of SMEs.

The adoption of international reporting standards is worth exploring. While some SMEs may voluntarily choose to follow international standards like the International Financial Reporting Standards (IFRS) for SMEs, there's a lack of research into what influences this decision and the difficulties faced during the adoption process. One of the main issues surrounding IFRS adoption is the cost. SMEs often have limited resources, and the cost of implementing and complying with IFRS can be significant (Cammayo and Cammayo, 2020). Another issue is the complexity of IFRS. The design of IFRS standards conforms to the needs of large multinational companies, and due to its complexity, it is difficult for SMEs to understand and apply. This can lead to errors in financial reporting, which can damage the reputation of the SME and make it more challenging to attract investment (Akinlolu, 2022).

Meanwhile, the quality of financial reporting is critical for SMEs, as it can impact their access to capital, investor confidence, and business sustainability.Consequently, the debate is still ongoing on whether the quality of financial reporting significantly affects SMEs' ability to secure external funding from various sources (Jagoda et al., 2019). However, existing literature may not have thoroughly explored the link between financial reporting quality and SMEs' ability to obtain financing, significantly influencing their financial performance due to lack of attention on the role of financial education in this relationship. Hence, their financial education is required to be able to understand and interprete the various standards to be applied in their reports which can help SMEs improve their financial reporting practices, making them more appealing to potential investors and lenders.The issue at hand underscores the critical need for attention to financial reporting education and awareness, particularly as many SMEs may lack an understanding of the importance of financial reporting or face difficulties in implementing proper reporting practices due to limited financial literacy and resources.

2. LITERATURE REVIEW

Ahannaya (2022) focused their investigation on establishing the correlation between financial reporting and organizational performance by employing the ex-post facto methodology alongside inferential statistics; the study meticulously analyzed data derived from ten local manufacturing firms. The findings revealed a substantial impact of financial reporting on organizational performance while emphasizing the pivotal role of financial reports in assessing corporate status and performance.

Bayar (2021) investigated the influence of financial accounting Reports on decision-making within Small and Medium-sized Enterprises (SMEs) by Employing cross-sectional data analysis coupled with structured questionnaires, and insights were garnered from a participant pool of 250 individuals. The research demonstrated that financial accounting reports significantly shape managerial decisions, with pivotal factors such as data quality, report clarity, and company records exert considerable influence. Mediation analysis revealed that the understandability, relevance, and quality of financial reports mediated between financial accounting reports and the effectiveness of managerial decisions in SMEs.

Conversely, Ajekwe and Ibiamke (2020) conducted an extensive literature review on Nigerian SMEs' financial reporting using descriptive and regression statistical methods, and the paper methodically justified the applicability of International Financial Reporting Standards (IFRS) for Nigerian enterprises. The study acknowledged SMEs' global and local economic significance while shedding light on the reasons for differential reporting between listed entities and listed SMEs.

Amah and Amauwa (2019) explored the impact of Financial Reporting Quality (FRQ) on the financial performance of Nigerian manufacturing firms from 2005 to 2014. The researchers used regression analysis to examine various variables, including Dividend Per Share and Net Asset Value Per Share, among others, to understand their influence on FRQ. The measurement of FRQ was accomplished through Dechow's accrual-based model. The results unveiled negative associations between Dividend Per Share, Capital Adequacy Ratio, and FRQ, while positive correlations were observed between Net Asset Value Per Share, Earnings Per Share, and FRQ.

Audu (2019) investigated the effects of adopting the International Financial Reporting Standards (IFRS) on Nigeria's financial reports quality. The study utilized questionnaire data collected from 200 respondents and employed regression analysis for data analysis. The findings indicated that IFRS implementation positively influenced transparency and comparability in financial reporting.

Saliu and Adetoso (2018) delved into the impact of financial reporting on the financial performance of quoted companies in Nigeria. The study explored the relationship between financial reporting quality and the financial performance of Nigerian quoted companies by combining primary data from questionnaires and secondary data from annual reports. The research meticulously analyzed 350 out of 450 distributed questionnaires using descriptive and inferential statistics. The results revealed significant associations between reporting quality, post-tax profit, and return on assets. Consequently, the study advocated for the adoption of robust financial reporting practices as a means to enhance overall performance.

Ezeagba (2017) investigated the financial reporting challenges faced by Nigerian SMEs, aiming to identify pertinent issues and propose potential solutions. The study examined barriers to effective financial accounting practices and explored how inadequate credit facilities could lead to poor accounting records. Using surveys and data from the Central Bank of Nigeria, the research uncovered crucial challenges such as poor accounting records, staffing shortages, ineffective accounting systems, and underutilization of banking transactions. The study suggested that accounting bodies should offer discounted accounting services to SMEs to address these challenges and promote effective financial reporting practices.

In an examination conducted by Onodi and Udeme (2017), the study went into exploring the impact of financial reporting on the managerial efficiency of Small and Medium-sized Enterprises (SMEs) in Nigeria. Encompassing 170 SMEs from Anambra State, the research meticulously analyzed 140 completed questionnaires. The data collection involved primary and secondary sources, with data analysis employing frequency distribution and ANOVA. The findings brought to light challenges in policy implementation for SMEs, directly influencing indigenous entrepreneurship.

Eniola and Entebang's (2015) study focused on SME firm performance, financial innovation, and challenges, emphasizing their role in Nigeria's economic growth. Data were gathered through a financial report survey, and quantitative analysis, utilizing both descriptive and regression methods, was employed to analyze the collected data. The authors highlighted the need for innovative financing methods such as crowdsourcing and a conducive regulatory framework to support SME growth by providing insights for entrepreneurs and identifying potential areas for empirical exploration in response to the evolving global economic landscape. The study suggested that one way for SMEs to become increasingly important is to adopt innovative financing methods, including the adoption of crowdfunding.

Another research by Adetula et al. (2014) employed a descriptive research design approach to investigate the readiness of Small and Medium-sized Enterprises (SMEs) in Lagos State, Nigeria, to adopt International Financial Reporting Standards (IFRS) and the potential challenges they might face. The research utilized data collected from primary sources and revealed that the practices of other countries influenced the adoption of IFRS by Nigeria. Furthermore, diverse challenges in the IFRS for SMEs adoption process were identified, potentially hindering effective implementation in Nigeria. The study recommended a restructuring of school curricula to align with IFRS standards.

Omoregie et al. (2014) delved into the global debate surrounding the adequacy of financial reporting systems for SMEs, including those in Nigeria. The study sought perspectives from stakeholders, including SME financial statement users and preparers, on whether distinct financial reporting standards should be established for Nigerian SMEs. They employed a survey approach with questionnaires, and the collected data underwent analysis using non-parametric tests of hypothesis and chi-square. The study favored a dual Generally Accepted Accounting Principles (GAAP) approach for SME financial reporting. It highlighted ongoing discourse and proposed improvements to the current financial reporting framework.

Abdulkadir (2013) centered their investigation on the influence of audit committees on the financial reporting of Nigerian companies, focusing on 70 companies listed on the

Nigerian Stock Exchange. Archival data, in the form of companies' annual reports, was utilized to assess the connection between audit committees and improved financial reporting quality. The study uncovered a positive correlation between audit committees and enhanced financial reporting quality, particularly in cases with an independent chair and audit committee expertise. The research suggested the potential for further exploration of these issues using alternative measures of earnings quality that do not impose limitations on the study.

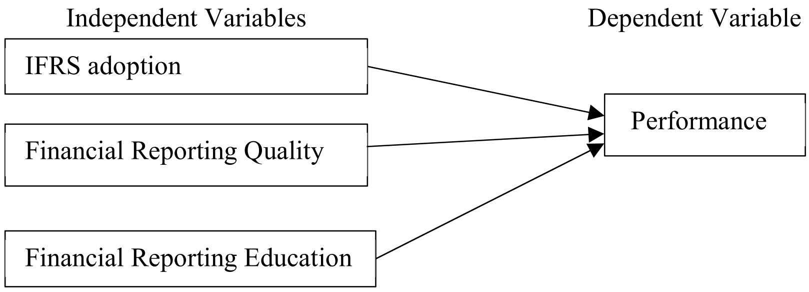

Figure 1. Conceptual Framework

Source: Researcher 2023

3. METHODOLOGY AND DATA SOURCE

A primary data were used for this study. The research design was a survey research design and a well structured questionnaire was employed to gather the data. The study population was made up of 500 respondents who were sourced from 25 small and medium-scale enterprises in Lagos. The study employed purposive and convenient sampling techniques to derive a sample size of 220 respondents from a population of 500 proposed respondents comprised of staff working in the accounting departments, business owners, and finance department employees of the selected small and medium enterprises in Ikorodu, Lagos. In essence, 220 copies of questionnaires were distributed to respondents in the study area, but only 219 valid copies of questionnaires were retrieved and found usable, which accounted for a 99.5% rate of return. Taro Yamane's formula was applied to determine the appropriate sample size as follows:

$$n = \frac{N}{1+N(e)2} \quad n = \frac{500}{1+500(0.05)^2} = \frac{500}{1+50\ (0.0025)} = \frac{500}{2.25}$$

Sample size = 222

Research Hypotheses

The hypotheses for the study are:

H_{o1}: IFRS adoption has no significant impact on the performance of listed Nigerian SMEs in Lagos State

H_{o2}: There is no significant relationship between financial reporting quality and SMEs' performance in Lagos State.

H_{o3}: The current level of financial reporting education among SME owners has no significant impact on their performance in Lagos State.

4. RESULTS AND DISCUSSIONS

4.1. Demographic Details

Table 1. Distribution of Respondents by Demographic Information

Demographic Details	Frequency	Percentage (%)
Gender		
Male	65	29.7
Female	154	70.3
Age Group		
18-35 years	91	41.6
Above 35 years	128	58.4
Highest Educational Qualification		
Secondary	46	21.0
Graduate	147	67.1
Postgraduates	26	11.9
Occupation		
Business Owner	180	82.2
Accountant	31	14.2
Finance Officer	8	3.7
Nature of Business		
Manufacturing	18	8.2
Service	48	21.9
Trading	153	69.9

Source: Researcher's Field Survey (2023).

According to the resulst in Table 1, 29.7% of the respondents were male, while 70.3% were female, indicating that the female gender dominated the sample population but there is no gender biased in the study as the two genders were represented. Also, age group showed that 41.6% of the respondents were below 36, while 58.4% were above 35. This showed that most respondents were above 35 years of age. Regarding educational qualification, the result showed that the majority were graduates as indicated by 61.7% which implied that majority of them can read and write. Followed by secondary as indicated by 21.0%, then by postgraduates as indicated by 11.9%.

Similarly, in terms of business ownership, 82.2% of the respondents were business owners, and 14.2% were accountants, and 3.7% were finance officers. The showed that the majority of the respondents were business owners who are the main target of the study. Moreover, in terms of the nature of business, 8.2% were into manufacturing, 21.9% were into service, and 69.9% were into trading.

Hypothesis Testing

Research Hypopthesis One:

H_{o1}: IFRS adoption has no significant impact on the performance of listed Nigerian SMEs in Lagos State

Table 2. A summary of results for the Impact of IFRS Adoption on the Performance of listed SMEs In Lagos State

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	36.505	3.829		9.533	.000
	Adoption of IFRS	2.027	.105	.794	19.228	.000
R =.794; R^2 =.630; Adj R^2= .628; Fstat =369.733(p< 0.05)						
a. Dependent Variable: Performance						

Source: Researcher's Field Survey, 2023.

The results presented in Table 2 offer a comprehensive linear regression analysis illustrating the impact of International Financial Reporting Standards (IFRS) adoption on the performance of listed Nigerian Small and Medium-sized Enterprises (SMEs) in Lagos State. Notably, the R^2 is 0.794 and implies that IFRS adoption has 79.4% variance in Performance. At 95% confidence level, the significant value is 0.000 less than 0.05 and the F-value of 369.72. The results showed that the adoption of IFRS exerts a significant influence on the performance of listed Nigerian SMEs in Lagos State ($\beta = 2.027$; $p < .05$). In essence, the null hypothesis of no significant impact of IFRS adoption on the performance of Nigerian SMEs in Lagos State is unequivocally rejected. Hence, IFRS adoption significantly impacts the performance of listed Nigerian SMEs in Lagos State.

Furthermore, these findings align with the conclusions drawn by Audu (2019), who revealed in their work that IFRS implementation positively influences transparency and comparability in financial reporting. Moreover, the results of this study align with the research conducted by Abdullahi and Sulaiman (2021), who assessed the perception of financial statement users on the extent of reporting quality following IFRS adoption in Nigeria. With the adoption of IFRS, their study found improvements in the qualitative characteristics of financial reporting, such as relevance, faithful representation, understandability, comparability, verifiability, and timeliness.

Additionally, the findings are consistent with the work of Abdullahi and Abubakar (2020), suggesting that IFRS adoption has made a significant positive difference in the extent of reporting quality. Similarly, the results align with the work of Amaefule, Onyekpere, and Kalu (2018), indicating that IFRS adoption in Nigeria exerts an insignificant negative effect on firms' Earnings Per Share (EPS) while, conversely, exerting a significant negative effect on firms' Return on Assets (ROA).

H_{o2}: There is no significant relationship between financial reporting quality and SMEs' performance in Lagos State.

Similarly, the coeffieiccnt of determination, the R-Square 0.780 is which indicated that financial accounting quality explains about 78.0% of the total variation in the performance of SMEs in Lagos State as presented in results in Table 3. At 95 % level of confidence, the significant value is 0.000 less than 0.05 and F statistiscs value of 775.068. The results also showed that financial reporting quality, as the only independent variable, posed a significant positive relationship with the performance of SMEs in Lagos State ($\beta = 1.991$; $p < .05$. therefore, the null hypothesis which states that there is no significant relationship between financial reporting quality and the performance of SMEs is rejected, while alternative hypothesis is thereby accepted. Hence, a significant relationship exists between financial reporting quality and SMEs' performance in Lagos State.

Table 3. Summary of Regression Result for the Relationship between Financial Reporting Quality and SMEs Performance in Lagos State

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	33.282	2.767		12.030	.000
	Financial Reporting Quality	1.991	.072	.884	27.840	.000
R =.884; R^2 =.781; Adj R^2= .780; Fstat =775.068(p< 0.05)						
a. Dependent Variable: Performance						

Source: Reseacher's Field Survey, 2023.

Also, the findings corroborated with that of Ahannaya (2022), who indicated a substantial impact of financial reporting on performance. Likewise, the study's findings aligned with the work of Bayar (2021), who posed that financial accounting reports significantly shape managerial decisions. The findings were in line with the work of Amah and Amauwa (2019), who underscored the importance of quality financial reporting and suggested regulatory support for accurate record-keeping and robust reporting. In addition, the findings also aligned with the work of Saliu (2018), who studied the impact of financial reporting on the financial performance of quoted companies in Nigeria. The findings revealed significant associations between reporting quality, post-tax profit, and return on assets. As a result, the study proposed the adoption of solid financial reporting practices for improved performance. However, findings negate the work of Rathyrani (2017), who indicated that financial reporting and analysis do not significantly impact the performance of SMEs.

H_{o3}: The current level of financial reporting education among SME owners has no significant impact on their performance in Lagos State.

Table 4. Summary of Regression Results for the Impact of Financial Reporting Education on the Performance SMEs in Lagos State

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	33.217	3.908		8.500	.000
	Financial Reporting Education	2.159	.110	.801	19.678	.000
wR =.801; R^2 =.641; Adj R^2= .639; Fstat =387.212(p< 0.05)						
a. Dependent Variable: Performance						

Source: Research's Field Survey.

Lastly, the results in Table 4. present a linear regression analysis showing the impact of financial reporting education on the performance of listed Nigerian SMEs in Lagos State. The coefficient of determination, R^2 is .641 and implies that financial reporting education has 64% variation in performance. Also, at 95% confidence level, the significant level is .000 less than 0.05 and F-value of 387.212. The results in tables 4 showed that financial reporting education, being the only independent variable, showed a significant positive impact on the performance of SMEs in Lagos State ($\beta = 2.159$; $p < .05$). Thus, the finding rejected the null hypothesis of no significant impact, while the altenative hypothesis is accepted. Hence, the current level of financial reporting education among SME owners significantly impacts their performance in Lagos State.

5. CONCLUSIONS AND RECOMMENDATIONS

This study focuses on the financial reporting and performance of Small and Medium Enterprises (SMEs) in Lagos State. Findings indicated that IFRS adoption significantly impacts the performance of listed Nigerian SMEs in Lagos State. Also, a significant relationship exists between financial reporting quality and SMEs' performance in Lagos State. Lastly, the current level of financial reporting education among SME owners significantly impacts their performance in Lagos State. Therefore, the study concluded that the impact of adoption of IFRS on the performance of listed Nigerian SMEs underscores the pivotal role of financial reporting standards in shaping the trajectory of businesses, providing them with a compass to navigate the complex currents of the economic landscape. Furthermore, the symbiotic relationship between financial reporting quality and SMEs' performance in Lagos State is an indication of a fundamental truth that the integrity of financial information is intrinsically linked to the success of businesses. As the quality of financial reporting improves, so does the ability of SMEs to make informed decisions, attract investment, and fortify their positions in the competitive marketplace. Also, the study reveals that the current level of financial reporting education among SME owners is a linchpin determining their performance. Education emerges as an instrument of empowerment and a potent lever for enhancing the efficacy of financial reporting practices. SME owners equipped with a nuanced understanding of financial reporting intricacies exhibit a heightened ability to leverage financial data strategically, fortifying their businesses against the uncertainties that pervade the business landscape. As a result of the findings above, it becomes evident that the convergence of IFRS adoption, financial reporting quality, and financial reporting education forms a nexus that propels the engine of SME performance in Lagos State.

The study's findings offer valuable insights that guide the recommendations: First, there should be a need to promote comprehensive IFRS education-targeted initiatives. Regulatory bodies, industry associations, and educational institutions should collaborate to design and implement training programs that equip SME owners with a thorough understanding of IFRS principles. This education should extend beyond mere compliance and focus on the practical application of IFRS to drive strategic decision-making.

Also, regulatory authorities should emphasize the importance of adherence to reporting standards. This may involve providing SMEs with accessible resources, guidelines, and support mechanisms to streamline their financial reporting processes. Additionally, incentivizing the adoption of best practices and fostering a culture of transparency can contribute to the overall improvement in financial reporting quality. In addition, recognizing the pivotal role of financial reporting education, industry associations and business chambers should facilitate continuous professional development opportunities for SME owners. Workshops, seminars, and online courses can be organized to keep them abreast of evolving financial reporting standards, emerging trends, and best practices. This ensures that SME owners remain well-informed and empowers them to navigate the evolving complexities of the business environment.

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