Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

The Moderating Role of Adoption of IFRS between Tax Avoidance And SMEs Performance in Nigeria

SHITTU Saheed Akande Ph.D[1],
Department of Accountancy, Federal Polytechnic Ayede, Oyo State, Nigeria
shittusa@federalpolyayede.edu.ng
+2348034309458

JIMOH Olushola Rasheed[2],
Department of Accountancy, The Polytechnic Ibadan, Ibadan, Oyo State, Nigeria
rojimt_78@yahoo.com
+2348033946096

POPOOLA Mufutau Akanmu Ph.D[3].
Department of Business Administration and Management, Federal Polytechnic Ayede, Oyo State, Nigeria
popoolama@federalpolyayede.edu.ng
+2348065920793

Corresponding Author: shittusa@federalpolyayede.edu.ng

Shittu, S. A., Jimoh, O. R. & Popoola, M. A. (2025). The Moderating Role of Adoption of IFRS between Tax Avoidance and SMEs Performance in Nigeria. *FUOYE Journal of Accounting and Management*, *8*(2), 324-341

Abstract

The study examines the moderating role of International Financial Reporting Standards (IFRS) adoption between tax avoidance and the performance of Small and Medium Enterprises (SMEs) in Nigeria. This research explores whether adopting IFRS for SMEs mitigates the negative implications of tax avoidance, which may improve short-term performance but create long-term reputational and operational risks. Using a quantitative research strategy as well as a positivist research philosophy, the respondents were selected using a purposive sampling technique based on the relevance of their SME activities and readiness to participate in the study. A cross-sectional survey design was employed to obtain the data from 502 SME owners and managers in Nigeria. Questionnaires were administered via Google Forms, and descriptive statistics as well as Structural Equation Modeling (SEM) were used to test formulated hypotheses. The results show that tax avoidance has a positive influence on SMEs' performance, but its benefits are offset by long-term challenges. IFRS adoption moderates this relationship by enhancing financial transparency and operational efficiency. The study reveals how IFRS adoption can improve financial reporting practices, thus promoting sustainable business growth in emerging economies like Nigeria. The study also shows that IFRS adoption is not just a compliance requirement but can also be a strategic tool to enhance SMEs' operational performance and reduce risks associated with aggressive tax avoidance.

Keywords: Financial transparency, IFRS adoption, SMEs performance, Structural equation modeling, Tax avoidance

Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

1. Introduction

Small and Medium Enterprises (SMEs) are well known to have a great economic influence globally. The established and emerging countries consider the SME sector as the center of economic development. The SMEs have contributed significantly to the economy since they have generated employment and paid taxes to the nation. Nevertheless, their growth is hampered by such problems as tax compliance and financial availability. Adoption of International Financial Reporting Standards (IFRS) has been recognized as one of the important statements that would lead to improvement in financial transparency and investor confidence. (Msechu et al., 2024). SMEs are crucial in the Nigerian economic environment, since they are the major contributors of national GDP of about 48 percent and 96 percent of all businesses. Moreover, SMEs also contribute 84 percent of the employment in the country, which is important with regard to creating employment and economic stability as well as developing local entrepreneurship and innovation. In spite of their efforts, SMEs in Nigeria are confronted with many challenges which are deterrent to their development and viability. Among the critical problems, there are availability of finance, high interest rates, lack of infrastructure, and the regulatory environment. Nevertheless, these issues can be overcome by aligning accounting standards, government support, networking and collaboration of SMEs to ensure that the performance of SMEs in Nigeria is improved. IFRS represent a broad and diverse set of accounting standards, which are established to promote the relevance of financial reporting transparency and comparability in developed and developing countries (Samour et al., 2024).

Taxation is one of the fiscal policies that control the economy of any nation (Ojo & Shittu, 2023). It assists in the development of particular sectors and the advancement of the emerging industries. Unstable revenue sources create a challenge to many developing nations because they cannot afford to finance important projects (Malik et al., 2025). Annual increment goal is a considerate government undertaking. Tax avoidance is strategizing on how to utilize tax law and accounting standards to minimize the amount of tax to be paid to government and, is anticipated to enhance performance of the firm. In most cases, tax reforms have been undertaken to result in adherence to tax laws. Khan and Tjaraka (2024) state that a tax reform can be described as a radical change of the current tax regime, regulatory changes, tax base growth, and better tax administration. In Nigeria, to strengthen the non-compliance penalties, Nigeria Tax Act (2025) provide ₦100,000 with a one-month imprisonment and ₦50,000 with a following-month imprisonment in case of failure to become a taxpayer. Moreover, a penalty of ₦10,000 and ₦100,000 is imposed to persons and companies that fail to maintain books, respectively. Also, an up to three-year prison sentence can be given in case of conviction of nonpayment of taxes deducted at the source. Trying to make tax dispute settlement more effective and legitimate, it also introduces Tax Appeal Tribunal establishment which is expected to address the dispute related to the legislation concerning federal and state taxes. On the same note, a Tax Ombud office was set up to address grievances of taxpayers and achieve fairness in tax execution. Earlier research has pointed out motivations that make SMEs to go IFRS. The main one is the need to achieve a better transparency and credibility which can make financing easier and bring in investors.

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

According to Akpan et al. (2023), the SMEs that use IFRS reporting have a better quality of financial reporting, which will increase the trust of stakeholders and allow the company to expand the business. Additionally, the internationalization of markets has also influenced most SMEs to use IFRS as a way of competing and staying within international trade. With the harmonized financial reporting, by the SMEs and the international reporting standards, the SMEs will gain opportunities in interacting with other foreign investors and partners, and therefore will reach a wider market. In spite of the advantages, the implementation of IFRS is a challenge to SMEs. One of the themes that have been evident in the literature is the inadequacy of resources and expertise. The complexity of IFRS is a challenge facing many SMEs as they may result in high financial reporting expenses and possible misuse of the standards. Research has revealed that the lack of trained personnel is a factor that can lead to failure in implementation, which leads to differences in reporting practices (Malik et al., 2025). Also, the cost of switching to IFRS may be overwhelming to the SMEs. Studies indicate that the expenses of training, upgrading the systems and continuous compliance may proportionately burden small companies causing them to fear implementing the standards.

SMEs in Nigeria are among the sectors that are rapidly increasing and are more relevant towards growth and development of the country economy. Therefore, SMEs require a simplified IFRS to support this booming industry to satisfy the need of IFRS. The IFRS framework in SMEs was developed in 2010, aiming at enhancing the quality of reporting process of the SMEs as well as improving their finances both domestically and internationally. In addition to this, the International Accounting Standard Board (IASB, 2009) defines SMEs as organizations that do not owe their accounts to any public and provides general-purpose reports on financial information to external users. SMEs might however possess other features than those stipulated by IASB based on the legal system of the country (Olaleye et al., 2021). The environment of SMEs has been left in uncertainty due to a number of factors that have led to adoption of IFRSs by the SMEs. Some of the most significant concerns that SMEs have raised include the cost, inexperience, doubts about the to-be system, and the effect on end-user needs (Zahid & Simga-Mugan, 2019; Damak-Ayadi et al., 2020). However, it is dominated with globalization and the comparability of accounts will render such information a possibility by sustaining the conformity of accounting systems. IASB also believes that, more capability of the users, and investors, and the enterprise itself, to assess the financial information of other companies and compare the results to determine any difference and make investments that will help the companies to improve their position will benefit all the interested parties (Oladejo & Shittu, 2018; Okafor et al., 2019). The ideal social response as per the public interest theory to market failures which are likely to cause underproduction of accounting information is regulation. To the best of knowledge on the part of the authors, no empirical studies which are conducted at national level to understand whether adoption of international accounting norms adopted by IASB is more probable in countries which are unable to develop their domestic accounting norms are carried out. Whenever there is no indigenous GAAP, adoption of IFRS by SMEs is more likely to occur

in a country to the extent of even the country will find it worthwhile to do so. This is as per our findings. Interest group and capture theories of regulation propose that the regulator is

Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

accommodative to the demand of certain groups. As an illustration, some countries in the African continent have already adopted full IFRS that can be used by both the public and the private companies. Various parties believe that non-public accountable corporations find full IFRS too complicated to operate and enormous costs in transitions and implementation will dwarf the gains of such businesses (Kaya & Koch, 2015). The probable impact of IFRS adoption on the accuracy of reporting, accessibility of funds and overall business activity has made the decision of the small and medium-sized enterprises to adopt the standard in Nigeria a highly debated question. The difficulties related to SMEs in transitioning to IFRS are considered benefits and constraints related to its utilization (Kiliç & Uyar, 2017). This paper reviews the use of IFRS by the SMEs in Oyo State and aims at providing informative data on the effectiveness and usefulness of the framework to SMEs in Nigeria. According to the results of past studies (Ramanna & Sletten, 2009, quoted in Kaya & Koch, 2015), it was observed that the implementation of IFRS by SMEs is not highly appealing to a country with relatively strong governing institutions because of high switching costs as well as negotiating costs. This confirmed that adoption of IFRS has been linked to better performance of SMEs in regard to profitability, as well as liquidity. Furthermore, since the IASB framework is closer to those found in the accounting traditions in common law countries, the accounting frameworks in the common law countries have a higher likelihood of converting their SMEs to IFRS (Pais & Bonito, 2018). This study contributes different works to the available literature. To start with, this study contributes to the existing body of literature, in that, it examines both the potentiality and the challenge of IFRS adoption by SMEs in selected states in the six geopolitical zones in Nigeria. Furthermore, the study also determined whether adoption of IFRS by SMEs can influence tax avoidance as previous studies in the area of study have not expounded on this. Additionally, the more explanatory variables are being used in the study, therefore, the problem of omitted variable as one of the reasons of the endogeneity problem will be eliminated.

1.1 Hypotheses of the Study

H_1: Tax avoidance has a significant on SMEs performance in Nigeria

H_2: IFRS adoption positively significantly moderate the relationship between tax avoidance and SMEs performance in Nigeria

2. Literature Review

2.1 Tax Avoidance

SMEs are important especially with regard to nation building. The internal market has several barriers that prevent SMEs to participate in some of the operations. The significant difficulties can be attributed to the lack of the consistent national tax and accounting systems. This fact puts

burden of tax compliance costs on the SMEs which is supposed to be reduced through IFRS adoption. Some of the theoretical frameworks of understanding tax avoidance have also been

Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

discussed in the literature. As an example, the agency theory has been used to investigate the role of managerial incentives on tax planning decisions. Research has indicated that managers can resort to tax avoidance to maximize their personal gains, which is incompatible to the shareholders. Also, the behavioral agency model assumes that family firms might choose not to employ aggressive taxation policies to maintain its socioemotional wealth representing a conflict between financial maximization and reputation issue (Sánchez-Ballesta & Yagüe, 2024). As companies are starting to embrace sophisticated forms of tax planning, there is a need to develop more sophisticated rules that take into consideration the different intentions of tax planning behaviours (Septriani et al., 2025). The intersection of tax avoidance and related to the current trends like adoption of IFRSs with the performance of SMEs needs to be investigated.

2.2 SMEs Performance

SMEs performance has been a focus of attention of late as it is a necessity to employment and economic growth. The SMEs are essential to the economy of Nigeria and they contribute greatly to the development of the country (Adeosun & Shittu, 2021). Nigerian SMEs, however, were not considered by the successive administrations, according to Adeyemo and Olateju (2022), to focus on their larger competitors. Nevertheless, SMEs have the majority of working people. Moreover, as Awoyemi and Makanju (2020) indicate, most of the large-scale businesses in Nigeria have started as SMEs. On the same note, Adelekan et al. (2019) also found that in Nigeria, majority of the businesses are SMEs and these companies contribute significantly to the GDP of the country. By adopting and implementing IFRS to SMEs, the small to middle businesses are then able to better respond to the dynamic consumer demands thus increasing their competitive advantage and thus boosting overall performance. Furthermore, it is possible to proactively identify market opportunities, thereby enabling SMEs to put themselves in a favorable position compared to those of rivals (Oyedeji et al., 2023). Also, financial performance measures can be employed by the SMEs to determine their financial status, where it is possible to improve, and set long-term objectives that are reasoned. It is also useful in assisting companies to compare to other companies operating in the same industry as it gives an objective assessment of their financial position based on a specific time frame (Yoo & Managi, 2022).
Umadia and Kasztelnik (2020) asserts that due to the financial loss, job loss, loss of incentive to engage in entrepreneurship, and eventual collapse of firms caused by the failures of SMEs, their expected contributions to the Nigerian economy have reduced. The other recent area of concern is the correlation between SME success and application of the IFRS. Moreover, research on the impact of tax evasion on the relationship between the performance of SMEs and the use of IFRS has not been adequately conducted, and in Nigeria in particular. The present study contributes to the business practices by providing SMEs owners with supplementary data and understanding of different strategies they can empl&oy to enhance their productivity and ensure further stable growth of their enterprises.

Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

2.3 IFRS for SMEs Adoption

The introduction of IFRS to the implementation of SMEs has also brought global focus to rest since it offers a frame of reference that is unique to the needs of such organizations. In 2010, Nigeria, which has one of the largest economies in Africa, recognized the significance of standardization in reporting finances and adopted the IFRS framework of reporting among SMEs (Abedana et al., 2016; Mvunabandi & Mbonigaba, 2023). The pre-publication phase of the standard during the years 2000-2009 was reviewed in the first case, and the second edition of the standard in 2009-2015 and the comments made by 2019-2021 were also analyzed to gain a better insight into the development of the IFRS standard of SMEs. As the studies conducted by Adetula and Okafor (2014) and Izedonmi and Uadiale (2017) showed, they have identified more openness in reporting, easiness in comparison, and access to finance as a result of adoption of IFRS to SMEs. They further added that it has made the investors more confident and makes the statements more legitimate as well. Authors made the conclusions that the use of IFRS has a positive effect on the performance of SMEs because it enhances both the quality of reporting of SMEs and decision-making. Nevertheless, Okoye and Ajam (2019) noted that different hiccups that SMEs encountered during the adoption process included absence of knowledge, unqualified employees who can effectively carry out the implementation and interpretation of the framework effectively, increased training, and funding requirements. Furthermore, Onyali and Odia (2015) mentioned technical support and guidance, economic impacts of compliance, and obstacles of following intricate accounting regulations. Various researches have been identified to have an influence on influencing IFRS adoption among the Nigerian SMEs. Nonetheless, few studies exist on the effect of tax avoidance on the association between IFRS adoption and SME performance. Therefore, the research focused on the linkage of tax avoidance on the performance of Nigerian SMEs once they switched to the use of IFRS.

2.4 Theory Underpinning the Study: Institutional Theory

This investigation was based on the institutional theory. Scott (2004) put out the institutional theory to explain the resources, regulatory underpinnings or other related activities that give the institutional lifecycle stability. The institutional theory posits institutional isomorphic forces that drive the formal structure of an organization and put pressure on it. Boxenbaum and Johsson (2017) affirm that the given theory provides structures, norms, and practices that, with the help of which entities develop efficient procedures of social behavior. The theory, which pays attention to the most fundamental and credible aspects of institutional structures, is usually and broadly believed since it takes into account the norms and processes through which structures, techniques, conventions, and practices create persuasive processes in which social behavior and conduct arise. The theory is relevant to functionalism, limited reason, diminished awareness, and

external conditions (Mvunabandi, 2023; Shittu et al., 2023). Due to its vital role in determining the factors that affect the adoption of IFRS by SMEs, the institution theory was considered in

Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

this research paper. Nevertheless, the agency theory explains why managers are opportunistic and can reduce their taxes through the use of a number of complex transactions to benefit themselves.

2.5 Empirical Review on Tax Avoidance and SMEs Performance

It is known that SMEs are the pillars of any economy and play an important role in the economic structure of the country (Roman et al., 2023). Malik et al. (2025) assess the relationship between business success and corporate tax evasion. The results indicate that corporate tax evasion enhances success in business. Further on, the authors Khan and Tjaraka (2024) consider the influence of the perceptions of tax fairness and tax understanding on the compliance of the SMEs of Surabaya. The findings indicate that the perceptions of tax fairness and understanding of taxes have a positive effect on the compliance of SME taxpayers in Surabaya. In the same manner, Sánchez-Ballesta and Yagüe (2024) explore the impact of tax evasion on the production of SMEs in Spanish. The research has found that tax evasion increases the productivity of SMEs. Nevertheless, Roman et al. (2023) based their study on secondary data of 2008-2021 to establish the relationship between the performance of SMEs and the taxes paid to 27 EU member states. The findings indicate that the taxes that SMEs are required to pay are considered a hindrance to performance enhancement. Moreover, the authors also relied on PLS-SEM to analyze the results of 375 Pakistani SME textile companies to assess the effect of tax evasion and corporate social responsibility on sustainable business performance and the mediation role of green competence (Khan et al., 2023). It indicates that corporate social responsibility does not have any effects on the relationship between tax evasion and sustainable business performance. Consequently, following the previous studies within the same area, it has been observed that there is minimal information regarding the relationship between the performance of SMEs and tax evasion, particularly in Nigeria. Hence, this paper investigated the relationship between the performance of SMEs and tax evasion.

2.6 Empirical Evidence on IFRS for SMEs Adoption as Moderator

Wyk and Enslin (2025) assessed the effect of the IFRS 16 implementation on the financial statements of the Johannesburg Stock Exchange (JSE) listed South African mining companies in terms of their material financial ratios. The findings revealed that IFRS 16 increased the total assets and liabilities post-implementation. Also, Muda et al. (2024) investigated the role of institutional isomorphic restraints in influencing the Ghanaian SMEs adoption of IFRS. The results indicated that mimetic and coercive isomorphic pressure had a significant positive effect on the adoption of IFRS by SMEs in Ghana. On the same note, Tenzer (2024) tested the impacts of IFRS 15 implementation on performance evaluation. To manage the changes which the new accounting standard has introduced, the healthcare policymakers and managers should be well

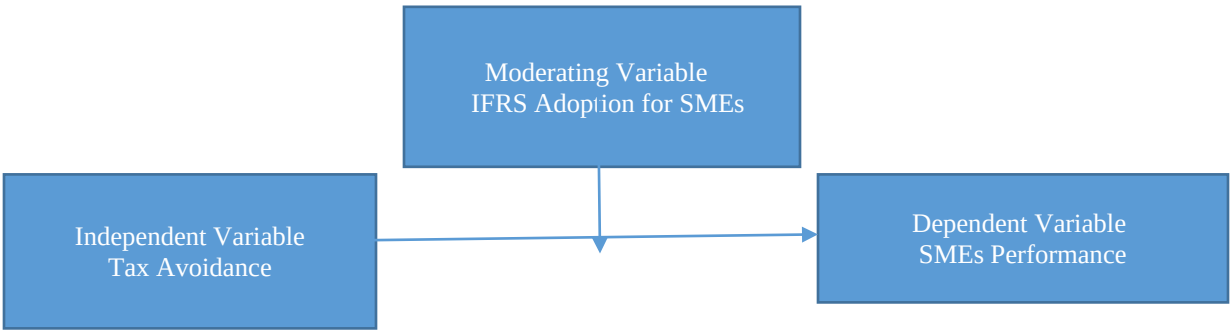
aware of the intended and unexpected outcomes of its adoption, as indicated in the report. Segotso et al. (2024) also argue that the acceptance and application of IFRS to SMEs have their

Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

own fair share of challenges. These challenges are in terms of low educational levels, adoption costs, political factors, training and support by regulatory bodies and consideration of culture. Besides, Fanani et al. (2024) assessed the influence of the education level, the availability of alternative accounting standards, and the level of internationality on the use of IFRS to SMEs. The findings indicate that educational level and having alternative accounting standards adversely affect the adoption of the IFRS among SMEs. Also, Msechu et al. (2024) examined the impact of business features on the compliance of Tanzanian SMEs to IFRSs. The findings show that there is a strong positive correlation between the performance of SMEs and the level of IFRS compliance. Issam and Ibtissam (2023) studied the relationship between the macroeconomic environment and the adoption of the IFRS by SMEs. The findings indicate that non-centrist-Saxon culture and a negative political climate contribute towards a high probability of a country to adopt the IFRS in SMEs. Likewise, Akpan et al. (2023) examined the impact of implementing IFRS on SMEs considering their relevance as well as challenges they encounter. The survey showed that various countries adopt IFRS by SMEs in varying levels. Others have embraced IFRS among SMEs as their major standard, although some of them still rely on a combination of a hybrid form alongside national standards. Marina (2022) also considered the historical research methodology, examining the history and development of the IASB project on the financial reporting of SMEs, along with the events that occurred after the first and second revision of the standard. Moreover, the adoption of IFRS to the SMEs as an intermediary in the performance assessment of the SMEs is not well researched. Others have considered more complex adoption challenges, although most IFRS to SMEs studies have focused on the perceptions of the costs and benefits of adoption among the stakeholders (Litjens and Bissessur, 2012; Uyar and Güngoermus, 2013; Albu et al., 2013; Kilic et al., 2014). Majority of the previous research does not consider the adoption of IFRS by SMEs in Africa, and especially in Nigeria, as a moderator. It was not a moderator because adoption did not have an effect in the limited studies that were conducted in Nigeria and across Africa (Adetula & Okafor, 2014; Abedena et al., 2016; Okafor et al., 2019).

2.7 Conceptual Framework



*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

3. Methodology

The research takes a positivist research philosophy and a quantitative research approach. The data were collected by using a cross-sectional survey design. The respondents were sampled purposely on the basis of relevance of their SME activities, and willingness to take part in the research. The information was gathered using questionnaires using Google Forms and sent by different WhatsApp channels and mails in some of the SME owners/managers. A total of 540 responses were obtained of which 502 were useful in the study. The respondents were assured that the data acquired is only utilized in research purposes and were given their freedom to respond or not by demonstrating their approval by pressing the I agree button on Google Forms. In the questionnaire, the questionnaire was set up to contain an introduction, bio data of respondents and main questions to be measured. The primary offers to this research are the owners of SMEs, and senior managers of SMEs that directly engaged in day-to-day running activities of business to obtain the right responses and to minimize ignorance of IFRS to SMEs. The data collected through respondents was analyzed with the help of descriptive statistics, and the research presumed Smart-PLS, which is sophisticated at the level of the empirical analysis.

4. Results

4.1 Descriptive statistics

The demographic data of the respondents is as shown in Table 1 and consists of gender, the size of the enterprise, the position of the respondent, years of working, age, level of education, and industry sector. Regarding their gender, there were 57.2 and 42.8 figures of female and male respondents respectively, suggesting the fact that most respondents are female. As far as enterprise is concerned 71.9 is small enterprise and medium size is 28.1. This means that the small size is higher than medium size among respondents. In terms of position, respondent wise, most respondents are managers of SMEs, and there is a minority of 39.9 of SMEs owners. In terms of year of experience, most of the respondents experience to have 6-10 years of experience being 42.6% and above 10 years experience at 31.1% experience with the remaining 26.3% having less than 5 years experience. Besides, regarding age group, the highest percentage are fallswithin 30-40 years of age group constituting 47.2 percentage, 41-50 years age group constituting 25.1 percent, below 30 years age group constituting 17.5 percent and 50 years and above age group constituting 10.2 percent. This can be because most of the respondents who are managers of SMEs are in the middle age. Based on the education level, 35 percent of the respondents hold Higher National Diploma (HND) or first degrees, and 26.9 percent of the respondents are graduates of National Diploma (ND) or holders of a National Certificate in Education (NCE). There are those who have postgraduate degree with 26.1 followed by degrees and 12% of those holding senior secondary school certificate. With respect to the industry sector, the SMEs to be included in this study are included in retail, services, consumer, farm and others at 25.5, 23.1, 20.7, 18.7 and 12 respectively.

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

Table 1: Respondents Demographic Information

Variable	Characteristics	Frequency	Percentage (%)
Gender	Female	287	57.2
	Male	215	42.8
Enterprises size	Medium	361	71.9
	Small	141	28.2
Position	SMEs Owner	198	40
	Manager	304	60
Work experience of respondent	1 to 5 years	132	26
	6 to 10 years	214	43
	Above 10 years	156	31
Age group	Below 30 years	88	17.5
	30 – 40 years	237	47.2
	41 – 50 years	126	25.1
	51 years and above	51	10.2
Education	SSCE	60	12
	NCE/OND	135	26.9
	HND/BSc.	176	35
	Postgraduate	131	26.1
Industry sector	Consumer	104	20.7
	Services	116	23.1
	Retail	128	25.5
	Agriculture	94	18.7
	Others	60	12

4.2 Measurement Scale Testing

All the items have a factor loading of more than 0.5, with the exception of IFRSA8, which has 0.487. This implies that the items are moderately and strongly related to the construct. TA, SPM, and IFRSA have composite reliability of 0.807, 0.761, and 0.879 respectively, which, values above the recommended value of 0.7, imply that the internal consistency is appropriate and the construct is reliable. The mean variance obtained of the study variables (TA, SPM and IFRSA) were 0.501, 0.512 and 0.611 respectively and this is slightly above the 0.5 mark which suggests that more than a half of the variance in the indicators has been accounted by the construct. This implies that there is convergent validity. In addition, the values of variance inflation factor of individual items are between 1.349 and 2.99 implying that there are no severe multicollinearity problems, since both are within the acceptable brackets.

Fuoye Journal of Accounting and Management; Volume 8, Number 2; 2025
www.fjam.fuoye.edu.ng

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

Table 2: Factor Weights of Measurement Scale

		Variables	Weight	VIF	References
Tax avoidance (α = 0.799, CR = 0.807, AVE = 0.501)					
1	TA1	The taxes we pay correspond to the amount of money we make.	0.88	2.993	Fuadah *et al.* (2022)
2	TA2	Our tax payments comply with the tax code.	0.81	2.078	
3	TA3	We always fulfill our tax responsibilities in a proper manner.	0.665	1.46	
4	TA4	Our SMEs involve in asset depreciation as tax avoidance strategy	0.776	2.0	
5	TA5	Our SMEs involve in tax credits and incentives as tax avoidance strategy	0.717	1.774	
6	TA6	Our SMEs involve in transfer pricing as tax avoidance strategy	0.824	2.246	
SMEs performance (α = 0.761, CR = 0.761, AVE = 0.512)					
7	SPM1	Our SMEs are able to meet expected sales	0.623	1.352	Adelekan *et al.* (2019)
8	SPM2	Our SMEs earned targeted profit	0.653	1.343	
9	SPM3	Overall business performance improved in the past years by involving in Tax avoidance?	0.772	1.691	
10	SPM4	Revenue generated have been increasing over time through tax avoidance?	0.741	1.883	
11	SPM5	Tax avoidance has contributed to your business performance	0.744	1.928	
IFRS adoption (α = 0.871, CR = 0.879, AVE = 0.611)					
12	IFRSA1	Adoption of IFRS for SMEs has reduce tax avoidance strategy perpetrated by SMEs	0.716	1.847	Fanani *et al.* (2024)
13	IFRSA2	Understanding of IFRS for SMEs has assisted your SMEs to adopt effective tax avoidance strategies	0.52	1.349	
14	IFRSA3	SMEs have enjoined some benefits by adopting IFRS for SMEs	0.616	1.468	

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

15	IFRSA4	The performance of SMEs has improved after IFRS adoption.	0.54	1.499	
16	IFRSA5	Stakeholder trust has increased when SMEs adopted IFRS.	0.714	2.054	
17	IFRSA6	The implementation of IFRS for SMEs improved their access to capital.	0.784	2.71	
18	IFRSA7	Does SMEs' adoption of IFRS mitigate the impact of tax evasion on performance?	0.70	2.916	
19	IFRSA8	SMEs performance would improve further if SMEs enhanced IFRS adoption?	0.487	1.824	

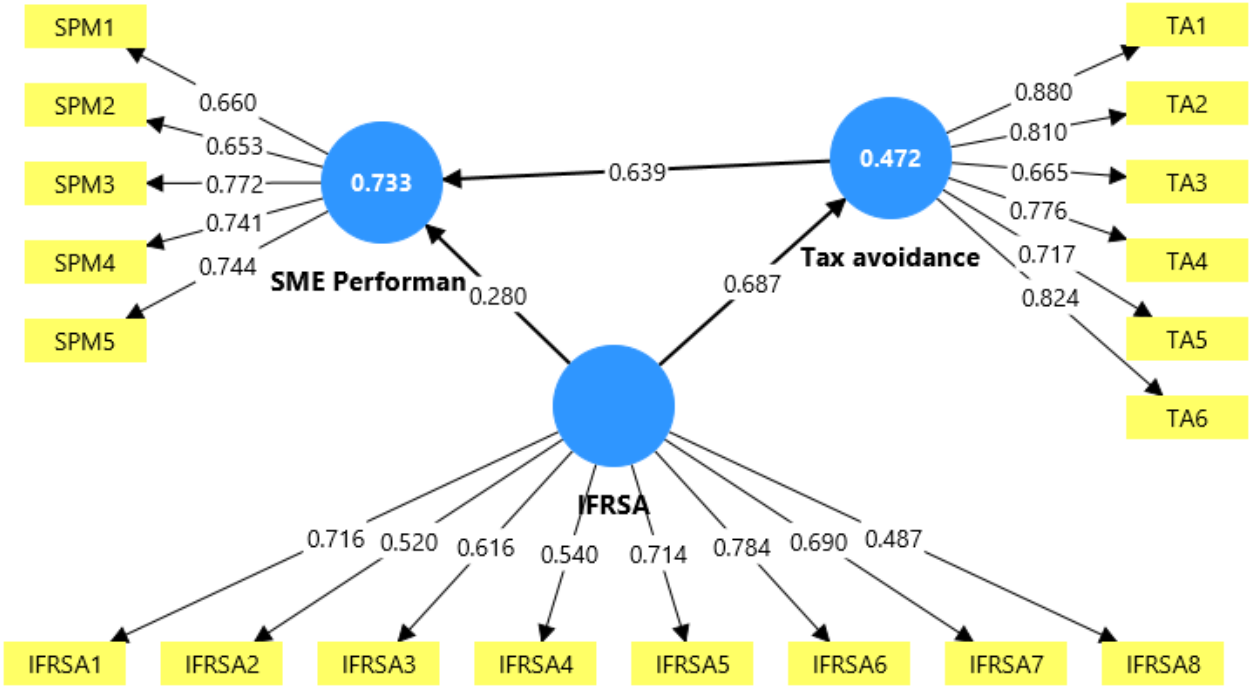
Where TA = Tax Avoidance, SPM = SMEs performance, IFRSA = International Financial Reporting Standard Adoption

4.3 Result of SEM Analysis

The outcomes of evaluating the structural model presented in the figure below, tax avoidance demonstrate that it positively affects SMEP and the coefficient stands at 0.733. The research proposes that although tax avoidance can boost the short-term gains of the SMEs, it can cause long-term problems like reputational risk and operational risk. Performance of SME was determined in terms of financial performance, expansion of the business and operational efficiency. The findings show that tax avoidance has a direct impact on performance of SMEs. Findings of the research are consistent with the outcomes of Sánchez-Ballesta and Yague (2024) and Malik et al. (2025) but dissimilar to the articles by Adetula and Okafor (2014) and Izedonmi and Uadiale (2017). In addition, the adoption of IFRS mediates the association between tax avoidance and SMEs performance. In particular, the paper established that SMEs that implemented the IFRS had superior financial transparency and efficiency in their operations. The adoption of IFRS offers a systematic way of reporting, thus minimizing the urge to engage in the practice of aggressive tax avoidance, and improves overall performance. Therefore, the adverse effects of tax avoidance are reduced in IFRS through enhancing the quality of financial reporting and thus positively affects the performance of SMEs.

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

Structural Model



Where TA = Tax Avoidance, SPM = SMEs performance, IFRSA = International Financial Reporting Standard Adoption

5. Conclusion

This research is concluded to have both direct and indirect implications on the performance of the SMEs, and the adoption of IFRS can be a key mediator. Although tax avoidance would enhance short-term financial performance, it would negatively affect long-term performance as it has to be regulated and less transparency is ensured. However, SMEs that have applied the IFRS enjoy a better designed method of financial reporting that improves their performance despite the obstacles related to tax avoidance.

6. Theoretical and practical implications

The research contributes to the literature of study that indicate a relationship exists between corporate performance and tax evasion. It helps the idea that even though there can be benefits in the short-run, tax evasion can have adverse consequences in the long-run to the viability, transparency, and credibility of a company. Moreover, tax strategies of SMEs in Nigeria and other markets like this should be balanced in a manner that does not interfere with the long-term advantages of transparent financial reporting. As much as tax avoidance might be attractive in

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

the short run, the adoption of the IFRS might have the positive financial consequences and operational expansion in the long term.

7. Recommendations

The research suggests that the regulatory bodies should look at the hybrid frameworks that allow SMEs the discretion of employing either international or national standards. To be relevant and in line with the changing business practices, policymakers are encouraged to direct resources towards SMEs, education specific education, training, incentives, as well as supporting technology adoption and periodic review of IFRS to SMEs. This will enhance financial discipline and corporate governance, which is good in the economy. Promoting the use of IFRS by SMEs may be a critical measure towards enhancing financial practices and competitiveness of SMEs, especially in the emerging economies such as Nigeria.

References

Abedana, V., Omane-Antwi, K., & Owiredu, A. (2016). The impact of IFRS/IAS adoption on corporate income taxation in Ghana. *International Journal of accounting and financial reporting*, *6*(1).

Adelekan, S. A., Eze, B. U., & Majekodunmi, S. A. (2019). Bank loans and Small Medium Enterprises' (SMEs) performance in Lagos, Nigeria. *Ilorin Journal of Human Resource Management, 3(1), 52–61. http://ejournals.unilorin.edu.ng/journals/index.php/ijhrm*

Adeosun, O. T., & Shittu, A. I. (2021). Small–medium enterprise formation and Nigerian economic growth. Review of Economics and Political Science. *Advance online publication. https://doi.org/10.1108/REPS-07-2020-0089*

Adetula, D. T., & Okafor, G. O. (2014). Adoption of IFRS for SMEs in Nigeria: Benefits, challenges, and prospects. *Journal of Financial Reporting and Accounting*, *12*(2), 170-190.

Adeyemo, K. A., & Olateju, I. A. (2022). Impact of access to finance on the growth of small and medium enterprises in Nigeria. *International Journal of Business Systems and Economics, 13(7), 22–36. https://arcnjournals.org/images/2726452731372.pdf*

Akpan, J. U., Akinadewo, I. S., & Osatuyi, Y. A. (2023). International Financial Reporting Standards (IFRS) and Small and Medium-sized Enterprises (SMEs): assessing the impact of IFRS adoption on SMEs. *World Journal of Finance and Investment Research*, *7*(4), 34-56.

Alhawamdeh, H., Alafeef, M. A. M. I., Alkhawaldeh, B. Y., Nawasra, M., Al_Rawashdeh, H. A. A., Zraqat, O., Hussien, L. F., & Al-Eitan, G. N. (2024). The relationship between marketing

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

capabilities and financial performance: the moderating role of customer relationship management in Jordanian SMES, Cogent Business & Management, 11:1, 2297458, DOI: 10.1080/23311975.2023.2297458

Awoyemi, B. O., & Makanju, A. A. (2020). The growth prospect and challenges of financing micro, small and medium scale enterprises (MSMEs) in Nigeria. *European Journal of Business and Management Research, 5(4), 1–7. http://doi.org/10.24018/ejbmr.2020.5.4.350*

Damak-Ayadi, S., Sassi, N., & Bahri, M. (2020). Cross-country determinants of IFRS for SMEs adoption. *Journal of Financial Reporting and Accounting*, *18*(1), 147-168. https://doi.org/10.1108/JFRA-12-2018-0118

Fanani, Z., Puji Rahayu, A., & Erlando, A. (2024). Determining factors to implementing IFRS for SMES: a study in International Accounting Standards Board countries. *Cogent Business & Management*, *11*(1), 2420767.

Issam, P. B., & Ibtissam, P. Z. (2023). Determinants of IFRS for SMEs adoption worldwide. *International Journal of Accounting and Finance Studies*, *6*(2), 12-39. 10.22158/ijafs.v6n2p12. hal-04209334

Izedonmi, F. I., & Uadiale, O. M. (2017). IFRS adoption and SMEs' performance in Nigeria. *African Journal of Economic and Management Studies*, *8*(2), 203-219.

Kaya, D., & Koch, M. (2015). Countries' adoption of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)–early empirical evidence. *Accounting and Business Research*, *45*(1), 93-120.

Khan, M. A. & Tjaraka, H. (2024). Tax justice and understanding: MSME compliance with Tax Regulation No. 55/2022 in Surabaya, Indonesia, Cogent Business & Management, 11:1, 2396042, DOI: 10.1080/23311975.2024.2396042

Khan, S. A. R., Sheikh, A. A. & Ahmad, Z. (2023) Developing the interconnection between green employee behavior, tax avoidance, green capability, and sustainable performance of SMEs through corporate social responsibility. *Journal of Cleaner Production, Vol. 419 123236*

Kiliç, M., & Uyar, A. (2017). Adoption process of IFRS for SMEs in Turkey: Insights from academics and accountants. *Accounting and Management Information Systems*, *16*(2), 313-339.

Litjens, R., Bissessur, S., Langendijk, H., & Vergoossen, R. (2012). How Do Preparers Perceive Costs and Benefits of IFRS for SMEs? Empirical Evidence from the Netherlands. *Accounting in Europe*, *9*(2), 227-250. https://doi.org/10.1080/17449480.2012.720875

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

Malik, M. S., Irfan, M. & Munir, S. (2025). Corporate tax avoidance and firm performance: the moderating role of ownership concentration and board independence, Cogent Business & Management, 12:1, 2448277, DOI: 10.1080/23311975.2024.2448277

Marina, A. G. (2022). IFRS for SMEs: Evolution and Discussions. *Journal of Economic Financial Theory and Practices. Revista Economică*, *74*(4). DOI: 10.56043/reveco-2022-0036

Msechu, S. Z., Kasoga, P. S. & Kipesha, E. F. (2024) Firm characteristics and compliance with IFRSs for small and medium-sized entities in developing countries: evidence from Tanzania, Cogent Business & Management, 11:1, 2399313, DOI: 10.1080/23311975.2024.2399313

Muda, P., Tornyeva K. & MacCarthy J. (2024). The moderating role of environmental factors between institutional isomorphic pressures and the adoption of IFRS for SMEs: application of SEM, Cogent Business & Management, 11:1, 2330012, DOI: 10.1080/23311975.2024.2330012

Mvunabandi, J. D. (2023). The difference between non-profit organization financial reporting practices and financial performance in relation to IFRS for SMEs and government requirements. *Management & Accounting Review (MAR)*, *22*(2), 149-182.

Mvunabandi, J. D. & Mbonigaba, J. (2023). Perceptions of Non-Government Organisations Managers About International Financial Reporting Standards in the NGOs Sector: A Case Study of a Large NGO in Durban, South Africa. International Journal of Environmental, Sustainability, and Social Science, 4(3), 915-926.

Nguyen, C., Pham, S. & Nguyen, L. (2025) The mediating effect of brand image on the relationship between E-WOM and purchase intention: the case study of FOREO skin-care devices, Cogent Business & Management, 12:1, 2471532, DOI: 10.1080/23311975.2025.2471532

Ojo, A. O. & Shittu, S. A. (2023). Value Added Tax Compliance, and Small and Medium Enterprises (SMEs): Analysis of Influential Factors in Nigeria. *Cogent Business & Management*, *10*(2), 2228553, doi: 10.1080/23311975.2023.2228553

Okafor, O. N., Akindayomi, A., & Warsame, H. (2019). Did the adoption of IFRS affect corporate tax avoidance. *Can. Tax J.*, *67*, 947.

Okoye, E. I., & Ajam, M. (2019). The adoption of IFRS for SMEs in Nigeria: A survey of SMEs' experiences and challenges. Journal of Financial Reporting and Accounting, 17(1), 28-52.

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

Oladejo, M. O. & Shittu S. A. (2018). Perception of electronic cooperative financing by SMEs Members in Oyo State, Nigeria. *Fountain University Osogbo Journal of Management (FUOJM)*. 3(3): 72-83

Olaleye, J. O., Ayodele, A. O. & Adigun, M. O. (2021). Factors Affecting the Growth of Small and Medium Size Enterprises in Oyo State, Nigeria. *International Journal of Advances in Engineering and Management (IJAEM), 3*(8), 1801-1812, doi: 10.35629/5252-030818011812

Onyali, C. I., & Odia, J. O. (2015). An empirical study of IFRS adoption in Nigerian SMEs. *International Journal of Business, Accounting, and Finance, 9*(1), 1-12.

Oyedeji, R. O. Ogunleye, J. K., Aribaba, F. O., Ahmodu, A. O. & Shittu, S. A. (2023). Strategic Financial Management Practices and Sustainability of Small and Medium Enterprise in Osogbo Metropolis, Nigeria. *Kampala International University Journal of Social Sciences. 9*(1), 17-22, ISSN: 2413-9580

Pais, C. A. F., & Bonito, A. L. M. (2018). The macroeconomic determinants of the adoption of IFRS for SMEs: Los Determinantes macroeconómicos en la adopción de las IFRS para las pymes. *Revista de Contabilidad-Spanish Accounting Review*, *21*(2), 116-127.

Ramanna, K. & Sletten, E., (2009). Why do countries adopt International Financial Reporting Standards? Working Paper, Harvard University and Boston College

Roman, T., Marcu, N., Rusu, V. D., Doacă, E. M., & Siriteanu, A. A. (2023). Tax payment and the performance of SMEs: a longitudinal analysis on EU countries. *Sustainability*, *15*(2), 927.

Samour, A., Musah, M., Mati, S., & Amri, F. (2024). Testing the impact of environmental taxation and IFRS adoption on consumption-based carbon in European countries. *Environmental Science and Pollution Research*, 1-14.

Sánchez-Ballesta, J. P., & Yagüe, J. (2024). Tax avoidance and debt maturity in SMEs. *Journal of International Financial Management & Accounting*, *35*(2), 429-464.

Segotso, T., Mvunabandi, J. D., & Phesa, M. (2024). A Systematic Literature Review of the Challenges of Adopting and Implementing IFRS for SMEs in South Africa. *International Journal of Economics and Financial Issues*, *14*(5), 131-147.

Septriani, Y., Wardhani, R., Adhariani, D. & Samingun (2025) Tax avoidance in Southeast Asia: unraveling the effects of environmental uncertainty and governance, Cogent Business & Management, 12:1, 2473031, DOI: 10.1080/23311975.2025.2473031

*ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

Shittu, S. A., Taleat, B. A., Owojori, O. C. & Aminu, S. O. (2023). Small and Medium Scale Businesses Performance in the New Normal (Post-COVID); Environment: Evidence from Oyo State. *Fuoye Journal of Public Administration and Management, 1*(1), 58-68, ISSN: 2992-4863

Tenzer, A. (2024). Impact of IFRS 15 adoption on performance measurement in healthcare – the case of National Health Service Foundation Trusts, Cogent Business & Management, 11:1, 2331982, DOI: 10.1080/23311975.2024.2331982

Umadia, K. Sr., & Kasztelnik, K. (2020). The financial innovative business strategies of small to medium scale enterprises in developing country and influence for the global economy performance. *SocioEconomic Challenges, 4(3), 20–32. https://doi.org/10.21272/sec.4(3).20-32.2020*

Uyar, A., & Güngörmüş, A. H. (2013). Perceptions and knowledge of accounting professionals on IFRS for SMEs: Evidence from Turkey. *Research in Accounting Regulation*, *25*(1), 77-87. https://doi.org/10.1016/j.racreg.2012.11.001

Wyk, M. V. & Enslin, Y. (2025). The impact of IFRS 16 adoption on financial statements of listed South African mining companies, Cogent Business & Management, 12:1, 2450096, DOI: 10.1080/23311975.2025.2450096

Yoo, S., & Managi, S. (2022). Disclosure or action: Evaluating ESG behavior towards financial performance. *Finance Research Letters*, *44*, 102108. https://doi.org/10.1016/j.frl.2021.102108
Zahid, R. A., & Simga-Mugan, C. (2019). An analysis of IFRS and SME-IFRS adoption determinants: a worldwide study. *Emerging Markets Finance and Trade*, *55*(2), 391-408.