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# Financial Reporting Practices, SME Performance, and Enterprise Tax Compliance in Ibadan, Oyo State, Nigeria

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**ABSTRACT**

Small and medium-sized enterprises (SMEs) drive economic growth across emerging markets, yet informal record-keeping restricts managerial decision-making and limits sub-national tax compliance. While enterprise longevity is often assumed to foster fiscal alignment, empirical evidence on whether internal accounting discipline outweighs operational maturity remains scarce. Consequently, this study investigates the effect of financial reporting practices (FRP) on SME performance (SMEP) and enterprise tax compliance (ETC) in Ibadan Metropolis, Oyo State, Nigeria. The study is grounded in the Resource-Based View and Fiscal Exchange Theory. Using a multi-stage cluster sampling technique, primary data were collected from 403 validated SME owner-managers across trading, services, and manufacturing sub-sectors. Data quality was verified via Confirmatory Factor Analysis and Harman's single-factor test. Hypotheses were tested using Ordinary Least Squares multiple regression specified with heteroscedasticity-consistent robust standard errors (HC3). The empirical results demonstrate that FRP exerts a strong, statistically significant positive effect on both SME performance ($\beta = 0.567, t = 13.997, p < 0.001$) and enterprise tax compliance ($\beta = 0.440, t = 9.925, p < 0.001$), supporting both research hypotheses. FRP accounted for 68.7% of variance in performance ($R^2 = 0.687$) and 39.3% in tax compliance ($R^2 = 0.393$). Crucially, while firm age significantly predicts enterprise performance ($B = 0.257, p < 0.001$), it exerts no statistically significant effect on tax compliance ($B = -0.025, p = 0.592$) when controlling for reporting practices. This study concludes that organizational longevity alone does not drive fiscal compliance; structured accounting discipline is the primary internal driver. It is recommended that the Oyo State Ministry of Trade and professional accounting bodies (ICAN/ANAN) institute cluster-based bookkeeping workshops and simplified micro-reporting templates. Furthermore, the Oyo State Internal Revenue Service should establish incentivized compliance pathways and digital record-keeping tools for compliant SMEs.

**Keywords**: Access to finance, SME performance, Tax compliance, Firm age asymmetry, Fiscal Exchange Theory

## Introduction

Small and medium-sized enterprises (SMEs) absorb the workforce that formal corporations and state entities cannot employ across emerging sub-national economies. In Oyo State, Nigeria, with Ibadan as its commercial hub, SMEs operate retail outlets, technical workshops, transport fleets, and light manufacturing units that generate daily livelihoods for millions of households. Despite their economic role, empirical studies across developing countries show that many small enterprises operate without structured accounting records or standardized financial statements (Ezeagba, 2017; Igbojioyibo, 2024).

In small enterprise operations, financial reporting extends beyond statutory accounting statements to encompass basic disciplines such as daily sales logs, cash reconciliations, inventory ledgers, and simplified alignment with frameworks like IFRS for SMEs. When enterprises lack these record-keeping disciplines, information asymmetry widens between owner-managers, credit providers, and tax agencies. Lenders deny credit due to verifiable financial statement deficits, while tax authorities resort to arbitrary best-of-judgment (BOJ) assessments, which frequently prompt tax disputes and non-compliance (Garba, 2019).

A central question in small enterprise research is whether organizational maturity or internal management discipline is the primary driver of formal tax compliance. Intuitive policy assumptions often presuppose that older, established enterprises naturally become better tax citizens as they mature. However, empirical literature on sub-national taxation in developing economies such as Nigeria offers conflicting evidence regarding whether firm age independently promotes compliance or merely proxies for internal operational capabilities (Alabede et al., 2011; Olaoye & Ekundayo, 2018).

This study investigates the empirical relationships connecting financial reporting practices (FRP) to SME performance (SMEP) and enterprise tax compliance (ETC) in Ibadan, Oyo State. A headline contribution of this paper is demonstrating an asymmetric control variable dynamic: whereas firm age significantly enhances enterprise performance, it exerts no direct effect on tax compliance once financial reporting discipline is controlled. To ensure construct validity, tax revenue outcomes are operationalized at the enterprise level as micro-level tax compliance behavior (registration, filing regularity, and payment accuracy) that forms the indispensable micro-foundation for aggregate state tax yield. The study evaluates these relationships while addressing potential common method variance, construct validity, and endogeneity considerations. Accordingly, the study formulates the following null hypotheses:

$H_{01}$: Financial reporting practices exert a significant positive effect on SME performance in Ibadan, Oyo State, controlling for firm age and business sector.

$H_{02}$: Financial reporting practices exert a significant positive effect on enterprise tax compliance in Ibadan, Oyo State, controlling for firm age and business sector.

## LITERATURE REVIEW

### *Conceptual Review*

The interaction between financial reporting practices, small and medium enterprise (SME) performance, and enterprise tax compliance forms a critical intersection in emerging market literature. Empirical literature across African and developing economies highlights the role of financial management in small business survival and growth.

Financial management plays a vital role in ensuring small business survival and driving sustainable growth across African and developing economies. Effective financial management practices serve as the foundational bedrock for operational efficiency, providing small business owners with the internal controls needed to navigate volatile market environments. Sound financial record-keeping and cash flow management directly enhance the survival rates of small and medium-sized enterprises by preventing sudden liquidity crises and insolvency (Neneh & van Zyl, 2012). When owner-managers maintain structured budgeting and transaction tracking, they gain clear visibility into operating expenses, which minimizes capital misallocation and stabilizes working capital (Agyei, 2018).

Beyond short-term survival, rigorous financial management capabilities act as a catalyst for long-term growth and capital expansion. Access to external finance remains a pervasive constraint for small enterprises in emerging markets, primarily due to severe information asymmetry between business owners and institutional lenders. Maintaining audited or transparent financial statements mitigates this friction, serving as a credibility signal that improves creditworthiness and facilitates access to bank credit and equity financing (Olubotije & Adeyemi, 2020). Furthermore, higher financial literacy and structured reporting enable managers to analyze investment opportunities, optimize profit margins, and scale business operations effectively (Fatoki, 2014). Consequently, financial management operates as both a protective shield against operational failure and a growth driver that enables small enterprises to transition from survivalist ventures into competitive, scalable market players.

Financial reporting practices function as an essential operational capability within small enterprises. Systematic bookkeeping and budgeting enhance operational performance among small firms by transforming raw transaction data into actionable managerial insights (Ezeagba, 2017). High financial information quality improves capital allocation efficiency, allowing business operators to evaluate product-line profitability and control overhead expenses (Akintunde, 2021). Furthermore, robust risk-identification and financial tracking capabilities enable small enterprises to maintain liquidity and absorb macroeconomic shocks (Igbojioyibo, 2024). Global studies on small enterprise formalization confirm that internal record-keeping capabilities are essential for transitioning firms from survivalist, informal operations into sustainable, scalable enterprises. Without these routines, SME managers rely on informal, memory-based management, which limits strategic planning and operational stability.

### *Theoretical Review*

To avoid theoretical fragmentation, this study synthesizes two primary theoretical frameworks: the Resource-Based View (RBV) and Fiscal Exchange Theory, while integrating Agency Theory and Stakeholder Theory as supporting mechanisms to explain the dual path from reporting practices to firm performance and tax compliance.

The primary theoretical foundation for the performance outcome rests on the Resource-Based View (Barney, 1991). RBV posits that sustainable competitive advantage and performance stem from valuable, rare, inimitable, and non-substitutable internal resources. In developing market environments where informal, memory-based management predominates, structured financial reporting capabilities and financial literacy function as strategic internal resources. Possessing internal record-keeping routines enables owner-managers to optimize working capital, manage cash flows, and execute accurate pricing strategies (Muneer et al., 2017).

The primary theoretical foundation for the tax compliance outcome rests on Fiscal Exchange Theory (Alm et al., 1992). This theory posits that tax compliance reflects an exchange dynamic where taxpayers weigh administrative compliance costs and perceived system fairness against state services. Standardized financial reporting reduces compliance friction by enabling straightforward tax calculations, thereby shielding small enterprises from arbitrary assessment disputes with state tax authorities.

These primary lenses are reinforced by Agency Theory (Jensen & Meckling, 1976) and Stakeholder Theory (Freeman, 1984). In SME operations, agency conflicts manifest between owner-managers and external tax agencies or lenders acting as uninformed principals (Mishral & Celestine, 2025). Transparent financial reporting mitigates information asymmetry, lowering agency monitoring costs. From a stakeholder perspective, accurate reporting serves as an accountability mechanism that builds institutional trust with municipal revenue boards, directly fostering voluntary compliance (Palil & Mustapha, 2011).

## Empirical Review

The empirical literature examining the relationship between financial reporting practices, small business performance, and enterprise tax compliance reveals strong evidence that structured accounting systems serve as critical operational drivers across emerging economies. Prior empirical studies can be synthesized along two core thematic streams: the empirical link between financial reporting and SME performance, and the empirical link between financial reporting discipline and enterprise tax compliance. Empirical inquiries across African economies consistently demonstrate that internal accounting routines directly enhance small business viability and growth. Evaluating operational performance among Nigerian small and medium-sized enterprises, Ezeagba (2017) established that systematic bookkeeping and cash-flow budgeting significantly increase profitability and operational survival rates. This aligns with findings by Akintunde (2021), who confirmed that high financial information quality enhances capital allocation efficiency, allowing owner-managers to avoid over-leveraging and optimize working capital.

During periods of economic volatility, financial record-keeping serves as a critical stabilization tool. Igbojioyibo (2024) observed that small enterprises possessing formalized financial tracking and risk-identification capabilities maintain significantly higher liquidity reserves during macroeconomic shocks compared to non-reporting peers. At a global level, empirical evidence from developing markets reinforces these insights, confirming that formal record-keeping acts as a prerequisite for transitioning small firms from informal, survivalist operations into scalable commercial entities. A parallel body of empirical literature investigates how accounting discipline influences sub-national fiscal outcomes and tax compliance behavior. In an empirical assessment of small business operators, Alabede et al. (2011) identified a strong positive correlation between financial literacy, accurate record-keeping, and voluntary tax compliance. Their findings indicate that financial clarity lowers compliance friction by demystifying tax obligation calculations.

The interaction between internal accounting records and state tax enforcement is equally critical. Examining tax audit effectiveness in Ekiti State, Nigeria, Olaoye and Ekundayo (2018) concluded that tax audit enforcement yields lasting compliance gains primarily when targets possess verifiable financial statements. In the absence of structured accounts, empirical evidence shows that revenue collection mechanisms break down into arbitrary "best-of-judgment" assessments, generating severe legal disputes and administrative resistance (Garba, 2019). Consequently, empirical research confirms that structured financial reporting provides the indispensable micro-foundation required for predictable, transparent state tax yields.

## METHODOLOGY

The target population comprised registered and active SME owner-managers across five commercial local government areas in Ibadan metropolis (Ibadan North, Ibadan North-East, Ibadan North-West, Ibadan South-East, and Ibadan South-West). The sampling frame was derived from the joint directory of the Oyo State Ministry of Trade, Industry and Cooperatives and local market association registries, comprising approximately 2,100 active enterprises.

A multi-stage cluster sampling technique was employed. First, commercial clusters were purposively selected across three sub-sectors: trading, services, and light manufacturing. Second, simple random sampling was applied within selected clusters to distribute 475 structured questionnaires. A total of 418 questionnaires were retrieved, of which 403 were fully completed and validated for empirical analysis, yielding an effective response rate of 84.8%. Non-response and incomplete instruments were handled by listwise deletion.

Two multiple regression equations were specified to evaluate the hypothesized relationships. Geographic location was held constant by sampling within Ibadan metropolis, leaving firm age and sector as structural control variables:

Model 1 (SME Performance): $SMEP = \beta_0 + \beta_1 FRP + \beta_2 AGE + \beta_3 SEC\_SERV + \beta_4 SEC\_MFG + \varepsilon$

Model 2 (Enterprise Tax Compliance): $ETC = \beta_0 + \beta_1 FRP + \beta_2 AGE + \beta_3 SEC\_SERV + \beta_4 SEC\_MFG + \varepsilon$

Where:

**SMEP** = SME Performance (dependent variable in Model 1); **ETC** = Enterprise Tax Compliance (dependent variable in Model 2, representing micro-level tax contribution); **FRP** = Financial Reporting Practices (independent variable), **AGE** = Firm Age in years (control variable), SEC_SERV = Dummy variable for Services sector (1 = Services, 0 = Otherwise); SEC_MFG = Dummy variable for Manufacturing sector (1 = Manufacturing, 0 = Otherwise; Trading serves as the reference category); $\beta_0$ = Constant term (intercept); $\beta_1$ – $\beta_4$ = Coefficients to be estimated; $\varepsilon$ = Stochastic error term

Descriptive statistics and diagnostic tests (e.g., construct validity, reliability, discriminant validity, and common method variance) were conducted to ensure the suitability of the data for regression analysis. Statistical significance is evaluated at the 5% level ($p < 0.05$).

The measurement framework provides a robust operationalization of key variables by capturing the distinct multidimensional facets of accounting capabilities, business outcomes, and fiscal interactions. Financial Reporting Practices (FRP) is operationalized as a 20-item construct capturing basic transaction recording, daily cash logs, timeliness, and alignment with simplified IFRS for SMEs. To distinguish basic bookkeeping from formal accounting, items were grouped into sub-dimensions assessing basic record-keeping, financial literacy, and standards compliance.

Complementing this, SME Performance (SMEP) is operationalized via a 6-item scale evaluating self-reported profit growth, sales expansion, asset accumulation, and liquidity stability over the preceding three fiscal years. Enterprise Tax Compliance (ETC) is operationalized via a 4-item scale evaluating formal tax registration, filing regularity, declaration accuracy, and prompt remittance. All constructs were measured on a 5-point Likert scale ranging from 1 (Strongly Disagree / Non-Existent) to 5 (Strongly Agree / Fully Implemented).

To establish construct validity beyond traditional internal consistency measures, confirmatory factor analysis (CFA) was executed. Convergent validity was verified using Average Variance Extracted (AVE) and Composite Reliability (CR), with all primary constructs meeting established benchmarks ($\text{AVE} > .50$; $\text{CR} > .80$). Furthermore, discriminant validity was confirmed using the Heterotrait-Monotrait (HTMT) ratio of correlations, where all paired construct values remained below the conservative .85 threshold ($\text{HTMT}_{\text{FRP–SMEP}} = .782$; $\text{HTMT}_{\text{FRP–ETC}} = .514$), establishing distinct construct boundary validity despite high bivariate correlation ($r = .745$).

Given the cross-sectional, single-responder survey design, common method variance (CMV) was empirically evaluated using Harman's single-factor test. Unrotated principal axis factor analysis revealed that the first loading factor accounted for 28.4% of the total variance, remaining well below the critical 50.0% threshold. This confirms that common method bias does not systematically distort the estimated relationships, ensuring the statistical reliability and integrity of the regression findings.

## RESULTS AND DISCUSSION

### *Descriptive Statistics*

Table 4.1 presents summary of descriptive statistics for composite variables on a 1–5 Likert scale.

| Construct | Mean | SD | Min | Max | Skewness | Kurtosis |
|---|---|---|---|---|---|---|
| Financial Reporting Practices (FRP) | 2.41 | 0.74 | 1.55 | 3.90 | 0.70 | -0.57 |
| SME Performance (SMEP) | 2.24 | 0.61 | 1.33 | 3.33 | 0.35 | -0.93 |
| Enterprise Tax Compliance (ETC) | 1.95 | 0.72 | 1.00 | 3.75 | 0.71 | -0.18 |

Sources: Researcher’s Analysis, 2026

The descriptive statistics presented in Table 4.1 provide the mean score for Financial Reporting Practices (FRP) stands at 2.41 (SD = 0.74), falling below the scale midpoint of 3.00. This low average reflects widespread reliance on informal or fragmented record-keeping routines rather than structured accounting frameworks or simplified IFRS for SMEs. Most enterprise owners in the sample execute daily transactions without maintaining systematic cash logs, ledger accounts, or regular financial statements. This finding aligns with empirical evidence across emerging markets, where small business operations are predominantly characterized by informal accounting mechanisms (Ezeagba, 2017).

SME Performance (SMEP) recorded a mean of 2.24 (SD = 0.61), indicating modest overall growth, constrained capital accumulation, and sub-optimal profitability over the evaluated three-year period. The close alignment between low reporting discipline and suppressed business performance suggests that a lack of structured financial visibility hinders internal managerial decision-making, optimal pricing, and cash flow management (Akintunde, 2021).

Enterprise Tax Compliance (ETC) registered the lowest mean score at 1.95 (SD = 0.72), highlighting compliance deficits in sub-national fiscal engagement. This baseline indicates that formal tax registration, regular filing, declaration accuracy, and prompt remittances remain low across the sample. In line with Fiscal Exchange Theory and empirical observations by Garba (2019), weak reporting capabilities create compliance friction, deterring voluntary tax alignment and exposing small firms to arbitrary best-of-judgment assessments by local tax authorities.

Distributional properties demonstrate compliance with normality assumptions for linear regression analysis. Skewness values range between 0.35 and 0.71, while kurtosis indices range from -0.93 to -0.18. Because all skewness and kurtosis estimates fall comfortably within the standard ±2.0 threshold, the variables do not exhibit severe departure from normality.

### *Correlation Analysis and Multicollinearity Diagnostics*

Table 4.2 presents Pearson correlation coefficients alongside Tolerance values and Variance Inflation Factors (VIF).

**Table 4.2: Correlation Matrix and Multicollinearity Diagnostics (N = 403)**

| Variable | 1 | 2 | 3 | 4 | Tolerance | VIF |
|---|---|---|---|---|---|---|
| 1. Financial Reporting Practices (FRP) | 1.000 | | | | 0.459 | 2.18 |
| 2. SME Performance (SMEP) | 0.745** | 1.000 | | | — | — |
| 3. Enterprise Tax Compliance (ETC) | 0.455** | 0.382** | 1.000 | | — | — |
| 4. Firm Age (Years) | 0.607** | 0.702** | 0.392** | 1.000 | 0.459 | 2.18 |

*** Correlation is significant at the 0.01 level (2-tailed).* Sources: Researcher's Analysis, 2026

Table 4.2 shows the result of Firm Age, although Firm Age correlates with FRP ($r = .607$) and SMEP ($r = .702$), collinearity diagnostics confirm that VIF values (2.18) and Tolerance levels (.459) remain well within standard econometric thresholds (VIF < 5.0; Tolerance > .20). Firm age captures operational maturity, whereas FRP reflects record-keeping discipline, confirming that the constructs capture distinct dimensions.

### *Regression Diagnostics*

Table 4.3 summarizes diagnostic tests across both specified models.

**Table 4.3: Summary of Econometric Diagnostic Tests**

| Diagnostic Test | Model 1 (SMEP) | Model 2 (ETC) | Benchmark & Decision |
|---|---|---|---|
| Variance Inflation Factor (Max VIF) | 2.18 | 2.18 | < 5.00: No Multicollinearity |
| Durbin–Watson Statistic (d) | 2.24 | 1.95 | ≈ 2.00: No Autocorrelation |
| Breusch–Pagan LM Test (p-value) | 207.66 (p < .001) | 53.30 (p < .001) | Significant Heteroscedasticity → Corrected via HC3 Robust SEs |
| Shapiro–Wilk Test (p-value) | p < .001 | p < .001 | Non-normal Residuals → Validated via N = 403 Central Limit Theorem |

Sources: Researcher's Analysis, 2026

*Econometric Note on Residual Normality and Robust Estimation:* OLS point estimates remain unbiased and consistent regardless of residual non-normality. Because the sample size is large (N = 403), sampling distributions of the regression coefficients are approximately normal by the Central Limit Theorem (CLT), validating t-statistic and F-statistic inferences. Furthermore, because the Breusch–Pagan test indicated heteroscedasticity ($p < .001$), heteroscedasticity-consistent robust standard errors (HC3) were used to adjust standard errors and p-values without altering point estimates.

### *Test of Hypotheses*

Hypotheses One ($H0_1$): Financial reporting practices exert a significant positive effect on SME performance in Ibadan Metropolis, controlling for firm age and business sector.

**Table 4.4: HC3 Robust Regression Parameter Estimates for Model 1 (Dependent Variable: SMEP)**

| Predictor Variable | Unstd B | Robust SE | Std β | t-stat | p-value |
|---|---|---|---|---|---|
| (Constant) | 0.010 | 0.064 | — | 0.162 | 0.871 |
| Financial Reporting Practices (FRP) | 0.470 | 0.034 | 0.567 | 13.997 | 0.000 |

| Predictor Variable | Unstd B | Robust SE | Std β | t-stat | p-value |
|---|---|---|---|---|---|
| Firm Age (Years) | 0.257 | 0.037 | 0.301 | 7.033 | 0.000 |
| Sector: Services (vs. Trading) | 0.370 | 0.052 | 0.268 | 7.169 | 0.000 |
| Sector: Manufacturing (vs. Trading) | 0.260 | 0.031 | 0.212 | 8.301 | 0.000 |

*Model 1 Summary: $R = .829$, $R^2 = .687$, Adjusted $R^2 = .684$, $F(4, 398) = 412.16$, $p < .001$.*

Sources: Researcher's Analysis, 2026

Table 4.4 shows the OLS regression results for hypotheses one ($\beta = 0.567$, $t = 13.997$, $p < .001$), demonstrating that Financial Reporting Practices (FRP) exert a strong, statistically significant positive effect on SME performance. Holding firm age and sector constant, every unit increase in structured reporting practices increases SME performance by 0.470 units ($B = 0.470$, $p < .001$). FRP emerges as the strongest single predictor of enterprise performance in the model ($\beta = 0.567$).

Control variables also display significant positive effects. Firm age predicts performance ($B = 0.257$, $p < .001$), indicating that enterprise maturity and operational learning contribute to business expansion. Relative to Trading, operating in Services ($B = 0.370$, $p < .001$) or Manufacturing ($B = 0.260$, $p < .001$) yields higher performance.

Hypothesis Two ($H0_2$): Financial reporting practices exert a significant positive effect on enterprise tax compliance in Ibadan Metropolis, controlling for firm age and business sector.

**Table 4.5: HC3 Robust Regression Parameter Estimates for Model 2 (Dependent Variable: ETC)**

| Predictor Variable | Unstd B | Robust SE | Std β | t-stat | p-value |
|---|---|---|---|---|---|
| (Constant) | 0.518 | 0.115 | — | 4.510 | 0.000 |
| Financial Reporting Practices (FRP) | 0.428 | 0.043 | 0.440 | 9.925 | 0.000 |
| Firm Age (Years) | -0.025 | 0.047 | -0.025 | -0.536 | 0.592 |
| Sector: Services (vs. Trading) | 0.944 | 0.114 | 0.582 | 8.303 | 0.000 |
| Sector: Manufacturing (vs. Trading) | 0.421 | 0.107 | 0.292 | 3.932 | 0.000 |

*Model 2 Summary: $R = .627$, $R^2 = .393$, Adjusted $R^2 = .387$, $F(4, 398) = 78.29$, $p < .001$.*

Sources: Researcher's Analysis, 2026

Table 4.5 shows the results for hypotheses two ($\beta = 0.440$, $t = 9.925$, $p < .001$). Financial reporting practices exert a statistically significant positive effect on tax compliance, where a unit increase in FRP leads to a 0.428 unit increase in compliance behavior ($B = 0.428$, $p < .001$). Firm age does not exert a significant effect on tax compliance ($B = -0.025$, $p = .592$), whereas sector dynamics remain significant, with Services showing the highest structural alignment with compliance ($B = 0.944$, $p < .001$).

**Summary of Hypotheses Decisions**

Table 4.6 summarizes the final decision outcomes for the research hypotheses.

**Table 4.6: Summary of Hypotheses Testing Decisions**

| Hypothesized Path | Std β | t-stat | p-value | Decision |
|---|---|---|---|---|
| $H_1$: FRP → SME Performance (SMEP) | 0.567 | 13.997 | 0.000 | Accepted |
| $H_2$: FRP → Enterprise Tax Compliance (ETC) | 0.440 | 9.925 | 0.000 | Accepted |

Sources: Researcher's Analysis, 2026

Table 4.6 summarizes the final decision outcomes for the study's two core hypotheses. Both empirical paths are fully supported by the data, confirming that Financial Reporting Practices (FRP) serve as a vital internal driver for both enterprise growth and fiscal compliance.

For the first hypotheses ($H0_1$), the results demonstrate that financial reporting practices exert a strong, statistically significant positive effect on SME performance (Std $\beta = 0.567, t = 13.997, p = 0.000$). With a standardized beta coefficient of $0.567$, reporting discipline emerges as the single strongest predictor of enterprise growth in the overall model. This confirms that maintaining structured accounting records directly enhances business profitability, sales expansion, and operational stability. Because the $p$-value falls well below the standard $0.05$ threshold, $H_1$ is statistically accepted.

Similarly, the second hypotheses ($H0_2$) establishes that financial reporting practices exert a significant positive effect on enterprise tax compliance (Std $\beta = 0.440, t = 9.925, p = 0.000$). The positive path coefficient indicates that as small firms transition from informal record-keeping to structured financial reporting, their voluntary alignment with tax filing, accurate declarations, and timely remittances increases substantially. With $p = 0.000$, $H_2$ is also fully supported by the empirical evidence.

## DISCUSSION OF FINDINGS

The primary finding of this study lies in the asymmetric role of firm age across the two empirical models. In Model 1, firm age exerts a strong positive effect on SME, indicating that enterprise longevity builds market networks, operational routines, and customer goodwill. However, in Model 2, firm age drops to statistical insignificance for tax compliance once financial reporting practices are controlled. This asymmetry challenges the intuitive assumption that older enterprises naturally become better tax citizens. Longevity alone does not foster tax compliance; internal record-keeping discipline is the essential prerequisite for formal tax participation.

The strong positive impact of financial reporting practices on enterprise performance supports the Resource-Based View (Barney, 1991). Accounting discipline operates as a strategic capability that enables owner-managers to monitor costs, optimize working capital, and improve credit access. These results align with empirical evidence from Bayelsa State (Ihenyen & Ekpoamumemi, 2024), capital market quality studies (Akintunde, 2021), and international SME formalization literature.

Regarding tax outcomes, the significant positive relationship between reporting practices and enterprise tax compliance corroborates Fiscal Exchange Theory and Stakeholder Theory. Transparent accounting routines lower administrative compliance friction between small businesses and the Oyo State Internal Revenue Service (YSIRS). When firms maintain verifiable records, tax assessments become predictable, reducing vulnerability to arbitrary best-of-judgment levies (Alabede et al., 2011; Olaoye & Ekundayo, 2018).

Revisiting the Four Theoretical Lenses: The integrated framework proposed in Section 2 is strongly reflected in these empirical outcomes. RBV explains why reporting capabilities generate internal competitive advantages that enhance performance. Fiscal Exchange Theory explains why lowering accounting friction fosters external tax compliance. Agency Theory accounts for how transparent records reduce monitoring costs for tax regulators acting as principals (Mishral & Celestine, 2025), while Stakeholder Theory explains how institutional trust encourages voluntary filing.

### *Endogeneity, Methodological Robustness, and Study Limitations*

A rigorous interpretation of these findings requires addressing endogeneity, particularly reverse causality (SMEP→FRP). Higher-performing enterprises possess greater financial resources to hire professional accountants or adopt digital accounting software. Although structural controls (firm age and sector) absorb baseline capacity variations and the FRP scale emphasizes low-cost basic routines (e.g., daily cash logs), cross-sectional data cannot fully rule out simultaneity bias. This structural association should be interpreted as strongly consistent with theoretical predictions rather than definitive causal proof.

A second potential limitation relates to social desirability bias in self-reported tax compliance measures. Enterprise owner-managers may overstate registration, filing, and payment habits to project civic responsibility. To mitigate this bias during data collection, complete anonymity assurances were provided, and items were phrased objectively around administrative routines rather than personal tax ethics. Future research could triangulate self-reported survey measures with aggregate administrative tax collection data from state revenue boards.

## CONCLUSION AND RECOMMENDATIONS

This study demonstrates that financial reporting practices represent a vital internal capability that enhances SME performance while driving enterprise tax compliance in Ibadan, Oyo State. The findings reveal that firm age alone does not ensure tax compliance; structured accounting discipline is the key prerequisite. By establishing that firm-level record-keeping directly supports sub-national tax participation, this research underscores that strengthening SME accounting routines offers a dual benefit: enhancing private sector enterprise survival while expanding the sub-national tax base.

i. Incentivized Voluntary Compliance Pathways: Given the low baseline level of financial reporting practices observed among local small businesses, tax authorities should establish simplified compliance pathways. The Oyo State Internal Revenue Service (OYSIRS) should offer filing fee discounts or presumptive tax incentives to small enterprises that maintain verified digital accounting logs.

ii. Cluster-Based Bookkeeping Workshops: Although basic record-keeping measures demonstrate strong internal consistency, actual daily implementation remains weak. The Oyo State Ministry of Trade and Cooperatives, alongside professional bodies such as ICAN and ANAN, should implement cluster-based bookkeeping workshops focusing on fundamental routines like daily cash logging and invoice management.

iii. Simplified Micro-Accounting Standards: Because full compliance with recognized accounting standards remains low across micro and small enterprises, professional accounting bodies should adapt IFRS for SMEs into a simplified single-entry reporting template specifically tailored to micro-enterprises.

iv. Mobile Digital Record-Keeping Tools: Recognizing that service sector firms achieve higher compliance through digital invoicing practices, policy efforts should actively encourage the adoption of mobile point-of-sale (POS) and digital record-keeping applications among retail and trading enterprises.

v. Administrative Tax Simplification: To ensure that internal record-keeping translates into sustained formal tax participation, sub-national tax administration must maintain policy predictability by eliminating arbitrary best-of-judgment assessments and consolidating overlapping municipal levies.

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