

Financial Reporting Quality and Financial Performance of Small and Medium-Sized Enterprises in Oyo State

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ABSTRACT

This study examined the effect of financial reporting quality on the financial performance of Small and Medium-Sized Enterprises (SMEs) in Oyo State, Nigeria. The study was motivated by the growing recognition that the survival, profitability, and long-term sustainability of SMEs depend not only on statutory compliance but on the credibility, accuracy, and usefulness of the financial information available to owners and managers. The study is anchored on Institutional Theory, which explains how organisational conformity to the preparation of accurate, standards-compliant, transparent, and well-documented financial reports translates into improved firm-level outcomes. A survey research design was adopted within a quantitative framework, and a structured, close-ended questionnaire built on a five-point Likert scale was administered to 400 owners, managers, accountants, and finance officers of registered SMEs operating in Oyo State. Data collected were analysed using descriptive statistics and simple regression analysis. The findings revealed that financial reporting quality has a positive and statistically significant effect on the financial performance of SMEs in Oyo State, with the model explaining 64.2 per cent of the variation in financial performance. The study concludes that financial reporting quality is an important determinant of financial performance among SMEs in Oyo State. The study recommends that SME owners and managers invest in strengthening internal accounting and documentation systems, in collaboration with professional accounting bodies, SME support agencies, and private-sector partners, to expand access to affordable bookkeeping and financial-reporting training for SME operators.

Keywords: Financial Reporting Quality; Performance; Small and Medium-Sized Enterprises; Institutional Theory; Oyo State

INTRODUCTION

Small and Medium-Sized Enterprises (SMEs) are widely acknowledged as a critical engine of economic growth, employment generation, and poverty reduction across developing economies (Kolawole, 2025). In Nigeria, SMEs constitute a significant proportion of business establishments and contribute substantially to national economic development through innovation, job creation, and income distribution. Despite this economic relevance, the sustainability and growth of SMEs are frequently constrained by weak financial management practices and, in particular, by deficient financial reporting systems characterised by poor record-keeping, limited access to professional accounting expertise, and inconsistent adherence to recognised accounting standards (Akang, 2023).

Financial reporting quality refers to the degree to which financial statements faithfully represent the economic activities and financial position of a firm and provide information capable of influencing the economic decisions of those who rely on it (Lawal et al., 2025; Yusran, 2023). High-quality financial reporting enhances transparency, accountability, and informed decision-making by stakeholders, including owners, managers, investors, lenders, and regulators (Mesioye & Bakare, 2024). For SMEs, which typically depend on internally generated information for planning and on external financing for growth, the accuracy, reliability, timeliness, and standards-compliance of financial statements are not peripheral concerns but core determinants of how effectively the enterprise is managed.

Financial performance, in turn, represents a key indicator of the success and sustainability of SMEs. It reflects the ability of a firm to generate earnings, control costs, and maintain operational efficiency over time, commonly assessed through indicators such as profitability, revenue growth, and return on investment. A recurring proposition in the accounting and SME literature is that firms with weak or informal financial reporting systems find it difficult to accurately monitor their own operations, control costs, or evaluate performance, while firms that maintain reliable financial records are better positioned to identify inefficiencies, allocate resources effectively, and improve profitability (Mbatha & Ngibe, 2017).

Although this proposition is intuitively plausible and has attracted growing empirical attention, a closer reading of the literature shows that financial reporting quality is more often treated as a supporting element within broader constructs, such as audit quality, corporate governance, or financial literacy, than as a central explanatory variable examined directly against financial performance (Asogba et al., 2025; Saharan et al., 2025). Where financial reporting quality is examined on its own, the evidence is drawn disproportionately from large, quoted, or non-financial firms, or from jurisdictions outside Nigeria, leaving the specific, direct contribution of financial reporting quality to the financial performance of Nigerian SMEs comparatively underexplored (Akano, 2024; Dlamini & Gumede, 2025).

This gap is consequential because SMEs differ structurally from large firms in ways that plausibly affect how financial reporting quality translates into performance. SMEs typically operate with less formalised governance structures, narrower access to professional accounting support, and greater reliance on the owner-manager's own interpretation of financial information, so that the credibility and usability of that information may matter more directly to day-to-day decision-making than in larger, more bureaucratized organisations. Understanding whether, and how strongly, financial reporting quality shapes financial performance among Oyo State SMEs is therefore important both for the accounting literature and for the practical guidance it can offer to SME owners, professional accountants, and policymakers concerned with SME development.

This study is guided by the following research question: To what extent does financial reporting quality affect the financial performance of Small and Medium-Sized Enterprises in Oyo State? Accordingly, the objective of this study is to determine the effect of financial reporting quality on the financial performance of Small and Medium-Sized Enterprises in Oyo State.

In line with this objective, the following null hypothesis is tested:

H0: Financial reporting quality has no significant effect on the financial performance of SMEs in Oyo State.

LITERATURE REVIEW

Conceptual Review

Financial reporting quality (FRQ) represents a central concept in accounting and corporate governance literature because it determines the usefulness and credibility of financial statements for decision-making by stakeholders. High-quality financial reporting ensures that financial statements provide accurate, reliable, and transparent information about the financial position and performance of a firm (Yusran, 2023), enabling owners, managers, investors, and creditors to evaluate the financial health of an organisation and make informed economic decisions.

Scholars commonly conceptualise financial reporting quality through several qualitative characteristics that determine the usefulness of financial information: reliability, relevance, transparency, and comparability (Saleh et al., 2023). Reliability refers to the degree to which financial information is free from material error or bias and faithfully represents the underlying transactions of the firm; reliable statements strengthen the confidence of investors and creditors and are particularly important for SMEs, whose access to external financing often depends on the credibility of the records they present (Hasan, 2024). Relevance concerns the capacity of financial information to influence economic decisions by helping users evaluate past performance and predict future outcomes (Mesioye & Bakare, 2024). Transparency requires that information be disclosed clearly and comprehensively, reducing the likelihood of concealment or manipulation (Efunniyi et al., 2024),

while comparability allows financial statements to be assessed consistently across time periods and against other firms, an attribute strengthened by adherence to standardised frameworks such as the International Financial Reporting Standards (IFRS) (Alhadi et al., 2021).

Beyond these qualitative characteristics, governance mechanisms such as audit oversight, internal controls, and the ethical conduct of accounting personnel also shape the credibility of financial reports (Obasan & Kuola, 2025). Collectively, these dimensions — reliability, relevance, transparency, and comparability — form the conceptual basis on which financial reporting quality is evaluated in this study, with firms that consistently exhibit them regarded as maintaining high-quality reporting systems capable of supporting sound managerial decision-making and strengthening stakeholder confidence.

Financial Performance

Financial performance reflects the extent to which a business effectively utilises its resources to generate profit, sustain operations, and achieve long-term growth. It is typically assessed through indicators such as profitability, revenue growth, return on investment, and overall improvement in the financial position of the enterprise (Lawal et al., 2025). For SMEs in particular, strong financial performance is essential for survival, expansion, and competitiveness, enabling firms to reinvest profits, attract financing, and withstand economic shocks, while poor financial performance often signals inefficiency and unsustainable operations.

Financial performance is influenced by both internal organisational factors, such as managerial competence, cost-control systems, and the quality of financial reporting, and external factors, such as macroeconomic conditions and industry competition. From a theoretical standpoint, financial performance is closely linked to the quality of the information available to decision-makers: firms that maintain accurate financial records are better able to monitor revenues, control expenses, and identify performance gaps, whereas firms with weak or informal reporting structures often struggle to evaluate their own operations with any precision (Akanbi, 2025). Within the scope of this study, financial performance is conceptualised as the dependent variable shaped by the quality of the financial reporting systems that SMEs in Oyo State maintain.

Financial Reporting Quality and Financial Performance

Financial reporting quality is a central determinant of firm outcomes, particularly financial performance, in Small and Medium-Sized Enterprises. High-quality financial reporting enhances the accuracy, reliability, and transparency of financial information used internally by management for decision-making (Mesioye & Bakare, 2024), reducing information asymmetry not only between firms and external stakeholders but also within the organisation itself, by ensuring that managers have access to credible data for planning, control, and performance evaluation. Where such information is lacking, decision-makers are more prone to inefficient resource allocation, poor cost control, and suboptimal financial decisions; high-quality reporting mitigates these inefficiencies by providing a clearer picture of the firm's financial position and operational outcomes (Assad et al., 2026), enabling SMEs to better monitor profitability, manage expenses, and evaluate performance indicators such as return on assets and profit margins (Yhip & Alagheband, 2020).

When SMEs prepare financial statements in accordance with recognised accounting standards, the resulting information is more accurate and useful for managerial decision-making, improving internal efficiency and the firm's ability to identify performance gaps, control costs, and allocate resources more effectively (Huang et al., 2023). Empirical evidence broadly supports a positive relationship between financial reporting quality and financial performance: firms with higher-quality reporting systems tend to achieve better profitability outcomes owing to improved financial discipline and better-informed investment decisions (Elemes & Filip, 2022), while enhanced reporting quality has also been shown to improve transparency and accountability, leading to more efficient resource utilisation and stronger financial performance over time (Muttakin et al., 2020). In developing-economy settings, SMEs that adopt formal, structured accounting systems tend to perform better financially than those relying on informal record-keeping, because they are better able to track revenues, control costs, and plan investments (Lakuma et al., 2019).

Taken together, this body of work suggests that financial reporting quality functions as more than an external

communication tool: it is also an internal performance-enhancing mechanism that allows SMEs to identify inefficiencies, detect financial risks early, and implement corrective actions that improve long-term profitability. It is this proposition — that financial reporting quality has a direct and measurable effect on financial performance — that the present study sets out to test empirically among SMEs in Oyo State.

Theoretical Framework

This study is anchored on Institutional theory, as developed by Meyer and Rowan (1977) and further elaborated by Scott (2008). The theory posits that organisations adopt formal structures, procedures, and practices not solely for technical efficiency but to gain legitimacy and conform to regulatory, professional, and social expectations within their operating environment. Scott (2008) identifies three pillars of institutional influence: the regulative pillar, referring to formal rules and sanctions that enforce compliance; the normative pillar, emphasising professional standards and societal expectations of appropriate conduct; and the cognitive pillar, capturing the shared beliefs and taken-for-granted assumptions that guide managerial decision-making.

Applied to this study, Institutional Theory explains why SMEs adopt standardised, high-quality financial reporting practices: doing so reflects conformity with normative expectations of transparency, accountability, and professionalism, and, as these practices become embedded in routine operations, they come to reflect cognitive pressures in which firms internalise structured financial management as a normal way of doing business (DiMaggio & Powell, 1983). The relevance of the theory to the present study lies specifically in its explanation of how this institutional conformity translates into improved financial performance: high-quality financial reporting provides reliable information for managerial decision-making, strengthens internal control systems, supports more effective planning and budgeting, and improves the allocation of scarce resources. SMEs that adopt credible reporting practices are, on this account, more likely to develop the structured management systems that enhance cost control, minimise financial mismanagement, and improve profitability, monitor their financial position more effectively, and implement strategies that support long-term growth.

Institutional Theory therefore provides an appropriate theoretical lens for this study by conceptualising financial reporting quality as an institutionalised practice that enhances organisational discipline, transparency, and accountability — attributes which, in turn, improve managerial decision-making, resource utilisation, and operational efficiency, ultimately leading to improved financial performance among SMEs in Oyo State.

Empirical Review

Akano (2024) examined the relationship between financial reporting quality and the performance of SMEs in Lagos State, Nigeria, using a survey research design and regression analysis. The study found a significant positive relationship between financial reporting quality and SME performance, with firms producing reliable, transparent, and consistent financial reports achieving higher profitability and operational efficiency, and established that adherence to recognised accounting standards enhances financial transparency and comparability, thereby improving managerial decision-making and overall firm performance.

Asogba, Soyemi, and Ariyibi (2025) examined audit quality and financial reporting quality among quoted non-financial firms in Nigeria and found that improved reporting quality strengthens corporate performance through increased transparency and accountability. Nkundabanyanga, Ntayi, Munene, and Ahiauzu (2025) similarly found that high-quality accounting information significantly improves SME performance by enhancing financial decision-making, resource allocation, and operational efficiency. Both studies, though the former focused on large listed firms, are broadly consistent with the proposition that financial reporting quality drives firm-level performance.

Outside Nigeria, Dlamini and Gumede (2025) found that IFRS adoption among Zimbabwean SMEs significantly improves the transparency, comparability, and reliability of financial statements, enhancing performance through better financial planning and decision-making, while Li, Zhang, and Chen (2024) found that digital financial reporting among Chinese SMEs enhances transparency, reduces errors, and improves

financial management efficiency. Saharan, Kaur, and Dhir (2025) and Riani, Hidayat, and Nugroho (2025) likewise found that SMEs with transparent reporting and sound financial management practices experience improved profitability and operational efficiency.

Further reinforcing this pattern, Ferasso, Beliaeva, Kraus, Clauss, and Ribeiro-Soriano (2025) found that financial transparency and high-quality reporting enhance SME performance by improving operational efficiency and stakeholder confidence, while Beck, Demirgüç-Kunt, and Honohan (2019) and Ferrando and Ruggieri (2020), in cross-country and European analyses respectively, both reported that firms with credible, transparent financial information exhibit stronger performance through improved resource allocation and reduced operational uncertainty. Although these studies are situated outside Nigeria, they reinforce the cross-context relevance of financial reporting quality as a performance determinant, which the present study examines specifically within the Oyo State SME context.

A careful review of the reviewed evidence reveals two related gaps that this study addresses. First, while a positive association between financial reporting quality and firm performance is well established, financial reporting quality is frequently treated as a supporting variable rather than a central explanatory factor, embedded within broader constructs such as audit quality, corporate governance, or financial literacy (Asogba et al., 2025; Saharan et al., 2025). This limits a clear understanding of the direct, independent effect of financial reporting quality on financial performance, particularly among SMEs, where such broader governance structures are typically less developed than in large, listed firms.

METHODOLOGY

Research Design

The study adopted a survey research design within a quantitative framework. This design was considered appropriate because it allowed the researcher to collect primary data directly from SME owners, managers, accountants, and finance officers using a structured questionnaire, in order to examine the relationship between financial reporting quality and financial performance across a relatively large number of respondents within a limited time frame.

Population of the Study

The population of the study comprised owners, managers, accountants, and finance officers of registered SMEs operating in Oyo State. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics (NBS) 2017 MSME National Survey Report, Oyo State had an estimated 6,131 registered SMEs, representing approximately 8.4 per cent of the national total at the time, placing the state among those with a considerable share of formal SMEs in Nigeria and providing an appropriate context for the study.

Sample Size and Sampling Technique

Given the size of the population, the Taro Yamane (1967) formula was applied at a 5 per cent margin of error to determine a representative sample size:

$$n = N / (1 + N \cdot e^2)$$

Where n = sample size, N = total population (6,131), and e = margin of error (0.05).

Where $N = 6,131$ and $e = 0.05$

$$n = 6,131 / (1 + 6,131 \times 0.05^2)$$

$$n = 6,131 / (1 + 15.3275)$$

$$n = 6,131 / 16.3275$$

$$n = 375.45$$

$$n \approx 375$$

A sample of 375 respondents, comprising owners, managers, accountants, and finance officers of SMEs in Oyo State, was therefore selected for the study, providing a statistically representative subset of the population suitable for quantitative analysis of the relationship between financial reporting quality and financial performance.

Sources of Data

The study relied on primary data collected directly from SME operators through the administration of structured questionnaires. This allowed the researcher to obtain first-hand information specifically relevant to the study's objective and to capture respondents' own perceptions and experiences regarding financial reporting practices and financial performance in their enterprises.

Instrument for Data Collection

The main instrument for data collection was a structured questionnaire divided into two sections. Section A captured demographic information about respondents, including gender, age, educational qualification, and position within the enterprise. Section B contained items relating to financial reporting quality and financial performance, structured on a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5).

Validity of the Research Instrument

Content and face validity of the questionnaire were established through a review of relevant literature on financial reporting quality and firm performance, and through expert review by academics and professionals in accounting, finance, and research methodology. Necessary corrections and modifications were made to the instrument based on this expert feedback before it was administered to respondents.

Reliability of the Research Instrument

Reliability was assessed through a pilot test of the questionnaire among a small group of SME operators who were not part of the main sample, using Cronbach's Alpha as the measure of internal consistency. A Cronbach's Alpha coefficient of 0.75 was obtained, exceeding the conventional 0.70 threshold and confirming that the instrument was internally consistent and reliable for the main survey.

Measurement of Variables

Financial reporting quality, the independent variable, was measured using indicators reflecting the accuracy of financial statements, adherence to recognised accounting standards, the proper recording and documentation of business transactions, and the timeliness and decision-usefulness of financial reports. Financial performance, the dependent variable, was measured using indicators of profitability, revenue growth, return on investment, and overall improvement in the financial position of the enterprise. Both constructs were measured on a five-point Likert scale.

Table 1: Measurement of Variables

S/N	Variable	Type	Indicators	Measurement Scale
1	Financial Reporting Quality (FRQ)	Independent	Accuracy of financial statements; adherence to recognised accounting standards; proper recording and documentation of transactions; timeliness and decision-usefulness of reports	Likert Scale
2	Financial Performance (FP)	Dependent	Profitability; revenue growth; return on investment; overall improvement in financial position	Likert Scale

Source: Researcher's compilation, 2026.

Model Specification

To empirically test the stated hypothesis, financial performance is specified as a linear function of financial reporting quality, consistent with prior firm-performance models in the accounting literature (Elmes & Filip, 2022):

$$FPI = \beta_0 + \beta_1 FRQ_i + \mu_i \dots\dots\dots (1)$$

Where:

FPI = Financial Performance

FRQ_i = Financial Reporting Quality

β_0 = Intercept

β_1 = Coefficient of financial reporting quality

μ_i = Error term

The subscript i denotes the i th SME in the sample ($i = 1, 2, \dots, 375$), consistent with the cross-sectional survey design of the study.

This model tests H_0 : Financial reporting quality has no significant effect on the financial performance of SMEs in Oyo State. The coefficient β_1 was expected to be positive, consistent with the predictions of the Institutional Theory.

Decision Benchmark

A decision benchmark of 3.00 was derived directly from the mid-point of the five-point Likert scale (Criterion Mean = $\Sigma X/N = (5+4+3+2+1)/5 = 3.00$). Construct mean scores above 3.00 are interpreted as indicating agreement with the underlying statement, while scores below 3.00 indicate disagreement.

Method of Data Analysis

Data collected from the questionnaires were coded and analysed using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics — frequency, percentage, mean, and standard deviation — were used to summarise respondent demographics and construct scores. Simple linear Ordinary Least Squares regression was used to test the hypothesis, with model adequacy assessed through the coefficient of determination (R^2), the adjusted R^2 , and the F-statistic, and the hypothesis tested at the 5 per cent level of significance using the t-statistic of the regression coefficient.

RESULTS AND DISCUSSION

Questionnaire Response Rate

A total of 400 questionnaires were administered to respondents, of which 375 were properly completed, returned, and valid for analysis, representing a usable response rate of 93.8 per cent. The remaining 25 questionnaires, representing 6.2 per cent, were either not returned or were improperly completed and were therefore excluded from the analysis.

Table 2: Questionnaire Response Rate.

Category	Frequency	Percentage (%)
Questionnaires Administered	400	100.0

Questionnaires Returned and Valid	375	93.8
Questionnaires Not Returned/Invalid	25	6.2
Total	400	100.0

Source: Field Survey, 2026.

Demographic Data of the Respondents

The gender distribution shows that 221 respondents (58.9 per cent) were male, while 154 respondents (41.1 per cent) were female, indicating a relatively higher level of male involvement in SME ownership and management within the study area, while still ensuring that female perspectives were adequately represented. With respect to age, respondents aged 35–44 years constituted the largest proportion of the sample (139 respondents, 37.1 per cent), followed by those aged 25–34 years (124 respondents, 33.1 per cent), suggesting that most respondents were economically active individuals with substantial practical experience in business management and financial reporting.

Regarding educational qualification, 158 respondents (42.1 per cent) held a Higher National Diploma (HND) or Bachelor's degree, the largest single category, followed by 86 respondents (22.9 per cent) with Diploma qualifications and 64 respondents (17.1 per cent) with postgraduate qualifications, indicating that most respondents possessed the requisite competence to provide informed responses on financial reporting practices. In terms of position within the enterprise, 147 respondents (39.2 per cent) were owners or chief executive officers, 98 (26.1 per cent) were managers, 72 (19.2 per cent) were accountants, and 43 (11.5 per cent) were finance staff, indicating that the majority of respondents occupied positions with direct responsibility for financial reporting and management within their organisations.

Table 3: Demographic Characteristics of Respondents (N = 375).

Variable	Category	Frequency	Percentage (%)
Gender	Male	221	58.9
	Female	154	41.1
Age	Under 25 years	38	10.1
	25–34 years	124	33.1
	35–44 years	139	37.1
	45–54 years	53	14.1
	55 years and above	21	5.6
Educational Qualification	Primary Education	18	4.8
	Secondary Education	49	13.1
	Diploma	86	22.9
	HND/B.Sc.	158	42.1
	Postgraduate	64	17.1

Position in the Enterprise	Owner/CEO	147	39.2
	Manager	98	26.1
	Accountant	72	19.2
	Finance Staff	43	11.5
	Others	15	4.0

Source: Field Survey, 2026.

Descriptive Statistics on Financial Reporting Quality and Financial Performance

Table 5 presents the descriptive statistics on respondents' perceptions regarding the effect of financial reporting quality on the financial performance of SMEs in Oyo State. The analysis yielded a grand mean score of 4.10 (SD = 1.01), well above the decision benchmark of 3.00, indicating a high level of agreement among respondents that financial reporting quality constitutes an important determinant of financial performance.

Table 4: Descriptive Statistics on the Effect of Financial Reporting Quality on Financial Performance (n = 375)

S/N	Statement	Mean	S.D	Remark
1	All business transactions are properly recorded and documented.	4.13	1.00	Agree
2	High-quality financial reporting has helped improve managerial decision-making and overall business results.	4.11	1.01	Agree
3	Our financial reports are accurate and free from material errors.	4.10	1.00	Agree
4	Financial reports provide timely information for managerial decision-making.	4.08	1.02	Agree
5	Financial statements are prepared in accordance with recognised accounting standards.	4.07	1.02	Agree
	Grand Mean	4.10	1.01	Agree

Source: Field Survey, 2026.

The highest-rated item was that all business transactions are properly recorded and documented (Mean = 4.13; SD = 1.00), underscoring the importance respondents place on comprehensive accounting documentation in reducing errors, omissions, and fraudulent reporting practices and in strengthening internal control and accountability. Respondents also agreed that high-quality financial reporting has improved managerial decision-making and overall business results (Mean = 4.11; SD = 1.01), suggesting that financial reports function not merely as statutory documents but as strategic management tools supporting planning, budgeting, and performance evaluation.

Respondents further agreed that their financial reports are accurate and free from material errors (Mean = 4.10; SD = 1.00) and that reports provide timely information for decision-making (Mean = 4.08; SD = 1.02), reflecting the perceived importance of accuracy and timeliness as fundamental attributes of useful financial information. Although the statement on preparing financial statements in accordance with recognised accounting standards recorded the lowest mean among the five items (Mean = 4.07; SD = 1.02), it remained well above the acceptance benchmark, indicating a generally strong, if slightly more modest, perception that standards-compliance enhances the quality and credibility of financial reporting relative to the other, more operational, dimensions of reporting quality.

Test of Hypothesis

H0: Financial reporting quality has no significant effect on the financial performance of SMEs in Oyo State.

To test this hypothesis, financial performance (FP) was regressed on financial reporting quality (FRQ) using simple linear Ordinary Least Squares regression, with the results presented in Table 5.

Table 5: Regression Analysis of the Effect of Financial Reporting Quality on Financial Performance. Dependent Variable: Financial Performance (FP).

Variable	Coefficient (B)	Std. Error	Standardised Beta (β)	t-value	Sig.
(Constant)	0.716	0.129	—	5.551	0.000
FRQ	0.801	0.031	0.801	25.888	0.000

$R = 0.801$; $R^2 = 0.642$; Adjusted $R^2 = 0.641$; $F(1, 373) = 670.195$; Sig. (F) = 0.000; $N = 375$

Source: Author's computation, (2026).

The regression results reveal that financial reporting quality exerts a strong, positive influence on the financial performance of SMEs in Oyo State. The correlation coefficient ($R = 0.801$) indicates a very strong positive relationship between financial reporting quality and financial performance, while the coefficient of determination ($R^2 = 0.642$) shows that 64.2 per cent of the observed variation in financial performance is explained by financial reporting quality, with the remaining 35.8 per cent attributable to other factors, such as tax compliance, managerial competence, and broader macroeconomic conditions, that lie outside the scope of this single-predictor model.

The results confirm that the overall regression model is statistically significant ($F(1, 373) = 670.195$; $p < 0.001$), and the estimated regression coefficient for financial reporting quality ($\beta = 0.801$; $t = 25.888$; $p < 0.001$) is positive and highly significant, indicating that improvements in financial reporting quality are associated with corresponding improvements in financial performance. This has practical implications for how SME support interventions might be sequenced, as discussed in the recommendations below.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This study examined the effect of financial reporting quality on the financial performance of SMEs in Oyo State. Adopting a survey research design, a structured questionnaire was administered to 400 owners, managers, accountants, and finance officers of SMEs, yielding 375 valid responses (93.8 per cent usable response rate). Financial reporting quality was measured through the accuracy, standards-compliance, documentation, timeliness, and decision-usefulness of financial reports, and regressed against financial performance using simple linear regression analysis. Financial reporting quality exerted a positive and statistically significant effect on financial performance, and the null hypothesis was accordingly rejected at the 5 per cent level of significance.

The study concludes that financial reporting quality is a measurable and substantial determinant of the financial performance of SMEs in Oyo State. SMEs that produce accurate, timely, standards-compliant, and properly documented financial statements are better positioned to make informed managerial decisions, control costs, and improve profitability than those relying on weak or informal reporting systems. Consistent with Institutional Theory, the strength of this relationship suggests that financial reporting quality functions in Oyo State SMEs not merely as a compliance formality but as a genuine internal governance mechanism with direct consequences for firm-level financial outcomes.

Based on the results and conclusions, the study recommends the following:

SME owners and managers should prioritise strengthening internal accounting and documentation systems, including consistent and complete recording of business transactions, since this dimension recorded the

highest level of respondent agreement and is the most immediately actionable improvement available to individual enterprises.

Professional accounting bodies, SME associations, relevant government agencies, and private-sector partners should expand access to affordable bookkeeping and financial-reporting training for SME owners, managers, and accounting staff, particularly training oriented toward the practical, day-to-day dimensions of reporting quality — accuracy, documentation, and timeliness — rather than compliance formalities alone.

SME should be encouraged and supported, through targeted capacity-building programmes, to adopt recognised accounting standards more fully in the preparation of their financial statements, given that this dimension, while still rated positively, showed comparatively more room for improvement than the other reporting-quality indicators.

Policymakers and SME support agencies should consider simplifying formal reporting and disclosure requirements for SMEs in ways that reduce the administrative burden of compliance without compromising the accuracy, reliability, and usefulness of the financial information SMEs produce, so as to encourage rather than discourage voluntary improvements in reporting quality.

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