How Prepared are Nigerian Small and Medium Scale Enterprises (SMEs) for the Adoption of International Financial Reporting Standards (IFRS)? Evidence from a Survey

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Abstract   *January 2014 was set to be the take-off period for Nigerian SMEs to adopt IFRS. As Nigeria enters the transition phase of IFRS adoption for SMEs, there is a need to assess the level of preparedness for adoption, which is the focus of this paper. The population of the study is the SME proprietors in Nigeria, but samples were selected from Lagos, because of constraints in covering the entire 36 states of the country. Data was collected through self-administered questionnaires, by requesting SME proprietors to provide ranking on a 1-4 scale, on issues stemming from IFRS adoption by SMEs. Cluster sampling technique was used to administer 200 copies of the research instrument in two cluster sites having a proliferation of SMEs in Lagos— Alaba International Market in Ojo local government and Computer Village in Ikeja.141 copies of the instrument were retrieved but 136 copies found usable for analysis. Percentage Analysis, Mean, Standard deviation and factor analysis (using the principal component analysis extraction method) were used for analysis. A model for preparedness for IFRS adoption was formulated by regressing the factors influencing adoption on the level of preparedness. Results show that there is the need for IFRS adoption by SMEs in Nigeria because of the expected benefits to accrue. The level of preparedness for IFRS adoption (M= 2.32, SD=1.032) was however found to be low.*

1. Introduction

The Nigerian government, through the approval of the Nigerian Executive Council on 28th July, 2010, took a stand to adopt the International Financial Reporting Standards (IFRS) in Nigeria. The local accounting standard-setting body in Nigeria, the Nigerian Accounting Standards Board (NASB), subsequently published a road map for a staged implementation of IFRS adoption in Nigeria in September 2010, with January 2012 set to be the take-off date for publicly quoted companies and significant public interest entities (Adeyemo and Isenmila [1]; Odia and Ogiedu, [2]; Ayuba, [3]).

A date of January 2014 was set to be the take-off period for Nigerian Small and Medium-sized Entities (SMEs) to adopt the IFRS for SMEs. The Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD) was another financial reporting standard synonymous to the IFRS for SMEs. Arguments for mandatory IFRS adoption for publicly quoted organizations in Nigeria stem from the associated benefits such as result-comparison, compliance with global best-practice, opportunity for the attraction of foreign direct investments, amongst others. It becomes highly desirable for Nigerian SMEs to adopt IFRS because there are documented evidences of adoption and intention to adopt by some countries in the continents of the world such as: South America, Caribbean, Central America, Africa, Asia, Middle East, Eurasia, Europe and North America (IFRS for SMEs fact sheet [4]). In this connection, studies by Adetula, Owolabi and Onyinye [5] reported that a major factor responsible for IFRS adoption by SMEs in Nigeria was that other countries around the world are adopting it.

In recent times, there has been noticeable rise in the number of researches, including studies by Isenmila and Adeyemo, [1]; Josiah, Okoye and Adeniran [6], Madawaki [7], Garuba and Donwa [8], on the adoption of IFRS by public companies, apparently because IFRS adoption has been a topical and burning issue in Nigeria for a while now, since the federal government announced a transitioning date of January 2012. SMEs are the life wire of any nation towards attaining sustainable development (Muritala, Awolaja and Bako [9], and financial reporting by them to communicate their performances to interested parties is an activity that is too important to be downtrodden or lightly-esteemed. As such, researches on IFRS adoption by them equally deserve well-accorded attention paid to the publicly quoted, large scale organizations.

From the review of existing literatures, studies on IFRS adoption by SMEs in Nigeria are scanty. As Nigeria enters the transition phase of IFRS adoption for SMEs, by our reckoning, there is the need to assess the level of preparedness for IFRS adoption, which is the focus of this paper.

 The research questions which the study seeks to address are succinctly as follows:
(i)   Is it necessary for Nigerian SMEs to adopt IFRS?
(ii) What is the level of preparation of Nigerian SMEs for IFRS adoption?
(iii) What factors affect the level of preparedness of SMEs in Nigeria for IFRS adoption?

2. Literature review

Small and Medium Sized Enteprises (SMEs) occupy a vital position in the Nigerian economy, like they do in other countries, because they contribute to national

development by employing labour, tax payment, use of local resources, exportation of their goods, innovativeness in meeting the needs of the society (Nwankwu, Ewuim and Asoya [10]), Safiriyu and Njogo [11]).

With different reasons adduced for IFRS-compliance, Ezeani and Oladele, [12] posited that many developing countries who wanted to be IFRS-compliant have the option of adapting, adopting or converging with the IFRS. Madawaki [7] argued that IFRS helps to achieve high standard, transparency and comparability in financial reporting, which is a justification for adopting IFRS by over 100 countries around the world. The Good Practice guidance [13] suggested that IFRS is increasingly becoming the primary generally accepted accounting principle (GAAP) for many global audit firms.

The IASC (the issuer of IFRS)—for the purpose of IFRS for SMEs—defined SMEs to be entities that do not have responsibilities to account to the public; do not have their equity or debt instruments publicly traded; and do not primarily hold assets in fiduciary capacity for members of the public. Most firms regarded as SMEs in developing countries do not meet the definition adduced by the IASC, and in order to address this limitation, it was recommended that entities who do not meet the IFRS definition for SMEs may report using the Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by United Nations Conference on Trade and Development (UNCTAD). Adopting either the IFRS for SME or the SMEGA is aimed at ensuring small sized organizations benefit from internationally acceptable reporting practices that large organizations enjoy such as comparability, transparency, relevance and reliability of financial reports.

Schutte and Buys [14] pointed that the process of developing a globally uniform accounting standard for SMEs started in 2004 when the International Accounting Standard Board (IASB) published a discussion paper to stir public discussions and views on the crafting of financial reporting standard for SMEs. An exposure draft which considered and enshrined public comments from the discussion paper was subsequently published in February 2011.The exposure draft prominently featured the concept of public accountability: it was emphasized that the development a simplified and self-contained accounting principles for SME was borne out of the intent to address the financial reporting needs of entities with no public accountability. The IASB eventually adopted the exposure draft to be the IFRS for SMEs in July 2009.

Meanwhile, some of the comments harvested and re-actions emanating from the discussion paper published in 2004 were from The Hong Kong Institute of Certified Public Accountants (HKICPA), The European Accounting Association Financial Reporting Standards Committee, The Association of Finnish Accounting Firms, The Institute of Chartered Accountants in Australia, amongst others.

The Hong Kong Institute of Certified Public Accountants [15] expressed concerns over costs vis-à-vis benefits to SMEs. The European Accounting Association Financial Reporting Standards Committee [16] stated that IFRS issued by the IASB were influenced by the user needs of a traditionally Anglo-American corporate governance tradition, and, since the Continental model apply to most of Europe, the IFRS for SMEs will not address the reporting needs of SMEs in Europe (Joos and Lang, [17]; Zeghal and Mhedhbi [18]).

The Association of Finnish Accounting Firms [19] contended that the IFRS for SMEs was a more stripped-down version of the IFRS for large companies; it was too complex for SMEs to adopt. The Institute of Chartered Accountants in Australia [20] concluded that the standard is too complicated for SMEs in Australia and that the financial reporting needs of key stakeholders in Australia were not taken care of. The Institute for Chartered Financial Analysts commented that the proposed IFRS for SMEs would create non-comparable information. The Italian Organismo Italiano di Contabilita and The Hundred Group of Finance Directors suggested that fair value accounting is not applicable to SMEs. The Accounting Standard Board of the UK commented that the exposure draft is only applicable to larger companies in the SME sector. The Mouvement des Entreprises de France and ICAC (Spain) suggested more simplification of the standard [21].

Overall, across the continent, the majority of the response to the exposure draft came from Europe (58%), followed by Asia and the Oceania (24%), then the Americas (10%) and 8% from Africa (Schutte and Buys, [14])

Notwithstanding the criticism received from the ED on IFRS for SMEs, South Africa was the first country in the world to formally adopt the standard (Carte, [22]). As to the rate of adoption in Europe where majority of the responses to the exposure draft emanated, the ACCA [23] posited that the velocity will be different across individual member state because of the time it will require to converge local standards for unlisted companies with IFRS for SMEs. In America, SMEs are not statutorily required to file annual reports in accordance with US GAAP or other reporting standard (Epstein and Jermakowicz, [24]), as such, IFRS adoption for SMEs has generally had low response rate. Compared to the developed countries of the world, IFRS adoption for SMEs in developing nations is expected to be even more burdensome because of peculiar challenges such as poor infrastructure, low standard of living, low Human Development Index (HDI).

The United Nations [25] maintained that in developing countries, compliance with global reporting standard for SMEs is believed to be more difficult than elsewhere, possibly because the standard setters (IASB) do not necessarily accommodate the peculiarities (such as the unique challenges and the heterogeneous nature) of the developing countries (Simpson, [26]; Oberholster, [27]). Sacho and Oberholster [28]

opined that developing countries do not usually develop indigenous accounting standards and are required to apply IFRS, which might result in distorted results.

Empirical studies [1], [5], [7] have observed that socio-economic variables such as age, job function, level of education and experience influence perception on the adoption of IFRS.In the same vein, Zeghal and Mhedhbi [29] noted that the decision to adopt IFRS by SMEs is a locus of different variables such as level of economic growth, literacy level, degree of external economic openness, perceived benefits, development level of capital markets, and cultural considerations

The IFRS for SMEs fact sheet [4] revealed that over 80 countries have adopted or announced plans to adopt IFRS for SMEs, including the following countries in Africa: Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, South Africa, Tanzania, Swaziland, Uganda, Zambia, and Zimbabwe.

3. Methodology of research

3.1. Population, sample and sampling technique

The population of the study is the SME proprietors in Nigeria, but samples were selected from Lagos because of constraints in covering the entire 36 states of the country. Data was collected through self-administered questionnaires, by requesting SME proprietors to provide ranking on a 1-4 scale, on issues stemming from IFRS adoption by SMEs. Cluster sampling technique was used to administer 200 copies of the research instrument. Two cluster sites having a proliferation of SMEs in Lagos— Alaba International Market in Ojo local government and Computer Village in Ikeja, Ikeja local government area of Nigeria were visited. This strategy was utilized in order to minimize the number of sites to be visited whilst also collecting the desired number of samples. The sites visited are considered appropriate because besides their renown as locations harboring large number of SMEs, the SMEs present there are from heterogeneous ethnic background, which takes care of the limitations in covering the entire states with peculiar ethnic groups. 141 copies of the instrument were retrieved and 5 copies found un-useful for data processing. 136 copies were eventually processed for analysis.

3.2. Research Instrument

The study adopted a survey research design using closed ended questionnaire to harvest the views of SME proprietors on the adoption of IFRS. The questionnaire was designed and subjected to critiquing by two experts on SMEs: one in the academics and the other in the industry. Feedbacks obtained were enshrined in the

instrument to boost its quality. Items   in the research instrument were subjected to reliability test using the Cronbach's Alpha test, yielding a co-efficient of .802.

The questionnaire was divided into two sections. One section measured SME proprietor characteristics such as gender, age, length of work experience, and educational qualification .The other section contained questions on necessity for, perceived benefits of, constraints in, and level of preparedness for IFRS adoption.

3.3. Model formulation and variable operationalization

A model for preparedness for IFRS adoption was formulated by regressing the factors influencing adoption on the level of preparedness. The model is specified below:

$$P_{IFRS} = \beta_0 + \beta_n N + \beta_p P + \beta_c C + \beta_a A + \beta_e E + \beta_x X \qquad (1)$$

Where:

P_{IFRS} - Level of preparedness for IFRS adoption,
N-necessity for adoption,
P-Perceived benefit,
C- Constraints to IFRS adoption,
A-Age,
E-literacy level of SME proprietor,
X-level of experience of SME proprietor,
β_n, β_p , β_c, β_a, β_e, β_x are coefficients of regressors.

The SPSS software was used for all statistical analyses

The expected relationship between the dependent and independent variables are in table 1.

Table 1. Variable operationalization and Priori expectation specification

Variable	Measurement	Priori Expectation
Necessity for adoption, **N**	Derived by finding the average score of items measuring the necessity for IFRS adoption	$\beta_n > 0$ The more the realization of the necessity to adopt IFRS, the more prepared SMEs will be for its adoption
Perceived benefit of adoption, **P**	Derived by finding the average score of items measuring the perceived benefit of IFRS adoption	$\beta_p > 0$ The benefits of IFRS adoption should spur SMEs to embrace it
Constraint to adoption, **C**	Derived by finding the average score of items measuring the constraints to the adoption of IFRS	$\beta_c < 0$ The constraints to the adoption of IFRS adoption should discourage readiness to adopt IFRS by SMEs.

Variable	Measurement	Priori Expectation
Age of SME proprietor, **A**	Measured by including age bracket in the questionnaire	βa < 0 The older the SME proprietor, the more unlikely/ the lower the tendency to adopt IFRS.
Literacy level of SME proprietor, **E**	Measured by including level of education in the questionnaire	βe > 0 The more literate the SME proprietor, the higher will be the readiness to adopt IFRS
Length of SME proprietor experience, **X**	Measured by years of experience of SME proprietor	βx > 0 The more experienced the SME proprietor is, the greater the likelihood of IFRS adoption
Level of preparedness for IFRS adoption, **P**$_{IFRS}$	Measured by requiring SME proprietors to rank how prepared they are for IFRS adoption	*It is the dependent variable*

3.4. Data Analysis Method

Mean and standard deviation scores of variables were computed. Mean score below 2.0 on the 1-4 scale were regarded as low and invalid, while mean score with a minimum of 2.0 was regarded as at least average and accepted to be valid.

We examined the normality of the independent variables using the Kolmogorov-Smirnov statistics. A Kolmogorov-Smirnov test with $p > .05$ tells us that distribution of the sample is not significantly different from a normal distribution, but if however, the result is opposite ($p < .05$), that means the distribution is non-normal. The p values of the independent variables were each $> .05$, confirming the data to be normally distributed.

To determine the most prominent factors affecting the adoption of IFRS by SMEs, a factor analysis was carried out. There is universal agreement that factor analysis is inappropriate when sample size is below 50 (Kaiser [30]). The sample size is 136, which justifies the appropriateness of the factor analysis. We carried out a factor analysis using the principal component analysis extraction method. The cut-off point for item loading was set at 0.6. Variables that met the cut-off were retained for further analysis and used to compute the composite mean of the constructs.

The regression model was tested using the Ordinary Least Square regression technique.

4. Results and Discussion

4.1. Descriptive Analysis

Socio-economic and demographic characteristics of respondents that could crucially affect perceptions on IFRS adoption were captured and results of analyses presented in table 2.

Table 2. Characteristics of Nigerian SME Proprietors

		Frequency	Percent	Valid Percent	Cumulative Percent
GENDER					
Valid	MALE	80	58.8	-	58.8
	FEMALE	56	41.2	-	100.0
AGE					
Valid	20-29	48	35.3	35.3	35.3
	30-39	57	41.9	41.9	77.2
	40-49	30	22.1	22.1	99.3
	50 AND ABOVE	1	.7	.7	100.0
LENGTH OF WORK EXPERIENCE					
Valid	0-5	40	29.4	29.4	29.4
	6-10	43	31.6	31.6	61.0
	11-15	40	29.4	29.4	90.4
	above 15	13	9.6	9.6	100.0
LEVEL OF EDUCATION					
Valid	OND	10	7.4	7.4	7.4
	HND	12	8.8	8.8	16.2
	B.SC	50	36.8	36.8	52.9
	Second Degree	28	20.6	20.6	73.5
	Professional	36	26.5	26.5	100.0

The proportion of female entrepreneurs represented were 41.2%, as against 58.8% of their male counterparts. Majority of the respondents were in the age bracket of 30-39 (41.9%). 99.3% of them were in the age bracket of 20- 49. Over 70% of the respondents had a minimum work experience of 6 years and above. The information on the age and work experience of the respondents suggest that the SME proprietors are matured in age and experience to provide answers to the questions in the instrument Analysis of educational qualification shows that over 90% of Sampled SME proprietors have a minimum of tertiary qualification. On the whole, results of the proprietors' characteristics suggest that the respondents are in good standing in terms of age, work experience and education level. Representation is well spread across the strata of these characteristics, making it possible to assess how they affect perceptions on IFRS adoption.

Table 3. Descriptive Statistics of factors influencing IFRS adoption by SMEs

	Mean	Std. Deviation	Decision
A: Necessity for IFRS adoption by Nigerian SMEs			
Improve the quality of financial report	2.12	1.047	Retain
Enhance reliability of financial report	2.19	1.202	Retain
Need to comply with global best practice	2.39	1.156	Retain

	Mean	Std. Deviation	Decision
B: Perceived benefit of IFRS adoption by SMEs			
Attraction of foreign investment	2.52	1.241	Retain
Increased access to funds	2.36	1.184	Retain
Attraction of local investment	2.68	1.203	Retain
Increased market liquidity and value	2.93	1.272	Retain
C: Constraints to IFRS adoption by SMEs			
Short timeframe for adoption	2.04	1.017	Retain
High cost of staff training	1.64	.640	Reject
High cost of acquiring technology necessary for preparing IFRS based reports	2.02	1.022	Retain
Unwillingness of SME staff to acquire IFRS training	1.95	.913	Reject

We present descriptive analysis of the factors influencing adoption of IFRS in table 3, grouped into three themes— necessity, perceived benefits, and constraints. All the variables under necessity for IFRS adoption have mean score of above 2.0 and were retained as being valid considerations for adoption, with the need to comply with global best practice having the highest (*M*=2.39 *SD*=1.156). In countries of the world, IFRS for SMEs is being adopted. To comply with best practices in the world, IFRS adoption becomes necessary for Nigerian SMEs. The need to improve quality (M=2.12 SD= 1.047) and reliability (M= 2.19, SD= 1.202) of financial reports were also retained as being valid. SMEs have their financial statements used by relevant stakeholders. Financial Reports prepared in accordance with IFRS for SMEs and certified by Chartered accountant in Nigeria becomes an important document for transactions (for example loan application in financial institutions). The need to improve the threshold qualities of the reports is regarded as strong considerations for IFRS adoption.

For the perceived benefits of IFRS adoption, the increase in market liquidity and value has mean score (M=2.93, SD=1.272).The potential to attracting local investors and foreign investors have Mean of 2.68 and 2.52, and standard deviation of 1.203 and 1.241. Increased access to funding has mean of 2.36. All the variables under the perceived benefits have means score above 2.0 and were retained as valid benefits. The descriptive statistics of these variables reinforce the usefulness of financial reporting by SMEs. The preparation of financial statements in accordance with international standards is expected to attract both local and foreign investors, because such financial reports will provide information that will be of interest to investors. A firm that is therefore performing or with potential to perform should therefore attract investors locally or internationally. Financial institutions typically require financial statements, amongst other documents, when loan application is submitted by clients. A standardised financial report prepared in accordance with IFRS should make credit-worthiness assessment easier for financiers, thus

increasing access to finance for SMEs. When investors (local and foreign) and financiers are attracted, the market will be liquid because more funds will be available to do business and the market value of SME firms enhanced.

Constraints to IFRS adoption by SMEs featured four variables. Two variables— timeframe (M= 2.04, SD= 1.017) and cost of acquiring requisite technology necessary for preparing IFRS based reports (M= 2.02, SD=1.022) - were retained because of their mean scores which is over 2.0. High cost of staff training (M= 1.64), and unwillingness of SME accounting/finance staff to acquire requisite IFRS training (M=1.95) were rejected on the basis of mean score below 2.0. The IFRS adoption was announced by the Nigerian government in 2010 and an implementation date of January 2014 for SMEs. Awareness level of IFRS adoption is at average at the moment while there is still gap in intellectual preparedness. A sizeable number of SMEs still use manual methods for book keeping. The operations of many SMEs are mechanical. Very few use e-accounting systems (Okafor, [31]). Preparing IFRS based reports will call for the computerisation of accounting systems and business processes. Many SMEs are struggling to survive (Jimah, [32]), and worrying about cost of IFRS implementation is understandably not main-stream among the spectrum of challenges confronting them. The cost of IFRS training is not so high as to discourage acquiring knowledge. Different private sector, professional and governmental institutions are vigorously driving IFRS trainings to increase the level of awareness in Nigeria. On some instances, workshops and trainings on IFRS adoption have been organised at no cost to participants. These institutions have also been doing much publicity in recent times to stir public interest, and responses have been positive, which explains the rejection of the perception that the accounting/finance staff of SMEs have been generally unwilling to acquire requisite training. We are not entirely ruling out the possibility of the unwillingness of some staff to get trained, but such is not a strong consideration as to constrain adoption.

An examination of the relationships among study variables (table 4) provides further insights into how the variables interplay to influence IFRS adoption. All relationships in the table are statistically significant at 1%.

4.2. Analysis of relationships among variables

Table 4. Correlation Matrix[a] of factors affecting IFRS adoption

	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11
Improve the quality of financial report *V1*	1.000										
Enhance reliability of financial report *V2*	.712	1.000									
Need to comply with global best practice *V3*	.714	.836	1.000								

	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11
Short timeframe for adoption *V4*	.085	.096	.212	1.000							
High cost of staff training *V5*	.053	-.016	-.009	.229	1.000						
High cost of acquiring technology *V6*	.011	.105	.156	.298	.329	1.000					
unwillingness of SME staff to acquire IFRS training *V7*	.045	.009	.145	.369	.297	.319	1.000				
Attraction of foreign investment *V8*	.408	.394	.343	-.118	-.013	.073	-.172	1.000			
Increased access to funds *V9*	.461	.321	.275	-.044	.085	-.043	.038	.617	1.000		
Attraction of local investment *V10*	.418	.349	.334	.102	.130	.156	.012	.488	.632	1.000	
Increased market liquidity and value *V11*	.295	.178	.134	-.089	.162	.115	-.035	.435	.488	.451	1.000
a. Determinant = .010											

The relationships among variables in the *necessity for IFRS adoption* category is very strong and positive, which is also true for the variables in the *Perceived benefit of IFRS adoption* meaning the necessity for and benefits of IFRS adoption reinforce one another. The relationship between the variables measuring the necessity for IFRS adoption and the perceived benefit is also positive and strong (for example, V1/V8 has R = .408; V3/V10 has R=.334. This means that the benefits accruing from IFRS adoption justify the necessity to adopt. When financial reports are prepared to a high degree of standardisation (quality), it enhances the reliability and usefulness of the statements because it provides as much information as is required for assessment of credit worthiness (for example) which increases the chances of securing funds from financial institution

Table 5. Analysis of response-preparedness for IFRS adoption

	N	Minimum	Maximum	Mean	Std. Deviation
Descriptive Statistics	136	1	4	2.32	1.032
Inferential Statistics					
Analysis of Variance (ANOVA)	*P value*		*Remarks*		
Education	.878				No difference in perception of SME Proprietor
Work experience	.813				
Age	.688				

From table 5 providing statistics on the level of preparedness of Nigerian SMEs for IFRS adoption, the mean of 2.32 on a 1-4 scale (represents 58%) portrays the level of preparation for IFRS adoption to be low. We analyzed whether there is difference in the perception of respondents on the preparedness level, with education, work experience and age as grouping variables, using the ANOVA statistics. With P > .05 for Education (*P*=.878), Work experience (*P*=.813), Age (*P*=.688), it is established

that no significant difference. This connotes that SME Proprietors are agreed that the preparation level is low.

4.3. Factor Analysis of variables

To determine the important factors responsible for the preparedness of SMEs for IFRS adoption, we carried out a factor analysis using the principal component analysis extraction method. The cut-off point for item loading was set at 0.6. The Kaiser-Meyer-Olkin (KMO) and Bartlett's Test help to measure the strength of the relationship among variables. The KMO measures the adequacy of the sampling, and coefficient should be generally greater than 0.5 for a satisfactory factor analysis to be valid. Kaisen (1974) recommend 0.5 as minimum, values between 0.7-0.8 acceptable, and values above 0.9 are superb.

4.3.1. Necessity for IFRS adoption by Nigerian SMEs

The factor analysis result of the necessity for IFRS adoption by Nigerian SMEs is presented in tables 6a-6d. The KMO statistics is .732 and it is significant at 5% (p value= .000), confirming the factorability of variables. The table of communalities (table 6b) shows how much of the variance in the variables has been accounted for by the extracted factors. Over 70% of the variance *in Improve the quality of financial report (77.4%), Enhance reliability of financial report* (86.7%) and *Need to comply with global best practice (86.9%)* are accounted for.

Table 6a. KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.732
Bartlett's Test of Sphericity	Approx. Chi-Square	267.585
	df	3
	Sig.	.000

Table 6b. Communalities		
	Initial	Extraction
Improve the quality of financial report	1.000	.774
Enhance reliability of financial report	1.000	.867
Need to comply with global best practice	1.000	.869
Extraction Method: Principal Component Analysis.		

Table 6c.Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.510	83.661	83.661	2.510	83.661	83.661
2	.327	10.887	94.548			
3	.164	5.452	100.000			
Extraction Method: Principal Component Analysis.						

Table 6d. Reliability Statistics	
Cronbach's Alpha	N of Items
.902	3

The table of total variance explained (table 6c) shows that 83.66% of the variances are explained in component 1, which also has an Eigen value of 2.510.

Table 7. Component Matrix[a] (*Necessity for IFRS adoption by Nigerian SMEs*)

	Factor: Necessity for adoption by Nigerian SMEs
	Component: 1
Improve the quality of financial report	.880
Enhance reliability of financial report	.931
Need to comply with global best practice	.932
Extraction Method: Principal Component Analysis.	

a. 1 components extracted.

The three factors loaded in component 1 above the minimum pre-specified threshold of 0.6 (table 7).The reliability test yielded a Cronbach Alpha of .902, confirming the reliability of results (table 6d). We therefore retain the three factors for further analysis.

4.3.2. Perceived benefit of IFRS adoption by Nigerian SMEs

The factor analysis result on Perceived benefit of IFRS adoption *by Nigerian SMEs* is presented in tables 8a-8d. The KMO statistics is .780 and it is significant at 5% (p value=.000), confirming its factorability. The table of communalities (table 8b) shows how much of the variance in the variables has been accounted for by the extracted factors. Over 50% of the variance in the variables is accounted for. The table of total variance explained (table 8c) shows that 64.089% of the variances are explained in component 1, having an Eigen value of 2.564.

Table 8a. KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.780
Bartlett's Test of Sphericity	Approx. Chi-Square	180.701
	df	6
	Sig.	.000

Table 8b. Communalities		
	Initial	Extraction
Attraction of foreign investment	1.000	.634
Increased access to funds	1.000	.751
Attraction of local investment	1.000	.653
Increased market liquidity and value	1.000	.526
Extraction Method: Principal Component Analysis.		

Table 8c. Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.564	64.089	64.089	2.564	64.089	64.089
2	.598	14.940	79.030			
3	.511	12.781	91.811			
4	.328	8.189	100.000			
Extraction Method: Principal Component Analysis.						

Table 8d. Reliability Statistics	
Cronbach's Alpha	N of Items
.810	4

Table 9. Component Matrix[a] *(*Perceived benefit of IFRS adoption *by Nigerian SMEs)*

	Factor: Perceived benefit of IFRS adoption *by Nigerian SMEs*
	Component: 1
Attraction of foreign investment	.796
Increased access to funds	.867
Attraction of local investment	.808
Increased market liquidity and value	.725
Extraction Method: Principal Component Analysis.	

a. 1 components extracted.

The three factors loaded in component 1 above the minimum pre-specified threshold of 0.6 (table 9).The reliability test yielded a Cronbach Alpha of .810, confirming the reliability of results (table 8d). We therefore retain the four factors in our subsequent analysis.

4.3.3. Constraints to IFRS adoption by SMEs *by Nigerian SMEs*

The factor analysis result on Constraints to IFRS adoption by SMEs *by Nigerian SMEs* is presented in tables 10a-10d. The KMO statistics is .705 and it is significant at 5% (p value= .000), confirming the factorability of variables (table 10a). The table of communalities (table 10b) shows how much of the variance in the variables has been accounted for by the extracted factors. The table of total variance explained (table 10c) shows that 48.073% of the variances are explained in component 1 (Eigen value of 1.923).

Table 10a. KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.705
Bartlett's Test of Sphericity	Approx. Chi-Square	61.916
	df	6
	Sig.	.000

Table 10b. Communalities		
	Initial	Extraction
Short timeframe for adoption	1.000	.465
High cost of staff training	1.000	.430
High cost of acquiring technology necessary for preparing IFRS based reports	1.000	.498
Unwillingness of SME staff to acquire IFRS training	1.000	.530
Extraction Method: Principal Component Analysis.		

Table 10c. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.923	48.073	48.073	1.923	48.073	48.073
2	.794	19.852	67.925			
3	.666	16.659	84.584			
4	.617	15.416	100.000			
Extraction Method: Principal Component Analysis.						

Table 10d. Reliability Statistics	
Cronbach's Alpha	N of Items
.730	4

Table 11. Component Matrix[a] (Constraints to IFRS adoption by SMEs by Nigerian SMEs)

	Factor: Constraints to IFRS adoption by SMEs *by Nigerian SMEs*
	Component: 1
Short timeframe for adoption	.682
High cost of staff training	.656
High cost of acquiring technology necessary for preparing IFRS based reports	.706
Unwillingness of SME staff to acquire IFRS training	.728
Extraction Method: Principal Component Analysis.	

a. 1 components extracted.

The four variables loaded in component 1 above the minimum pre-specified threshold of 0.6 (table 11).The reliability test yielded a Cronbach Alpha of .730, confirming the reliability of results (table 3d). We therefore retain the four factors for further analysis.

Overall, the loading of all 11 variables on component 1 above 0.6 implies that the variables are important considerations on the adoption of IFRS by SMEs in Nigeria. The descriptive statistics of composite variables is in table 12.

Table 12. Descriptive Statistics of composite variables

		Necessity for IFRS adoption	Perceived benefits of IFRS adoption	Constraints to IFRS adoption	Valid N (listwise)
N	Statistic	136	136	136	136
Minimum	Statistic	1	1	1	
Maximum	Statistic	5	5	4	
Mean	Statistic	2.23	2.63	1.91	
Std. Deviation	Statistic	1.039	.978	.628	
Skewness	Statistic	1.080	.711	.191	
	Std. Error	.208	.208	.208	
Kurtosis	Statistic	.259	-.091	-.020	
	Std. Error	.413	.413	.413	

4.4. Correlation & Regression Analysis

An evaluation of how the factors discussed in the foregoing affects the readiness of SME for IFRS adoption was undertaken, using partial correlation, controlling for characteristics of SME proprietors. Further still, a multivariate analysis was done using regression technique. The result of correlation is captured in table 13.

Table 13. Correlation analysis of factors affecting preparedness for IFRS adoption by Nigerian SMEs

Control Variables			Necessity for IFRS adoption	Perceived benefits of IFRS adoption	Constraints to IFRS adoption
Educational Qualification & Age & Working Experience	Level of Preparation	Correlation	.229	.331	-.010
		Significance (2-tailed)	.008	.000	.908
		df	131	131	131

Using partial correlation, we analysed the relationship between the level of preparedness for IFRS adoption and selected factors responsible for its adoption, controlling for three characteristics of SME proprietors- education level, Age and Work experience. Results in table 14 shows a significant positive relationship at 1% significance level between the level of preparedness and the necessity for IFRS adoption (R=.229, *P*=0.008) and the perceived benefit (R=.331, *P*=0.000). The relationship between the levels of preparation and constraints to adoption (R= -.010, *P*=.908) is negative but not strong or significant. The necessity for and the perceived benefits of IFRS adoption are significant considerations that affect the readiness to adopt. Though there are constraints to the IFRS adoption, the constraints are not

significant or strong enough to dissuade adoption or level of preparation - this confirms our earlier position following results analysis of descriptive statistics in table 3.

Table 14. Regression Analysis Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	3.073	.472	
Necessity for IFRS adoption	.103	.093	.104
Perceived benefits	.302	.098	.286
Constraints to IFRS adoption	-.057	.140	-.035
AGE	-.143	.181	-.107
WORK EXPERIENCE	.067	.142	.063
EDUCATION	.011	.063	.015
Dependent Variable: Level of Preparation			

The model has an R square of .593: the combination of the variables explains 59.3% of the readiness of SMEs to adopt IFRS (table 15).

Table 15. Model Summary[b] for regression analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	ANOVA P value
1	.770[a]	.593	.082	.988	1.934	.008[a]
a. Predictors: (Constant), EDUCATIONAL QUALIFICATION OF RESPONDENT, Necessity for IFRS adoption, Constraints to IFRS adoption, WORKING EXPERIENCE OF RESPONDENT, Perceived benefits of IFRS adoption, AGE OF RESPONDENT						
b. Dependent Variable: LEVEL OF PREPARATION						

The coefficients in the regression results (table 10) validate the a priori expectation earlier explained in table 1. The necessity for adoption ($\beta n=.103$), perceived benefits ($\beta p=.302$), work experience ($\beta x=.067$) and level of education ($\beta e=.011$) have positive coefficients and are adjudged to facilitate the readiness to adopt IFRS. Constraints to adoption ($\beta c= -.057$) and Age of SME proprietor ($\beta a= -.143$) however have negative coefficients and adversely affects the readiness to adopt IFRS.

The ANOVA P value of 0.008, confirms the significance of the model at 1%. The VIF statistics connotes the absence of collinearity between the dependent and each of the independent variables, since all the parameters have VIF scores less than 10.

5. Conclusions

This paper has empirical evidences to support the necessity to embrace the adoption of IFRS by SMEs in Nigeria because of the benefits it is expected to bring such as increased market liquidity and value, attraction of local and foreign

investments; and wider access to funds. In spite of the acknowledged necessity for its adoption such as quality-improvement, and reliability-enhancement in financial reporting, the level of preparedness for IFRS adoption by SMEs in Nigeria was found to be low, partly because of the factors hampering adoption, especially the short time-frame and high cost of acquiring requisite technological infrastructures that support an IFRS-compliant accounting systems and internal business processes. Aside these explicit inhibitions to IFRS-for-SME adoption, other perceptual factors such as necessity for adoption, perceived benefits, and personal qualities such as work experience, level of education, and age of SME proprietor significantly exact on the level of preparedness for IFRS adoption by SMEs in Nigeria.

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