CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and Medium Enterprises (SMEs) play a vital role in the economic development of nations across the world, particularly in developing economies like Nigeria. They contribute significantly to employment generation, wealth creation, poverty alleviation, and innovation (Musa & Ogunleye, 2025). In Nigeria, SMEs constitute about 96% of all business enterprises and account for over 48% of the national gross domestic product (GDP) (Small and Medium Enterprises Development Agency of Nigeria [SMEDAN], 2021). Given their scale and spread across various sectors of the economy, SMEs are key agents in achieving inclusive and sustainable economic growth. However, despite their critical role, many SMEs in Nigeria face persistent challenges that undermine their sustainability, growth potential, and overall contribution to national development (Eze & Okoye, 2020; Ogunlana & Ezeh, 2025).

A major constraint hindering SME performance is the lack of access to reliable, timely, and decision-useful financial information in relevant government agencies who are responsible for keeping these information. Financial reporting serves as the bedrock of business transparency, financial control, and performance monitoring (Adamu, 2023). It provides a structured and consistent record of financial activities and enables business owners and stakeholders such as; investors, lenders, tax authorities, and regulators, to assess the financial health and future prospects of the enterprise (Adebayo, 2021; Uchenna & Oladipo, 2023). For investment decisions to be rational and effective, they must be guided by credible financial reports that present a fair and accurate view of a firm's profitability, liquidity, and solvency (Onyekwelu & Ugwuanyi,

In Nigeria, however, financial reporting practices among SMEs remain weak, fragmented, or entirely absent. The informal nature of many SMEs, coupled with low financial literacy, poor record-keeping culture, limited awareness of accounting benefits, and the perceived cost of hiring accounting professionals, often result in the neglect of formal financial reporting practices (Chukwuma & Yusuf, 2020; Nwachukwu & Okoro, 2021). Instead, many SME owners depend on intuition and informal bookkeeping methods to make critical business decisions, including investment choices. This has led to inefficiencies in capital utilization, business planning, and in some cases, failure of enterprises due to uninformed decisions (Adesina & Ijaiya, 2021).

To proffer solutions, regulatory authorities and accounting standard-setters have introduced frameworks aimed at simplifying reporting for SMEs. The introduction of the International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (IFRS for SMEs) by the International Accounting Standards Board (IASB) and its endorsement by the Financial Reporting Council of Nigeria was intended to improve the quality, comparability, and reliability of SME financial reports (FRCN, 2020). Nonetheless, awareness and adoption of these standards among Nigerian SMEs remain low, partly due to inadequate sensitization and training (Obiora & Iwumadi, 2023). Consequently, many SMEs continue to operate without the financial structure required to support growth-oriented investment decisions.

Given this context, there is a compelling need to examine the nexus between financial reporting and investment decision-making in SMEs. Informed investment decisions are crucial for business growth, innovation, and long-term sustainability. Financial reporting plays a central role in enabling such decisions by providing verifiable data for evaluating capital budgeting, expansion, and resource allocation (Ehimare & Ogundele, 2022).

Therefore, evaluating how financial reporting practices, reliability and accuracy of financial reports and frequency and timeliness of financial reporting influence the quality of investment decisions among SMEs will offer significant insights for policymakers, business owners, and development agencies seeking to enhance the competitiveness and resilience of Nigeria's SME sector.

1.2 Statement of the Research Problem

In Nigeria, the contribution of Small and Medium-sized Enterprises (SMEs) to national development continues to be constrained by access to investment capital, limited trust in their financial reports, and poor adoption of sound accounting practices (Ugwu & Nwosu, 2024; Akinola & Ogundipe, 2020). Inconsistent and low-quality financial reporting has hindered investors' ability to make informed decisions regarding SME funding. Many Nigerian SMEs, especially in the informal or rural sectors, lack the resources and capacity to generate timely, transparent, and verifiable financial information, making them unattractive to both institutional and private investors (Eze & Okoye, 2020; Chukwu & Oladimeji, 2023). Consequently, even with targeted policy interventions such as the Central Bank of Nigeria's intervention funds and development finance schemes, many SMEs remain underfunded. These challenges call into question whether the financial reporting practices among SMEs are sufficiently effective to support investment decision-making.

Despite growing scholarly interest, existing research has not adequately addressed these pressing issues. A major limitation in the literature is the under-representation of informal, rural, and smaller SMEs. For example, Adeoye and Oladapo (2025) focused on the benefits of real-time dashboards in relatively structured businesses but admitted that their findings might not apply to less formal or infrastructure-deficient environments. Similarly, Olatunde and Williams (2024) restricted their scope to ICT-driven SMEs in urban centres, while Emeka, Musa, and Smith (2024) concentrated solely on manufacturing SMEs in the

Southwest geopolitical zone. The found that financial reporting practices, reliability, accuracy and reliability of financial reporting influences the investment decisions of manufacturing companies in Nigeria. This regional and sectoral focus excludes a large portion of Nigerian SMEs operating in remote or informal sectors, thereby limiting the generalisability and inclusiveness of their conclusions.

Furthermore, many of the existing literature depends heavily on self-reported or perception-based data from the business owners solely, which may not reflect the actual financial reporting practices of SMEs from the point of view of financial experts and accounting professionals. For instance, Musa and Ogunleye (2025), Adamu (2023), and Ogunlana and Ezeh (2025) relied on customer-based surveys with social desirability effects on the data. Even studies that evaluated disclosure levels, such as Patel and Gomez (2023) and Alawode and Okeke (2022), used business owner-driven metrics and perceprtions rather than objective or third-party audit-based assessments. This methodological weakness raises concerns about the robustness and credibility of findings on the quality of financial reporting and its role in influencing investor decisions.

Another issue that remains inadequately explored is the impact of financial reporting quality on access to alternative finance beyond conventional banks. The current literature, such as Musa and Ogunleye (2025) and Yakubu and Nnaji (2022), places primary emphasis on bank financing, often ignoring the growing relevance of microfinance institutions, donor funding, and venture capital, sources that could be critical for SMEs lacking traditional collateral or formal banking relationships.

Moreover, research on the timeliness dimension of financial reporting were carried out before the widespread use of digital accounting tools in financial reporting (Ibrahim & Aliyu, 2016; Ezenwa & Dangana, 2018; Babalola & Umeh, 2019). Although some studies like Chukwuma and Oladimeji (2023) and Babalola and Umeh (2019) recognised the

existence of accounting technologies, mainstream analyses such as those by Ezenwa and Dangana (2018) and Yusuf and Ajayi (2020) failed to integrate these tools into their framework and are considered out of date. Ibrahim and Aliyu (2016), while studying reporting frequency, also neglected the role of digital interfaces, which are increasingly adopted among SMEs for financial automation and quicker reporting.

Taken together, these challenges and academic limitations highlights the need for more inclusive, digitally awareness, and objectively grounded research that reflects the operational realities of Nigerian SMEs. A more nuanced understanding of how financial reporting practices influence investment decisions, is essential to unlocking the developmental potential of the SME sector in Nigeria.

1.3 Research Questions

The general question is to ascertain the extent to which financial reporting practices influence the quality of investment decisions made by SMEs in Nigeria To guide the investigation and address the core problem of the study, specifically the following research questions are raised:

1. How does the reliability and accuracy of financial reports affect investment decisions among Nigerian SMEs?
2. In what ways do the frequency and timeliness of financial reporting influence investment decisions among Nigerian SMEs?

1.4 Objectives of the Study

The main objective of this study is to examine the extent to which financial reporting practices affects investment decisions among Small and Medium Enterprises in Nigeria. Specifically, this study sought:

1. To evaluate the effect of the reliability and accuracy of financial reports on investment decisions for Nigerian SMEs.
2. To assess the impact of the frequency and timeliness of financial reporting on investment decisions among Nigerian SMEs.

1.5 Research Hypotheses

The following null hypotheses were formulated to guide the empirical analysis of this study:

$H_{0\ 1}$: The reliability and accuracy of financial reports have no significant effect on investment decisions among Nigerian SMEs.

$H_{0\ 2}$: The frequency and timeliness of financial reporting have no significant impact on investment decisions among Nigerian SMEs.

1.6 Scope of Study

This study examined the extent to which financial reporting affected investment decisions among Small and Medium Enterprises (SMEs) in Nigeria. The scope of the study was defined along three dimensions: content, geographical area, and unit of analysis.

Geographically, the study was limited to selected SMEs in Lagos, Abuja, Port Harcourt, Benin and Onitsha operating within Nigeria. These are key cities for a representative sample on financial reporting practices and investment decisions of SMEs in Nigeria due to their strategic economic and regional significance. Lagos serves as Nigeria's commercial capital with a high concentration of formalized SMEs and diverse industries, making it ideal for studying structured financial practices. Abuja, being the administrative capital, offers insights into how proximity to regulatory bodies and government policies influences SME behavior. Port Harcourt, which is a major city in the South-South region, provides a perspective on SMEs operating in resource-driven and often high-risk

environments. Benin bridges the formal and informal sectors with a growing entrepreneurial base, representing SMEs in transitional settings. Onitsha, a key commercial hub in the South-East, reflects indigenous business models and informal financial practices, capturing the unique decision-making styles of trade-driven SMEs. Together, these cities offer a well-rounded, regionally balanced, and sector-diverse view of Nigeria's SME landscape.

The unit of analysis comprised registered SMEs in Nigeria, with a focus on decision-makers who were directly involved in financial reporting and investment activities. These included business owners, financial managers, accountants, or other personnel responsible for preparing or using financial reports in making investment-related decisions.

1.7 Significance of the Study

This study is of great significance to a wide range of stakeholders whose interests align with the sustainable growth and financial health of Small and Medium Enterprises (SMEs) in Nigeria.

Small and Medium Enterprise (SME) Owners and Managers: will benefit directly from the outcome of the study, as it highlights the importance of adopting effective financial reporting practices for informed investment decisions. The findings will enhance their understanding of how timely, accurate, and reliable financial reports can attract funding, support strategic planning, and improve competitiveness. This, in turn, will promote a shift from informal to structured business management among SMEs.

Financial Institutions and Investors: such as commercial banks, microfinance institutions, angel investors, and venture capitalists, will also find the study useful. By providing empirical evidence on how financial reporting influences investment decisions, the study will assist these stakeholders in assessing SME creditworthiness, investment risk, and

performance potential more objectively, thereby improving their confidence in funding SME ventures.

Policy Makers and Regulatory Bodies: including the Financial Reporting Council of Nigeria (FRCN), the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and the Corporate Affairs Commission (CAC), will benefit from the study as it will offer insights into gaps in financial reporting compliance among SMEs. This will help guide the formulation of targeted policies, capacity-building programs, and reforms that promote accountability, transparency, and financial discipline within the SME sector.

Professional Accounting Bodies: such as the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN), will find the research useful in developing training modules, workshops, and outreach programs for SME financial literacy. The study's outcomes will inform how these bodies engage SMEs in adopting simplified but standard financial reporting frameworks suited to their scale of operations.

Researchers and Academics: will benefit from the study as it will contribute to literature on SME finance, investment decision-making, and financial reporting practices. It will serve as a reference point for future empirical studies and academic inquiries into SME development in Nigeria and other emerging economies.

Government Ministries: particularly the Federal Ministry of Industry, Trade and Investment and the Federal Ministry of Finance, will find the study helpful in designing national SME development strategies and investment support schemes. The findings will help ensure that government interventions are based on evidence and targeted at strengthening the financial management capacities of SMEs.

Development Partners and Non-Governmental Organizations (NGOs): working on enterprise development will draw useful insights from the study in structuring capacity development initiatives and funding programs that empower SMEs to grow through better financial reporting and investment planning.

1.8 Limitations to the Study

This study encountered certain limitations during its execution; however, adequate measures were taken to ensure that these constraints did not significantly affect the validity or reliability of the research findings.

Firstly, Some of the SMEs involved in the study did not maintain formal accounting systems or up-to-date records. To address this, data were collected using both structured questionnaires and in-depth interviews. Respondents were guided through the questions to ensure clarity, and additional follow-up was conducted where necessary. Where available, financial documents were reviewed to validate responses. This approach helped improve the quality and accuracy of the data.

Secondly, the study focused on SMEs located in five major commercial cities; Lagos, Abuja, Port Harcourt, Benin, and Onitsha. While these cities are economically viable, their inclusion did not fully capture the experiences of SMEs operating in rural or less-developed areas. To mitigate this, the sample was drawn from diverse sectors and enterprise categories across the selected cities, providing a fair representation of urban SMEs and ensuring that findings reflected a wide range of SME experiences.

Thirdly, the reliance on data drawn from respondents posed a risk of bias, particularly in terms of socially desirable responses or under-reporting of poor financial practices. This was managed by ensuring anonymity and confidentiality, which encouraged honest responses.

Finally, time and resource constraints affected the number of SMEs that could be reached. Nevertheless, a statistically adequate and representative sample size was maintained through careful sampling and prioritization of data quality over quantity. Data collection was conducted rigorously within the available time frame, using trained research assistants in most of the cities as the researchers resided in Benin, to improve coverage, meet up with time and reduce errors. Despite these limitations, the strategies employed ensured that the integrity of the study was preserved and that the results remained valid, reliable, and relevant to the research objectives.

1.9 Operational Definition of Terms

Financial Reporting: In this study, financial reporting refers to the process by which SMEs presents their prepared financial information, such as; income statements, balance sheets, and cash flow statements, used to communicate the financial position and performance of the business.

Financial Reporting Practices: These are the specific methods and procedures used by SMEs in the preparation and presentation of financial information. In the study, this included practices such as bookkeeping accuracy, documentation of financial transactions, periodic reporting, and the use of accounting software or professional accounting services.

Reliability of Financial Reports: This refers to the degree to which the financial information presented by SMEs can be depended upon to represent the true financial position of the business.

Accuracy of Financial Reports: Accuracy denotes the extent to which financial statements are free from errors or misstatements. In this study, accuracy was evaluated by reviewing internal consistency, error frequency, and correlation between reported figures and available supporting documentation.

Timeliness of Financial Reporting: This refers to the frequency and promptness with which financial reports are prepared and made available. It is viewed here as how regularly SMEs generated their financial reports (monthly, quarterly, or annually) and whether they were produced within a relevant decision-making timeframe.

Investment Decisions: Investment decisions refer to the choices made by SME owners or managers regarding the allocation of financial resources to different business opportunities or assets, such as equipment purchases, expansion projects, or new product development. This was measured by assessing the existence of investment planning processes, capital allocation strategies, and the influence of financial data on such decisions.

Strategic Investment Planning: This involves the long-term planning and decision-making process related to major financial commitments within SMEs. It was measured by evaluating the use of financial reports in goal setting, forecasting, and resource prioritization for future business growth.

Access to External Investment and Funding: This refers to the ability of SMEs to attract capital from outside sources, including banks, investors, government grants, or donor agencies. In this study, it was measured by the reported ease or difficulty in obtaining external funds, and whether financial reports played a role in supporting such applications.

Small and Medium Enterprises (SMEs):SMEs in this study refer to officially registered business entities in Nigeria that fall within the classifications set by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), typically characterized by staff strength (between 10–199 employees) and annual turnover not exceeding ₦500 million.

CHAPTER TWO

LITERATURE REVIEW

This chapter presents a comprehensive review of relevant literature on the relationship between financial reporting and investment decision-making among small and medium enterprises (SMEs). It is structured into four main sections: conceptual review, theoretical review, empirical review, and identified gaps in the literature.

2.1 Conceptual Review

2.1.1 Financial Reporting

Financial reporting refers to the systematic process by which businesses document and present their financial activities and conditions over a defined period. According to Adeyemi and Udo (2024), it typically includes statements such as the statement of financial position, income statement, and cash flow statement, and is guided by accounting standards and regulatory frameworks. In the context of Small and Medium Enterprises (SMEs), typically characterized by limited capital base, fewer employees, and constrained access to formal financing, financial reporting plays a pivotal role in ensuring transparency, guiding operational and strategic decisions, and facilitating external investment (Emeka, Musa & Smith, 2024). As noted by Onyekwelu and Ugwuanyi (2022) and Eze and Duru (2019), despite the recognized value of financial reporting, many Nigerian SMEs continue to grapple with irregularities in report generation, lack of structure, and delays in submission. This often arises from limited financial literacy, inadequate systems for recordkeeping, and a general perception that formal financial documentation is non-essential at the micro-enterprise level. However, studies have increasingly shown that structured and timely reporting directly impacts investment behaviour and financial access (Babalola & Umeh, 2019; Yusuf & Ajayi, 2020). For instance, Adeoye and Oladapo (2025) observed that SMEs utilizing real-time

reporting tools, such as dashboards and accounting software, demonstrated improved decision-making accuracy, particularly in investment contexts. Similarly, Okonkwo and Ibrahim (2024) found that the timeliness of financial reporting significantly enhanced SMEs' ability to forecast investment outcomes and respond proactively to financial opportunities. The reliability and accuracy of financial statements are also critical in building credibility among potential investors and lenders. Musa and Ogunleye (2025) highlighted that SMEs with reliable financial reports were 2.7 times more likely to receive loan approvals from formal financial institutions, indicating the importance of report integrity in credit evaluation processes. Moreover, IFRS-aligned financial reporting practices have been shown to bolster investor confidence and promote more informed investment decisions (Zhang & Ibrahim, 2025). These findings underscore the regulatory and strategic imperatives of standardized reporting for SMEs operating in emerging markets like Nigeria.

Technological innovation has further transformed the landscape of SME financial reporting. Tools such as QuickBooks and Sage have helped automate the accounting processes, thereby improving both speed and accuracy. Chukwuma and Oladimeji (2023) demonstrated that the adoption of accounting software among Nigerian SMEs significantly reduced reporting errors and increased stakeholder trust. This trend suggests that digital financial reporting is not only a solution to human error but also a facilitator of more strategic engagement with external capital providers.

Nonetheless, several structural and behavioral barriers remain. Ogunlana and Ezeh (2025) noted that although frequent financial reporting improves strategic investment planning, many SMEs still lack the discipline or resources to implement consistent reporting cycles. This irregularity often limits their responsiveness to investment opportunities and weakens their negotiation position when seeking funding.

2.1.2 Investment Decisions of Small and Medium Enterprises

Small and Medium Enterprises (SMEs) are typically defined based on employment size, turnover, or asset base, with thresholds varying by country. In the Nigerian context, SMEs are businesses that employ fewer than 200 persons and have assets (excluding land and buildings) worth less than ₦500 million, as stipulated by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021). These enterprises play a crucial role in economic development by fostering innovation, employment, and income generation (Ezenwa & Dangana, 2018). However, they often operate in environments characterized by limited access to finance, weak institutional support, and inconsistent financial practices, all of which have profound implications for their investment decisions (Nwachukwu & Okoro, 2021; Adeoye & Oladapo, 2025).

Investment decisions are central to the long-term sustainability, competitiveness, and strategic direction of SMEs. These decisions cover a wide range of capital expenditures, including non-current asset acquisition, technological upgrades, business expansion, and diversification. Within this sector, such decisions are often shaped by the quality of available financial information, the firm's managerial capacity, and prevailing market conditions (Adesina & Iyaiya, 2021; Aderonke & Musa, 2015). The role of financial reporting in enabling these decisions cannot be overemphasized, as it serves as a critical input in evaluating profitability, estimating risk, and allocating resources effectively.

Empirical studies underscore the importance of robust financial reporting structures in guiding rational investment behaviour among SMEs. Adeoye and Oladapo (2025) established that the use of real-time financial dashboards significantly improved the accuracy and timeliness of investment decision-making in Nigerian SMEs, reinforcing the role of dynamic financial visibility in fostering proactive capital allocation. Similarly, Emeka, Musa, and Smith (2024) demonstrated that profit disclosure accuracy directly influenced capital

budgeting discipline among manufacturing SMEs, with accurate figures leading to more strategic investment allocations.

The timeliness and frequency of financial reporting have also emerged as key determinants of effective investment planning. Bello and Kamaru (2022) found that timely financial reports positively affected machinery investment decisions in Nigerian SMEs, as they enabled more informed responses to capital needs. Likewise, Ogunlana and Ezeh (2025) reported that frequent financial reporting enhanced strategic investment planning responsiveness, particularly by improving market timing and internal resource alignment. These findings are corroborated by Adamu (2023), who observed that SMEs engaging in regular interim reporting were more likely to undertake larger and more frequent investments due to improved information availability.

Moreover, the reliability and completeness of financial reports are instrumental in attracting external capital and justifying investment intentions to stakeholders. Musa and Ogunleye (2025) showed that reliable financial statements significantly increased the likelihood of SMEs accessing bank credit in Lagos State, thereby expanding their investment capacity. Alawode and Okeke (2022) similarly emphasized that disclosure completeness improved growth capital allocation, as financiers viewed transparent firms as lower-risk investment vehicles.

The adoption of international financial reporting frameworks also contributes to more informed investment behaviour. Zhang and Ibrahim (2025) found that IFRS-compliant SMEs in Nigeria and Ghana exhibited higher investment quality, suggesting that standardized reporting enhances investor confidence and decision rationality. This is supported by Adeyemi and Udo (2024), who highlighted the positive effect of IFRS adoption on both reporting accuracy and informal investor interest among Nigerian SMEs.

Notably, technological integration into financial reporting practices such as the adoption of accounting softwares, has been shown to reduce reporting errors and bolster investor trust. Chukwuma and Oladimeji (2023) demonstrated that SMEs utilizing digital tools like QuickBooks and Sage experienced improved financial reporting accuracy, which translated into more credible investment cases. Additionally, Babalola and Umeh (2019) found that real-time reporting facilitated strategic inventory investment decisions, particularly within trading SMEs, by enhancing responsiveness to stock fluctuations.

Finally, audit quality plays a critical role in shaping the credibility of SME investment decisions. Danjuma and Smith (2021) found that higher audit quality correlated with more strategic investment allocation among SMEs in Abuja, as audited financials provided a stronger basis for assessing investment risk and return. Similarly, Eze and Duru (2019) reported that audited SMEs were twice as likely to receive external funding, indirectly influencing their ability to engage in productive investment activities.

In summary, investment decisions among Nigerian SMEs are strongly influenced by the quality, reliability, timeliness, and frequency of financial reporting. Empirical evidence indicates that enhanced financial transparency and compliance with reporting standards foster more strategic, timely, and externally supported investment behaviours. This underscores the imperative for SMEs to institutionalize high-quality financial reporting systems not only for regulatory compliance but also to enable informed investment decision-making and long-term enterprise growth.

2.1.3 Financial Reporting Practices

Financial reporting plays a pivotal role in shaping the investment decision-making processes of SMEs by enhancing the clarity, accuracy, and relevance of financial information used in evaluating business opportunities. Adeoye and Oladapo (2025) revealed that Nigerian SMEs adopting real-time financial dashboards were able to make more timely and accurate

investment choices, showing how dynamic reporting formats support proactive decision-making. Similarly, Ugwu and Nwosu (2024) reported that SMEs in agribusiness that maintained high-quality cash flow statements demonstrated stronger investment planning and resource allocation capacity.

Financial reporting practices refers to measurable indicators or variables used to assess how SMEs prepare, maintain, and present their financial information. Since direct measurement may be difficult in some contexts, proxies help capture the essence of reporting behavior (Alawode and Okeke,2022). Common proxies include the extent of financial record-keeping, the use of accounting software or professional accountants, the frequency and accuracy of financial statements (such as income statements and balance sheets), compliance with accounting standards or tax regulations, and the level of financial literacy of business owners. These proxies help evaluate the quality, consistency, and transparency of an SME's financial reporting without requiring full audits or formal reports.

The reliability of profit reporting also directly affects strategic investment choices. Emeka, Musa, and Smith (2024) observed that SMEs which maintained consistent and accurate profit disclosures made more judicious capital expenditure decisions. These findings align with those of Zhang and Ibrahim (2025), whose comparative analysis of SMEs in Nigeria and Ghana indicated that enterprises adhering to IFRS-based reporting frameworks attracted more investment and made more informed capital allocations due to increased investor confidence.

Timeliness in financial reporting has also been highlighted as a catalyst for swift investment responses. Bello and Kamaru (2022) provided empirical evidence linking prompt report generation to increased machinery investments among Nigerian SMEs, while Adamu (2023) found that interim reporting improved investment responsiveness and frequency in

Kano State. These outcomes underscore the importance of not only producing accurate reports but also ensuring their availability within decision-relevant timeframes.

Another dimension of financial reporting that influences investment quality is the comprehensiveness of financial disclosures. Alawode and Okeke (2022) established that SMEs with more complete and detailed reports, particularly concerning assets and liabilities, had a higher likelihood of securing growth capital. Complementing this, Olaniyan and Peters (2023) found that detailed inventory valuation disclosures contributed significantly to better capital budgeting decisions and long-term investment planning in Lagos-based SMEs.

Finally, regulatory compliance and audit integrity enhance the credibility of financial reports, further affecting investment outcomes. Danjuma and Smith (2021) noted that SMEs subjected to high-quality external audits were more likely to engage in structured and profitable investment activities. Chukwu and Ferdinand (2023) similarly showed that adherence to national financial reporting standards led to improved access to investment funding and more disciplined investment behavior.

2.1.4 Reliability and Accuracy of Financial Reporting

The reliability and accuracy of financial are conceived as very essential in determining the ease with which SMEs can attract external investment and funding (Obiora & Iwumadi, 2023). Accurate financial information enhances the credibility of SMEs and boosts the confidence of investors and lenders. In the context of Nigerian SMEs, the reliability of financial statements has been directly linked to access to formal credit facilities. Musa and Ogunleye (2025) found that SMEs with highly reliable financial reports were 2.7 times more likely to receive bank loans than those with inconsistent or incomplete statements.

Empirical studies have also shown that audit-backed accuracy in financial disclosures improves investor engagement. Danjuma and Smith (2021) noted that the quality of audits

positively influenced strategic investment allocation, with firms presenting reliable financial statements benefiting from clearer investment support. Similarly, Eze and Duru (2019) reported that SMEs with audited accounts were twice as likely to access external finance, confirming the strategic role of financial accuracy in funding opportunities.

Moreover, the accuracy of profit disclosures and cash flow reports directly influences capital budgeting and long-term investment confidence. Emeka, Musa, and Smith (2024) revealed that accurate profit figures were strongly associated with improved capital budgeting decisions in Nigerian manufacturing SMEs. This is consistent with findings from Ugwu and Nwosu (2024), who demonstrated that high-quality cash flow statements enhanced strategic investment planning among agribusiness SMEs.

Additionally, digital tools have emerged as key enablers of financial report accuracy. Chukwuma and Oladimeji (2023) showed that SMEs using accounting software such as QuickBooks and Sage experienced fewer reporting errors and gained more investor trust. This finding aligns with the conclusion of Adeyemi and Udo (2024), who confirmed that the adoption of IFRS for SMEs enhanced reporting accuracy and attracted higher informal investor interest.

Beyond conventional credit and equity financing, financial report reliability also determines access to alternative funding sources such as donor grants and development finance. Okafor and Adebayo (2016) found that donors preferred SMEs with structured and verifiable disclosures, treating credible reports as a precondition for engagement. Likewise, Bello and Abubakar (2021) observed that adherence to financial reporting standards improved funding outcomes from development finance institutions like the Bank of Industry.

The accuracy and reliability of financial reports are therefore fundamental to SME investment readiness. Reliable reporting fosters transparency, which in turn encourages

external funding by reducing information asymmetry between SMEs and potential investors or lenders.

2.1.5 Frequency and Timeliness of Financial Reporting

The frequency and timeliness of financial reporting are increasingly recognized as vital determinants of effective strategic investment planning among SMEs as pointed out by Alawode and Okeke (2022). These two reporting characteristics enhance management's ability to access reliable data promptly, enabling informed decisions that align with long-term strategic objectives. Ogunlana and Ezeh (2025) provide compelling empirical evidence that frequent financial reporting significantly improves SMEs' investment planning responsiveness, particularly in volatile market environments. Their study highlights that SMEs with more frequent reporting practices tend to adapt more swiftly to changing financial conditions and competitive landscapes.

Timely reporting also plays a pivotal role in enhancing the predictability and precision of investment decisions. Okonkwo and Ibrahim (2024) found that SMEs with prompt financial submissions were better equipped to develop accurate investment forecasts. These forecasts served as essential tools for capital allocation and project prioritization, particularly for businesses seeking to optimize limited financial resources. Likewise, Adegboyega and Udochi (2023) demonstrated that periodic reporting supports disciplined capital budgeting practices, leading to improved communication with lenders and increased investor confidence in SMEs' financial governance.

Chinonso and Adedoyin (2022) further noted that timely internal reporting facilitates strategic resource allocation, allowing SMEs to direct capital toward growth-oriented investments such as equipment acquisition or regional expansion. Their study of medium-sized enterprises in Port Harcourt and Enugu revealed a positive correlation between timely financial disclosures and prudent investment behavior. This assertion is reinforced by Ezenwa

and Dangana (2018), whose analysis established that SMEs practicing prompt financial reporting were more cautious yet strategic in deploying funds toward fixed asset investments, enhancing long-term sustainability.

In addition, Afolabi and Onyekwere (2021) found that increased reporting frequency is associated with broader investment diversification. Their research showed that SMEs with more frequent reports had better insights into risk-adjusted performance, enabling them to reallocate investments across sectors and geographies more effectively. Ibrahim and Aliyu (2016) offered complementary findings, showing that frequent management reports enabled faster and more data-driven strategic investment adjustments in North-Central Nigerian SMEs.

Timely and frequent reporting practices not only improve internal decision-making but also positively influence the perceptions of external stakeholders. Aderonke and Musa (2015) emphasized that delays in financial reporting can discourage external investment partnerships, as potential funders interpret such delays as a sign of weak governance or financial opacity. Therefore, SMEs that prioritize timeliness gain reputational advantages that may increase access to strategic funding partners and equity investors.

2.2 Empirical Review

The existing studies on this topic are discussed and critiqued in line with the study variabes:

2.2.1 Financial reporting practices and Investment Decisions

Adeoye and Oladapo (2025) examined whether real-time financial reporting dashboards improve investment decision accuracy among SMEs in Nigeria. They surveyed 500 SMEs across Nigeria, targeting both owners and financial managers, collecting data via online questionnaires and structured interviews. Using hierarchical regression, they assessed whether real-time accessibility to financial data enhances decision-making timeliness and

correctness. Results revealed that SMEs with live dashboards made notably more accurate and timely investment choices. By demonstrating real-time reporting's value, the study offers actionable insights for leveraging tech in SME reporting. However, the focus on digitally enabled firms likely excludes smaller or rural SMEs lacking such infrastructure, limiting its generalizability.

Zhang and Ibrahim (2025) conducted a joint study of Nigeria and Ghana aimed to determine how the adoption of IFRS-based reporting influences the quality of SMEs' investment choices. The researchers surveyed 150 SMEs in each country, reaching Chief Finance Officers and senior accountants, and used multiple regression for analysis. Their findings showed that firms with IFRS-aligned financial reporting structures made more confident and quality investment decisions. This cross-national study helps identify impactful reporting standards in West African contexts. Still, differences in regulatory frameworks and audit culture across the two countries complicate direct comparisons and may bias results.

Smith and Andersson (2024) explored the effect of report clarity and comparability on SME investment strategies in Sweden. Involving 200 Swedish SMEs, they conducted a survey and applied structural equation modeling. They found clarity and comparability significantly strengthened internal and external investment decisions. This European insight broadens relevance for global SMEs seeking financial reporting improvements. Yet, the homogenous Scandinavian sample limits applicability to developing countries with weak regulatory environments like Nigeria.

Ugwu and Nwosu (2024) sought to understand how cash flow statement quality impacts strategic investment planning among agribusiness SMEs in northern Nigeria. They gathered data from 175 farms via structured questionnaires and applied exploratory and confirmatory factor analysis before proceeding with SEM. Results indicated that firms with clearer and more accurate cash flow details engaged in better planning and investment

decision-making. This strengthens the case for non-income statement metrics in SME investment assessment. The main limitation is the sector-specific focus and reliance on perceived quality rather than audited accuracy.

Emeka, Musa, and Smith (2024) investigated how profit disclosure accuracy affects capital budgeting decisions among 220 manufacturing SMEs in southwest Nigeria. Panel data from audited financial statements over three years was analyzed using fixed-effects regression models. They showed that SMEs with more accurate profit disclosures allocated significantly more resources to strategic investments. This study highlights profit accuracy as a key driver in SME investment decisions. Nevertheless, its focus on manufacturing SMEs in one region reduces national representativeness.

Anderson and Lee (2024) evaluated the relationship between financial report timeliness, audit quality, and investment decision-making in SMEs. They surveyed 300 Canadian SMEs and utilized hierarchical regression analysis. Findings revealed that publicly audited and timely reports were associated with more ambitious investment decisions. This emphasizes the importance of auditing and timeliness globally. However, the study's reliance on perceived measures of audit quality rather than objective audit scores is a significant limitation.

Olatunde and Williams (2024) examined whether financial report reliability affects venture investment sizes among ICT SMEs in urban Nigeria. They surveyed 310 firms and used Structural Equation Modeling (SEM) to test hypothesis. Results demonstrated that perceived report reliability correlated strongly with higher investment commitments. The study's urban and tech-focused sample, however, introduces selection bias that restricts broader SME applicability.

Patel and Gomez (2023) addressed how financial reporting full disclosure affects SME access to expansion funding. They surveyed 250 SMEs using probit regression and

found that firms with detailed and transparent financial disclosures were significantly more likely to secure external funding. Though the Indian context differs from Nigeria, the study underscores global consistency in disclosure benefits. Its reliance on self-reported disclosure levels rather than audit-reviewed data limits result reliability.

Adamu (2023) investigated how interim financial reporting frequency influences SME investment behaviour in Kano State. Using a questionnaire-based survey of 260 SMEs and correlation analysis, they found that firms preparing interim reports more frequently tended to make more frequent and higher-value investments. This suggests reporting frequency supports investment planning. The limitation lies in reliance on managerial perceptions, which may not accurately reflect actual investment records.

Olaniyan and Peters (2023) studied inventory valuation disclosure effects on equipment investment among 180 Lagos-based SMEs. Using regression analysis on survey data, they showed that firms with formalized inventory policies were significantly more likely to invest in equipment. This highlights targeted reporting practices as valuable investment drivers. The urban focus limits applicability to rural or informal SMEs without formal accounting tools.

Chukwu and Ferdinand (2023) explored compliance with national reporting standards' effect on investment behaviour using panel data from 115 regional SMEs in Nigeria and fixed-effects models to regress the data gathered. They found firms meeting reporting standards saw enhanced investment flows and more confident management decisions. This aligns with broader moves toward robust reporting. Yet, the findings may not represent unlisted or informal SMEs.

Alawode and Okeke (2022) surveyed 420 SMEs across Nigeria's geopolitical zones using logistic regression to test the link between disclosure completeness and securing growth capital. They found full disclosure greatly increases probability of attracting investment. The

study's limitation is its reliance on perceived completeness rather than audit-verified disclosures.

Singh and Roberts (2022) analyzed 180 British SMEs to examine if report clarity enhances investor confidence and capital intake. Using SEM and survey data, they found that greater financial report clarity was significantly associated with better investment terms. However, comparisons with Nigerian SMEs should be made cautiously due to differences in investor base and financial infrastructure.

Bello and Kamaru (2022) used five-year panel data from 90 manufacturing SMEs to study the impact of financial report timeliness on machinery investment decisions through fixed-effects regression. Their results revealed that timely reports substantially increased capital re-investments. The limitation of this outcome is the study's focus on only manufacturing sector which prevents generalization to non-manufacturing SMEs.

Danjuma and Smith (2021) surveyed 150 Abuja SMEs to assess the influence of audit quality on strategic investment allocation using regression. Results showed firms audited by reputable firms made better strategic investment allocation decisions. However, data may suffer from positive self-reporting bias.

2.2.2 The reliability and accuracy of financial reporting and Investment Decisions

Musa and Ogunleye (2025) examined how the perceived reliability of SME financial statements influences access to bank credit in Lagos State Nigeria. Drawing data from 310 SMEs across five local government areas, the study applied structured questionnaires and logistic regression analysis. The findings showed that SMEs with audited and consistently reliable financial statements were 2.7 times more likely to secure loan approvals than those with unaudited or inconsistent records. The study concluded that financial statement reliability enhances lender confidence, ultimately affecting the likelihood of credit access.

This result reinforces the importance of quality financial disclosures in capital mobilization. However, a limitation is that the research focused exclusively on bank credit, leaving out other crucial financing channels such as microfinance institutions, venture capital, and private equity.

Adeyemi and Udo (2024) investigated the influence of IFRS for SMEs on report accuracy and investor confidence. Using comparative analysis of financial statements from 85 SMEs before and after the adoption of IFRS between 2018 and 2022, the researchers employed paired t-tests to evaluate reporting improvements. The study found that the adoption of IFRS significantly enhanced the quality and comparability of financial reports, which in turn improved investor interest and capital inflow from informal investors. By introducing global accounting standards, SMEs were able to present a more credible financial outlook to prospective funders. Nonetheless, the study did not collect primary data from investors, and thus the assertion of increased investor confidence was based on inferred behavioural patterns, reducing the strength of the conclusion.

Smith and Andersson (2024) explored the effect of financial report clarity and comparability on SME investment strategies in a European context. The study surveyed 200 Swedish SMEs and applied structural equation modeling to assess how improved reporting standards affect both internal and external investment decisions. The findings revealed that clarity and comparability of financial reports significantly influenced investor trust and strategic investment behaviour. However, sample and advanced regulatory environment in Sweden limits the generalizability of these results to developing countries like Nigeria, where financial infrastructure and regulatory enforcement are still evolving.

Chukwuma and Oladimeji (2023) focused on how the use of accounting software influences the accuracy of SME financial reports. Drawing data from 150 SMEs in Abuja that adopted QuickBooks and Sage accounting systems, the study employed a comparative

approach and multiple regression analysis. The results indicated that digitalized accounting practices significantly reduced reporting errors and enhanced the credibility of financial statements. This, in turn, translated into increased trust from potential investors and financial institutions. While the study offers useful insight into the technological dimension of report accuracy, it failed to control for differences in managerial accounting competence, which could independently affect report quality irrespective of software use.

Yakubu and Nnaji (2022) analyzed whether financial transparency affects microfinance loan approvals among SMEs. Utilizing data from 98 SMEs applying for funding from three major microfinance banks, the researchers used structured surveys and probit regression to estimate the relationship. The study concluded that transparent and verifiable financial statements significantly influenced the creditworthiness assessments made by microfinance institutions. This finding underscores the relevance of transparency in the credit appraisal process for small businesses. Nevertheless, the exclusive focus on microfinance loans means the findings may not extend to other financial sources such as commercial banks or donor agencies, which use different appraisal criteria.

Bello and Abubakar (2021) assessed how adherence to financial reporting standards affects SME funding success from development finance institutions. Using loan application data from 73 SMEs evaluated by the Bank of Industry, the study employed archival analysis and chi-square statistical tests. Results showed that SMEs with standardized and compliant financial records were more likely to be granted funding. The research emphasized the role of structured financial disclosures in reducing due diligence risks for lenders. However, one limitation is the exclusion of soft factors like entrepreneurial experience of the owners and business model viability, which are often critical in funding decisions and could confound the results.

Obasi and Umeh (2020) investigated the role of financial report timeliness in attracting equity investment among SMEs in South-East Nigeria. Surveying 120 SME owners and applying ANOVA techniques, the study found that timely financial disclosures increased investor confidence and reduced the time and cost associated with financial due diligence. The research highlighted timeliness as a critical but often overlooked element of financial reporting quality. Investors were more likely to consider SMEs with up-to-date financials, as they signal operational stability and transparency. Nonetheless, the study did not differentiate the type of investors involved, leaving out whether venture capitalists, angel investors, or institutional funders respond similarly to timeliness.

Adjei and Boateng (2020) in Ghana explored the effect of financial report quality on SME access to equity and debt financing. Using data from 21 SMEs in Accra and Kumasi, the researchers applied structural equation modeling to estimate the strength of relationships. Their findings revealed that the reliability and accuracy of financial reports significantly enhanced SMEs' ability to attract both equity investors and bank loans. The Ghanaian experience offers a broader regional perspective on the issue, suggesting that quality reporting may have a universal appeal across African economies. However, regulatory, cultural, and financial differences between Ghana and Nigeria could limit the direct applicability of these findings to the Nigerian SME landscape.

Eze and Duru (2019) in Nigeria focused on whether financial report auditing enhances access to external funding among SMEs. Using a dataset of 6 SMEs divided between audited and non-audited entities, logistic regression analysis was employed. The results showed that SMEs with audited accounts were twice as likely to secure external funding compared to those without audited statements. This highlights the role of third-party verification in strengthening investor confidence. However, the study's small sample could have influenced

both the likelihood of audit and funding access, thereby posing concerns about reliability of the results.

Olaniyi and Adeola (2018) studied the impact of financial report reliability on SME credit ratings. Drawing on credit bureau data for 4 SMEs, the authors used correlation and regression analysis to establish relationships between report quality and creditworthiness. The study found a strong positive correlation, indicating that more reliable reports are linked to higher credit ratings, which in turn increase funding prospects. While the findings are relevant for understanding financial report implications on SME finance, the small sample size and geographical focus on the South-West region of Nigeria limits the representativeness of the results.

Kamau and Wanjohi (2017) in Kenya examined how financial reporting quality affects SME access to loans in Nairobi. Data were gathered from 15 SMEs, and the analysis was conducted using logistic regression. Results confirmed that accurate and complete financial reports improved the chances of loan approval, as they enabled lenders to make better-informed decisions. The study aligns with similar Nigerian findings and suggests a regional pattern in how financial reporting impacts SME financing. However, differences in Kenya's financial system, tax compliance enforcement, and credit culture may reduce the generalizability of these findings to the Nigerian context.

Okafor and Adebayo (2016) explored how credible financial information affects SME access to donor funding. Using qualitative interviews with 78 SMEs in Nigeria that applied for donor support from 2012 to 2015, they employed content analysis to evaluate funding outcomes. The results indicated that donors showed a clear preference for SMEs with detailed, structured, and verifiable financial reports. This finding reveals the non-negotiable role of financial credibility in grant-based funding environments. Yet, the qualitative design limits

statistical generalization, and the findings may not reflect the preferences of private or institutional investors.

Gbandi and Amissah (2015) investigated the link between inaccurate financial reports and loan defaults among SMEs. Analyzing financial and loan performance data of 20 SMEs in Anambra State, the study found that firms with poorly prepared or misleading financial statements were more likely to misallocate funds and subsequently default on loans. The research emphasized that inaccuracies not only jeopardize funding prospects but also lead to poor financial management outcomes. However, the study apart from its small sample size, paid less attention to the systemic causes of inaccurate reporting, such as lack of training or accounting infrastructure.

Aderemi and Fagbohungbe (2014) assessed the impact of financial literacy on the reliability of SME financial reports. Surveying 10 SMEs across Lagos and Ogun States, the researchers applied regression modeling and found that owners with higher financial literacy scores produced more accurate and consistent financial records. This translated into better access to credit and equity funding. The study suggests that capacity building could be an indirect route to improved financial credibility and investment readiness. Nonetheless, apart from its small sample size, it did not investigate whether improvements in reporting quality were sustainable over time, which is critical for long-term investor relations.

Onaolapo and Adegbite (2012) examined the correlation between financial statement quality and SME capital access. Using data from 8 SMEs with established funding histories, Pearson correlation and regression techniques were used. The findings showed a strong positive link between high-quality statements and increased loan size or better credit terms. Financial statement quality was viewed by lenders as a proxy for managerial competence and business viability. However, the reliance on self-assessed financial report quality without external validation creates room for bias in the findings.

2.2.3 The frequency and timeliness of financial reporting and Investment Decisions

Ogunlana and Ezeh (2025) examined the effect of the frequency of financial reporting on strategic investment planning among small and medium enterprises in Lagos State. The study involved 265 SMEs across manufacturing, retail, and service sectors. Using structured questionnaires and path analysis, they found that SMEs that reported quarterly or monthly had more structured investment plans and were more responsive to market shifts. Frequent reporting was shown to aid in identifying investment opportunities and managing cash flow for expansion. However, the study was limited by its reliance on self-reported data, which could have introduced social desirability bias in responses regarding reporting frequency and planning discipline.

Okonkwo and Ibrahim (2024) assessed the relationship between financial reporting timeliness and investment forecasting capacity in SMEs. Drawing data from 12 SMEs operating in Abuja and Kano, the researchers applied logistic regression to test the association. The findings indicated that timely preparation of financial reports, particularly within 30 days of the reporting period, significantly improved the accuracy and responsiveness of investment projections. This improved decision-making in inventory acquisition, asset renewal, and human capital development. Nonetheless, the study failed to explore whether these benefits were sustained over time or were simply short-term planning reactions to immediate financial data.

Adegboyega and Udochi (2023) explored the influence of periodic financial reporting on capital budgeting processes in SMEs. The study focused on 9 SMEs in South-West Nigeria and adopted a mixed-methods approach, combining surveys with in-depth interviews. Results revealed that enterprises with consistent monthly and quarterly financial updates had better capital investment forecasting capabilities and were more likely to consider long-term investment options. These SMEs also reported improved communication with lenders and

partners. However, the study's sample size and restriction to South-wst Nigeria could also influence strategic investment behaviour.

Chinonso and Adedoyin (2022) studied how the timeliness of internal financial reporting affects strategic resource allocation decisions in medium-scale businesses. Using a sample of 80 medium-sized enterprises across the commercial hubs of Port Harcourt and Enugu, the study employed time-series analysis and found that firms with prompt month-end closings and real-time cash flow reports were more successful in reallocating funds toward growth initiatives. The study emphasized the role of information freshness in guiding decisions such as equipment upgrades or market expansion. Nevertheless, the limited sample and regional scope restrict the generalizability of the findings to all Nigerian SMEs.

Afolabi and Onyekwere (2021, Nigeria) investigated whether frequent reporting cycles influence investment diversification among SMEs in Nigeria. A total of 105 SMEs from the agro-processing and textile sectors participated in the study. Using descriptive statistics and regression analysis, the study showed that businesses with more frequent reporting routines (monthly or bi-monthly) were more inclined to diversify into new products or markets. The researchers attributed this behavior to enhanced financial awareness derived from frequent report reviews. However, the study did not establish whether the frequency of reporting led to diversification or if already-diversifying firms reported more frequently, thus posing a causality dilemma.

Yusuf and Ajayi (2020) evaluated the impact of timely financial report submission on business continuity and strategic investment in Nigerian SMEs. The study employed a cross-sectional survey of 140 SMEs in Lagos and applied structural equation modeling. Findings indicated that SMEs that submitted financial reports within regulatory or internal deadlines showed better resilience during downturns and were more proactive in making investment decisions. Timeliness helped managers identify underperforming areas and reallocate funds

accordingly. Yet, the study overlooked whether internal audit systems contributed to timeliness, and how these systems may mediate the effect on strategic planning.

Babalola and Umeh (2019, Nigeria) conducted research to examine the link between real-time financial reporting and strategic inventory investment in small trading businesses. Data from 5 SMEs in the Onitsha and Aba commercial districts were analyzed using time-lagged regression. The study showed that SMEs that updated financial records daily or weekly were more efficient in inventory investment, reducing stockouts and overstocking. This efficiency translated to better customer satisfaction and higher profitability. However, the study was narrowly focused on retail-oriented SMEs and did not address whether the same effect holds in service-based or tech-driven enterprises.

Ezenwa and Dangana (2018) focused on how timeliness in financial reporting influences long-term asset investment decisions among SMEs. The study analyzed responses from 102 SMEs in Jos, Kaduna, and Minna, using multivariate regression models. The results revealed a strong positive relationship between financial report timeliness and prudent fixed asset acquisition. Managers who reviewed timely reports were more cautious about capital-intensive decisions and were able to align investments with available cash flow. Despite these insights, the study did not evaluate how report quality interacted with timeliness in shaping strategic investment outcomes.

Ibrahim and Aliyu (2016) explored the frequency of management reports and its impact on investment monitoring and strategic adjustment in SMEs. Using 10 SMEs in North-Central Nigeria and applying a longitudinal panel design, the authors found that frequent managerial reports, especially bi-weekly and monthly, allowed firms to make quicker adjustments to investment strategies when projected returns fell below expectations. These firms could reallocate funds or renegotiate project terms more efficiently. The

limitation of this study lies in its exclusion of digital reporting tools, which might enhance or diminish the frequency-investment link depending on adoption levels.

Aderonke and Musa (2015) investigated how delay in financial reporting affects SMEs' ability to secure investment from external partners. The study sampled 98 SMEs in Ilorin, Ibadan, and Akure and employed qualitative interviews alongside regression analysis. Results indicated that late or irregular financial reports significantly reduced investor engagement and delayed strategic investment decisions, as partners required accurate financial forecasts to align capital injections. The study emphasized that delays often arise from poor internal controls or lack of financial management staff. Nonetheless, the analysis lack quantification which may have affected the outcome.

2.3 Theoretical Review

This study is anchored on two foundational theories; the Contingency Theory of Management Accounting and the Resource-Based View (RBV). These theories provide valuable lenses for understanding how financial reporting practices influence investment decisions among SMEs operating in dynamic and resource-constrained environments like Nigeria. These are discussed below;

2.3.1 Contingency Theory of Management Accounting

Contingency theory in management accounting argues that there is no single best financial reporting or control system that fits all organizations; instead, the effectiveness of reporting practices depends on the specific internal and external conditions surrounding the enterprise (Otley, 1980). In the context of small and medium scale enterprises in Nigeria, these conditions may include firm size, managerial expertise, market uncertainty, competitive intensity, and regulatory demands. Because SMEs operate in diverse and sometimes volatile environments, their financial reporting practices must adapt to their operational realities in

order to support sound investment decisions. For example, SMEs operating in highly competitive or rapidly changing markets require more frequent and timely financial reports to make swift investment choices and respond quickly to opportunities (Donaldson, 2001). Conversely, SMEs in stable markets may rely on periodic reporting structures that support longer investment planning cycles. Similarly, an enterprise with strong managerial capacity and accounting knowledge may adopt more sophisticated reporting techniques, while those with limited capacity may depend on simplified reports that still provide sufficient decision-relevant information (Chenhall, 2003).

Thus, contingency theory suggests that financial reporting practices are most effective when they are aligned with the SME's contextual factors. When reporting practices are appropriately matched to the firm's environment and internal capabilities, owners and managers are better positioned to assess risks, allocate resources, evaluate investment alternatives, and secure external funding. In this way, the theory helps explain why some SMEs make better investment decisions than others not simply because they report financially, but because their reporting systems fit their operational conditions.

2.3.2 Resource-Based View (RBV) Theory

The Resource-Based View (RBV), rooted in strategic management theory and propounded by Barney (1991), conceptualizes firms as repositories of tangible and intangible resources that can confer sustained competitive advantage if they are valuable, rare, inimitable, and non-substitutable (VRIN). From this theoretical standpoint, financial reporting is not merely an administrative or compliance-oriented process, but a strategic internal capability that can be leveraged to inform sound investment decisions, enhance firm credibility, and improve resource allocation.

In the context of SMEs, the RBV frames financial reporting systems as potentially strategic assets that enable superior investment performance. Afolabi and Onyekwere (2021),

employing the RBV framework, found that SMEs that institutionalized high-quality financial reporting practices, particularly those emphasizing accuracy, timeliness, and usability, attracted more external investment and achieved more efficient capital budgeting outcomes. Their findings reinforce the notion that financial reporting, when viewed as a resource, enhances strategic agility and financial foresight. In a similar vein, Nwachukwu and Okoro (2021) demonstrated that firms with more developed internal reporting mechanisms were better able to evaluate investment alternatives, manage financial risks, and access bank financing. Their analysis underscored the strategic relevance of internal accounting capabilities as enablers of improved investment decision-making, a conclusion that directly supports the assumptions of the RBV. Babalola and Umeh (2019) also contributed to this line of inquiry by showing that SMEs with structured and forward-looking financial reporting frameworks experienced higher levels of strategic investment planning, especially in capital-intensive sectors such as manufacturing and logistics. According to their study, the interpretability and strategic relevance of financial information were more critical to investment success than mere compliance with reporting standards.

The relevance of the RBV to this study is further amplified in the Nigerian context, where access to finance and market intelligence is often limited. In such settings, financial reporting becomes a crucial internal capability through which SMEs can signal stability and credibility to investors, reduce information asymmetry, and develop investment-ready profiles. Consequently, the RBV supports the conceptualization of financial reporting as a strategic organizational asset that directly shapes and enables effective investment decisions.

2.4 Summary of Empirical Studies

Table 2.1 Summary of Empirical Review

S/N	Author (s) (Year)	Country	Objective	Sample	Methodology	Key Finding
1	Adeoye & Oladapo (2025)	Nigeria	Examine whether real-time dashboards improve SME investment decisions	500 SMEs (owners & managers)	Hierarchical regression	Real-time dashboards led to more accurate and timely investment decisions
2	Musa & Ogunleye (2025)	Nigeria (Lagos)	Examine how financial statement reliability affects bank credit access	310 SMEs in 5 LGAs in Lagos	Logistic regression	Reliable, audited statements increased loan approvals by 2.7 times
3	Zhang & Ibrahim (2025)	Nigeria & Ghana	Investigate IFRS adoption's impact on investment decision quality	150 SMEs each in Nigeria and Ghana	Multiple regression	IFRS-aligned firms made higher-quality investment decisions
4	Ogunlana & Ezeh (2025)	Nigeria (Lagos)	Assess the effect of reporting frequency on strategic investment planning	265 SMEs in manufacturing, retail, service	Structured questionnaires; Path analysis	Frequent reporting improved structured planning and market responsiveness
5	Smith & Andersson (2024)	Sweden	Assess impact of report clarity/comparability on investment strategies	200 SMEs	Structural Equation Modeling (SEM)	Clarity and comparability improved internal and external investment decisions
6	Okonkwo & Ibrahim (2024)	Nigeria (Abuja/Kano)	Examine effect of reporting timeliness on investment forecasting	12 SMEs	Logistic regression	Timely reports (within 30 days) enhanced forecast accuracy for investment decisions
7	Ugwu & Nwosu (2024)	Nigeria	Examine cash flow statement quality's role in investment planning	175 agribusiness SMEs in northern Nigeria	Exploratory and confirmatory factor analysis; SEM	Accurate cash flow details supported better investment planning

S/N	Author (s) (Year)	Country	Objective	Sample	Methodology	Key Finding
8	Emeka, Musa & Smith (2024)	Nigeria	Study effect of profit disclosure accuracy on capital budgeting decisions	220 manufacturing SMEs (panel data, 3 yrs)	Fixed-effects regression	Accurate profit disclosures led to more strategic investments
9	Anderson & Lee (2024)	Canada	Explore how audit quality and timeliness affect SME investment decisions	300 SMEs	Hierarchical regression	Timely, audited reports linked to more ambitious investments
10	Olatunde & Williams (2024)	Nigeria	Test if report reliability affects venture investment size	310 ICT SMEs in urban areas	Structural Equation Modeling (SEM)	Perceived report reliability increased investment commitment
11	Adeyemi & Udo (2024)	Nigeria	Assess IFRS for SMEs on report accuracy and investor confidence	85 SMEs (pre- & post-IFRS)	Paired t-test	IFRS adoption improved report comparability and investor interest
12	Chukwuma & Oladimeji (2023)	Nigeria (Abuja)	Assess how accounting software use influences report accuracy	150 SMEs using QuickBooks /Sage	Multiple regression	Digital practices reduced errors and improved financial credibility
13	Patel & Gomez (2023)	India	Investigate disclosure's effect on SME funding access	250 SMEs	Probit regression	Transparent disclosures improved external funding access
14	Adegboyega & Udochi (2023)	Nigeria (South-West)	Investigate periodic reporting's influence on capital budgeting	9 SMEs	Mixed methods (survey + interview)	Consistent reports led to better capital forecasting and stronger partner communication
15	Adamu (2023)	Nigeria	Assess effect of interim reporting frequency on SME investment behaviour	260 SMEs in Kano State	Correlation analysis	Frequent interim reporting led to more frequent, higher-value investments
16	Olaniyan & Peters (2023)	Nigeria	Evaluate inventory disclosure effect on equipment investment	180 Lagos-based SMEs	Regression analysis	Formal inventory policies boosted equipment investments

S/N	Author (s) (Year)	Country	Objective	Sample	Methodology	Key Finding
17	Chukwu & Ferdinand (2023)	Nigeria	Examine effect of compliance with national standards on investment	115 regional SMEs	Fixed-effects regression	Compliance increased investment flows and management confidence
18	Alawode & Okeke (2022)	Nigeria	Test link between disclosure completeness and securing growth capital	420 SMEs across geopolitical zones	Logistic regression	Full disclosure raised chances of attracting investment
19	Singh & Roberts (2022)	UK	Analyze if report clarity improves investor confidence	180 SMEs	Structural Equation Modeling (SEM)	Clearer reports increased capital inflow and investor trust
20	Bello & Kamaru (2022)	Nigeria	Study impact of timeliness on machinery investment	90 manufacturing SMEs (5-year panel)	Fixed-effects regression	Timely reports drove higher capital re-investments
21	Yakubu & Nnaji (2022)	Nigeria	Evaluate transparency's effect on microfinance loan approvals	98 SMEs seeking loans from 3 MFIs	Probit regression	Transparent reports significantly improved loan approval chances
22	Chinonso & Adedoyin (2022)	Nigeria (PH & Enugu)	Analyze effect of timely internal reporting on resource allocation	80 medium-scale enterprises	Time-series analysis	Timely reports enabled strategic fund reallocation for growth
23	Afolabi & Onyekwere (2021)	Nigeria	Assess impact of reporting frequency on investment diversification	105 SMEs (agro-processing & textiles)	Descriptive stats; Regression	Frequent reporting encouraged product/market diversification
24	Danjuma & Smith (2021)	Nigeria	Investigate audit quality's effect on strategic investment allocation	150 SMEs in Abuja	Regression analysis	High audit quality led to better strategic investment allocation
25	Bello & Abubakar (2021)	Nigeria	Examine effect of reporting standards adherence on funding success	73 SMEs reviewed by BoI	Chi-square tests (archival)	Standardized records improved chances of receiving development finance

S/N	Author (s) (Year)	Country	Objective	Sample	Methodology	Key Finding
26	Obasi & Umeh (2020)	Nigeria (SE)	Investigate timeliness of reports on equity investor confidence	120 SME owners	ANOVA	Timely reports enhanced investor confidence and reduced due diligence cost
27	Adjei & Boateng (2020)	Ghana	Assess report quality's effect on equity and debt financing access	21 SMEs in Accra and Kumasi	Structural Equation Modeling	Reliable reports improved access to equity and bank financing
28	Yusuf & Ajayi (2020)	Nigeria (Lagos)	Examine timely report submission and strategic investment resilience	140 SMEs	Structural Equation Modeling (SEM)	Timely reports supported resilience and proactive investment behavior
29	Babalola & Umeh (2019)	Nigeria (Onitsha/ Aba)	Study link between real-time reporting and inventory investment	5 trading SMEs	Time-lagged regression	Real-time updates improved inventory efficiency and profitability
30	Eze & Duru (2019)	Nigeria	Examine audit impact on access to external funding	6 SMEs (audited vs non-audited)	Logistic regression	Audited SMEs were twice as likely to secure funding
31	Ezenwa & Dangana (2018)	Nigeria (North-Central)	Assess timeliness effect on fixed asset investment	102 SMEs in Jos, Kaduna, Minna	Multivariate regression	Timely reports led to cautious and better-aligned asset investment
32	Olaniyi & Adeola (2018)	Nigeria (SW)	Explore financial report reliability's impact on SME credit ratings	4 SMEs with credit bureau data	Correlation & regression	Reliable reports were linked to higher credit ratings and better funding prospects
33	Kamau & Wanjohi (2017)	Kenya	Assess how reporting quality affects loan approval	15 SMEs in Nairobi	Logistic regression	Accurate and complete reports enhanced loan approval chances
34	Okafor & Adebayo (2016)	Nigeria	Explore financial credibility's role in donor funding access	78 SMEs applying for donor support	Content analysis (qualitative)	Donors preferred SMEs with structured and verifiable financial reports

S/N	Author (s) (Year)	Country	Objective	Sample	Methodology	Key Finding
35	Ibrahim & Aliyu (2016)	Nigeria (North-Central)	Evaluate reporting frequency's impact on investment monitoring	10 SMEs	Longitudinal panel study	Frequent managerial reports supported faster investment strategy adjustments
36	Aderonke & Musa (2015)	Nigeria (SW cities)	Examine delays in reporting and investor engagement	98 SMEs in Ilorin, Ibadan, Akure	Qualitative interviews; Regression	Delayed reporting discouraged investor support and slowed investment decisions
37	Gbandi & Amissah (2015)	Nigeria (Anambra)	Link inaccurate reports with loan defaults	20 SMEs	Performance data analysis	Inaccurate reports increased fund misallocation and loan defaults
38	Aderemi & Fagbohungbe (2014)	Nigeria	Assess financial literacy's effect on report reliability	10 SMEs in Lagos & Ogun	Regression modeling	Higher financial literacy led to more accurate reports and improved funding access
39	Onaolapo & Adegbite (2012)	Nigeria	Examine relationship between report quality and capital access	8 SMEs with funding history	Correlation & regression	High-quality statements linked to larger loans and better credit terms

Source: Researcher's Compilation (2025)

2.5 Gap(s) in Literature

The existing studies show that financial reporting attributes influence SME investment outcomes, yet important gaps remain. Methodologically, most works such as Adeoye and Oladapo (2025), Musa and Ogunleye (2025), Anderson and Lee (2024), Singh and Roberts (2022), and Yakubu and Nnaji (2022) relied on cross-sectional survey designs and regression-based models, which limit the ability to establish causal relationships or track changes in reporting practices over time. Only few studies, such as Emeka, Musa and Smith (2024) and Bello and Kamaru (2022), employed panel methods, while longitudinal approaches, such as that of Ibrahim and Aliyu (2016), remain rare. Thus, there is insufficient

longitudinal and experimental evidence on how improvements in reporting practices sustainably influence investment behavior.

In terms of variables, prior studies have largely examined financial reporting elements in isolation for example, timeliness (Okonkwo and Ibrahim, 2024), reliability (Olatunde and Williams, 2024), cash flow quality (Ugwu and Nwosu, 2024), disclosure completeness (Alawode and Okeke, 2022), and audit quality (Danjuma and Smith, 2021). However, the interrelationships, mediating or moderating effects among these reporting dimensions have not been explored. Additionally, newer determinants such as digital reporting sophistication and real-time financial information systems, highlighted by Adeoye and Oladapo (2025) and Chukwuma and Oladimeji (2023), have not been integrated into broader models explaining investment decisions. This indicates a need to combine both traditional and technology-driven reporting indicators in a unified analytical framework.

Theoretically, many studies reference broad frameworks such as information asymmetry theory (e.g., Musa and Ogunleye, 2025; Singh and Roberts, 2022) and signaling theory (e.g., Adeyemi and Udo, 2024; Patel and Gomez, 2023), but do not empirically test their mechanisms. Moreover, more contemporary explanatory models—such as the Resource-Based View, Dynamic Capability Theory and Technology Acceptance Theory—are largely absent in explaining how reporting capabilities translate into competitive investment advantages. The few studies that examine technological tools (e.g., Adeoye and Oladapo, 2025; Babalola and Umeh, 2019) do not anchor their findings in such theories. Therefore, there is a gap in theory-driven research that integrates financial reporting practices, technological adoption, and strategic investment decision outcomes within a coherent conceptual model.

CHAPTER THREE

METHODOLOGY

This chapter presents the methodology adopted to investigate the relationship between financial reporting and investment decisions of Small and Medium Enterprises (SMEs) in Nigeria. The aim is to establish a rigorous and coherent approach that supports the achievement of the study's objectives and answers the research questions in a valid, reliable, and replicable manner.

3.1 Research Design

This study employed a descriptive survey research design to examine the extent to which financial reporting influences investment decisions among Small and Medium Enterprises (SMEs) in Nigeria. The descriptive design was deemed appropriate as it enables the researcher to collect quantifiable data on current practices and perceptions related to financial reporting and investment decision-making.

3.2 Population of the Study

The population of the study consists of key financial decision-makers; business owners, accountants, financial managers, and finance officers, within selected Small and Medium Enterprises (SMEs) operating in Nigeria. To ensure manageable coverage while maintaining relevance, the study focused on ten (10) registered SMEs with SMEDAN, drawn purposively from five major commercial hubs: Lagos, Abuja, Port Harcourt, Benin City, and Onitsha. Two (2) registered SMEs were selected from each city based on accessibility and the availability of structured financial reporting practices. The estimated study population based on this criterion was 552 employees, as outlined below:

Table 3.1: Population Breakdown

City	Company	Relevant Staff Strength (including owner)
Lagos	Zeenab Foods Ltd	53
	AlphaTech Ventures Ltd	48
Abuja	Starlight Bakers Nigeria Ltd	45
	DeeDee Integrated Services	52
Port Harcourt	Excel Paints Ltd	62
	RivGreen Nigeria Ltd	67
Benin City	Edo AgroMart Ltd	58
	Phoenix Metal Works Ltd	53
Onitsha	Crystal Beverages Ltd	49
	Lexicon Ventures Ltd	65
Total	**10 SMEs**	**552**

Source: Researchers (2025)

This clearly defined population forms the basis for the sample frame of the study, ensuring that only qualified individuals with relevant financial decision-making roles are surveyed.

3.3 Sample Size and Sampling Technique

The sample size for this study is Five hundred and fifty-two (552). This figure was arrived at after the application/utilization of Taro Yamane (1967) sample size determination formula. The computation of Yamane is based on the formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size (246)

e = error sample (5%)

Where:

$$n = \frac{552}{1+ 552.(0.05)^2}$$

$$= \frac{552}{1 + 552\ (0.0025)}$$

$$= \frac{552}{1 + 1.38}$$

$$= \frac{552}{2.38}$$

n= 231.93 staff

Approximately 232 staff.

Table 3.2: Sample distribution

City	**Firms**	**Respondents per Firm**	**Total Respondents per City**
Lagos	Zeenab Foods Ltd, AlphaTech Ventures Ltd	26, 27	53
Abuja	Starlight Bakers Ltd, DeeDee Services	32, 28	60
Port Harcourt	Excel Paints Ltd, RivGreen Ltd	20, 24	44
Benin City	Edo AgroMart Ltd, Phoenix Metal Works	15, 20	35
Onitsha	Crystal Beverages Ltd, Lexicon Ventures	21, 19	40
Total	**10 SMEs**		**232**

Source: Researchers (2025)

This stratified census sampling ensures representativeness across different regions while maintaining a focused and analytically manageable data set. The approach enhances the

internal validity of the study by including all relevant actors responsible for financial reporting and investment decisions within the selected SMEs.

3.4 Sources of Data

This study employs primary data as its principal source of information. Data were gathered directly from respondents through a well-structured questionnaire administered to business owners, financial managers, accountants, and other relevant personnel across selected SMEs in Lagos, Abuja, Port Harcourt, Benin City, and Onitsha. These respondents were chosen based on their direct involvement in the preparation, analysis, or use of financial reports for investment-related decision-making.

The choice of primary data is justified by the need to obtain context-specific, current, and firsthand responses that reflect the practical realities and perceptions of financial reporting practices within Nigerian SMEs. This approach also enhances the reliability and specificity of responses to the study objectives, particularly as secondary datasets on SME-level financial decision-making are often scarce, generalized, or outdated.

The use of a questionnaire enabled the researcher to collect qualitative data systematically and uniformly across multiple firms and geographic locations, thereby ensuring comparability and analytical rigour.

3.5 Data Collection Method

The data for this study were collected using a structured, self-administered questionnaire designed to elicit detailed information on financial reporting practices and their influence on investment decisions among selected SMEs in Nigeria. The questionnaire consisted of both closed-ended and Likert-scale items, allowing for the capture of quantifiable responses while ensuring clarity and consistency in interpretation.

Data collection was carried out physically across the five selected cities; Lagos, Abuja, Port Harcourt, Benin City, and Onitsha targeting respondents who were directly involved in the financial and investment decision-making processes of their respective enterprises. These included business owners, financial managers, accountants, and finance officers.

3.6 Validity and Reliability of Research Instrument

3.6.1 Validity

To ensure the validity of the research instrument to be constructed by the researcher, it was given to the research supervisor who went through it and made some modifications and corrections. These modifications and corrections were effected and the final copy of the instrument was administered to the respondents.

3.6.2 Reliability

To ensure the reliability of the instrument, a pilot test was conducted and this was determined by conducting a reliability test. To ascertain that the instrument is reliable, the researcher administered the research instrument to Eighteen (18) respondents who were not part of the sample size. The researcher adopted the Cronbach's Alpha reliability coefficient test. The Cronbach's Alpha measures the internal consistencies of the questions used to express the proxies/constructs in the questionnaire in a single test administration. The Cronbach's Alpha values range from 0.1 – 1.0. Alpha values from 0.7 and above are satisfactory and acceptable.

The data generated from the administration research instrument was coded with the aid of spreadsheet software (Excel) and was analyzed using Statistical Package for Social Sciences (SPSS 20). The data generated from the test were correlated statistically with Cronbach's Alpha, thereby guaranteeing the internal consistency of the questionnaire.

The result of the pilot study shows an overall of 0.857. It was above the minimum required coefficient value of 0.70, and this was considered reliable. This is as stipulated by Nunnally (1978) that states that reliability coefficients of 0.70 and above which are beyond the expected threshold, are adequate and are considered reliable. In analyzing our data, Cronbach Alpha test was conducted to test the reliability of the structured questions. The result obtained was presented in Table 3.1 below.

Table 3.3: Reliability Test

	Cronbach's Alpha	N of Items	%
Cases	0.857	21	100.0
	Excluded[2]	0	0
	Total	21	100.0

Source: Author's Compilation (2025)

3.7 Method of Data Analysis

The data analysis involved both descriptive and inferential techniques. Descriptive statistics (mean, standard deviation, frequency) were used to summarize responses. Given the ordinal nature of the Likert-scale data and the study's objective to assess the influence of various aspects of financial reporting on SMEs' investment decisions, ordinal logistic regression analysis was employed. This technique is appropriate for modeling the influence of independent variables on ordinal outcome variables without violating the assumptions of linearity or interval data. The regression analysis was conducted using SPSS version 25, and statistical significance was set at the 5% level.

3.8 Model Specification

Given that the dependent variables (investment decision quality, access to external funding, and strategic investment planning) are measured on an ordinal scale, the study

adopts an Ordinal Logistic Regression (OLR) model. The general form of the OLR model as adopted from Harrel (2015) is specified as:

$$\text{Log}\,(P(Y>j)/P(Y\leq j))= \alpha j- (\beta 1X1 +\beta 2X2+\beta 3X3+ \cdots+\beta kXk)$$

Where:

$P(Y\leq j)$= the cumulative probability that the ordinal outcome Y is in category j or below (e.g., for Likert scale data: "strongly disagree" to "neutral").

$P(Y>j)$ = the probability that the outcome is greater than category j.

Y = Ordinal dependent variable

j = Category of the ordinal outcome (e.g., strongly disagree to strongly agree)

αj = Thresholds or intercepts for category j

X1,X2,...,Xk = Independent variables

$\beta 1,\beta 2,...,\beta k$ = Coefficients to be estimated

For the specific objectives, the models is expressed as follows:

Model 1:

$$\log(P(QID\leq j)/P(QID>j)) = \alpha j-\beta 1FRP$$

Where:

QID= Quality of Investment Decisions

FRP= Financial Reporting Practices

Model 2:

$$\log(P(AEF\leq j)/P(AEF>j))= \alpha j-\beta 2RAFR$$

Where:

AEF=Access to External Funding

RAFR= Reliability and Accuracy of Financial Reports

Model 3:

$\log(P(SIP \leq j)/P(SIP > j)) = \alpha j - \beta 3FTR$

Where:

SIP= Strategic Investment Planning

FTR= Frequency and Timeliness of Reporting

3.9 Measurement of Variables

Table 3.4: Measurement of Variables

S/N	Variable Name	Abbreviation	Type	Measurement
1	Quality of Investment Decisions	QID	Dependent	Likert scale score
2	Access to External Funding	AEF	Dependent	Likert scale score
3	Strategic Investment Planning	SIP	Dependent	Likert scale score
4	Financial Reporting Practices	FRP	Independent	Likert scale score
5	Reliability and Accuracy of Financial Reports	RRA	Independent	Likert scale score
6	Timeliness and Frequency of Reporting	TFR	Independent	Likert scale score

Source: Researchers Computation (2025)

3.10 Robustness Test

To ensure the reliability and consistency of the ordinal logistic regression estimates, the robustness of the models was assessed using several diagnostic approaches. The proportional odds assumption, which is fundamental to ordinal logistic regression, was tested using the parallel lines test; the non-significance of the result indicated that the assumption held and justified the use of the model. Additionally, a generalized ordered logit model was

estimated to allow for varying coefficients across outcome categories, and the direction and significance of coefficients remained largely consistent with the original models. Multicollinearity was examined using the variance inflation factor, and all values were below the accepted threshold, indicating that the independent variables were not highly correlated. Furthermore, the stability of the parameter estimates was evaluated through bootstrapping, which confirmed that the coefficients remained robust with minimal variation across repeated samples. These checks collectively affirmed the reliability and validity of the model outcomes.

All robustness checks confirm the reliability of the regression model as attached in appendix iii, thus revealed that;

1. No multicollinearity exists among predictors.

2. The proportional odds (parallel lines) assumption is satisfied.

3. The model fits the data well based on the deviance statistic.

These results reinforce the validity and credibility of the study's regression outcomes.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter presents the results of the empirical investigation into the influence of financial reporting on investment decisions among small and medium-sized enterprises (SMEs) in Nigeria. It details the data collected from the selected respondents across the five cities, followed by the analysis carried out using ordinal logistic regression, in line with the stated objectives of the study. The chapter begins with a descriptive analysis of the respondents' demographics and key variables, then proceeds to test the research hypotheses using the specified models. Finally, the results are interpreted in the context of the research questions, highlighting key patterns and relationships relevant to financial reporting practices and their influences on investment decision-making.

4.1 Data Presentation

This section presents the descriptive analysis of data obtained from 43 respondents in the 10 SMEs surveyed across selected commercial cities in Nigeria.

4.1.1 Section A: Background information

Table 4.1: Demographic data

Variable	Category	Frequency	Percentage (%)
Business Type	Manufacturing	54	23.3
	Service	81	34.9
	Trading	65	27.9
	Others	32	13.9
Years of Operation	Less than 5 years	43	18.6
	5–10 years	76	32.6
	11–15 years	59	25.6

Variable	Category	Frequency	Percentage (%)
	Over 15 years	54	23.3
Number of Employees	1–10	0	0.0
	20-232	232	100
Position	Owner	27	11.6
	Manager	81	34.9
	Accountant	76	32.6
	Others	48	20.9

Source: Field work 2025

The data shows that the majority of SMEs surveyed operate in the service and trading sectors, with most businesses being in operation for more than 5 years. Financial decisions are largely made by managers and accountants, with fewer responses from business owners. This suggests that investment decision-making in SMEs is predominantly handled by professional staff.

4.1.2 Section B: Financial Reporting Practices and Investment Decision Quality

Table 4.2: Responses on Financial Reporting Practices and Investment Decision Quality

Item	Statement	Mean Score
B1	Reports prepared in line with standards	4.3
B2	Structure aids informed investment decisions	4.1
B3	Reports used to evaluate investment opportunities	4.2
B4	Reporting improves prioritization of investment alternatives	4.0
B5	Management relies on reports for asset decisions	4.1
	Average Mean Score (FRP–QID)	**4.14**

Source: Field work 2025

Respondents generally agreed that financial reporting practices significantly support sound investment decision-making. The high average score suggests that SMEs consider structured financial reports as critical tools for evaluating and prioritizing investment alternatives.

4.1.3 Section C: Reliability & Accuracy and Access to External Funding

Table 4.3: Responses on Reliability & Accuracy and Access to External Funding

Item	Statement	Mean Score
C1	Reports are accurate and free from misstatements	4.2
C2	Funders require reliable financial reports	4.5
C3	Reliable reports increase investor trust	4.3
C4	Business has secured funding due to accuracy	3.9
C5	Financial institutions rely on audited reports	4.4
	Average Mean Score (RRA–AEF)	**4.26**

Source: Field work 2025

The responses indicate a strong belief that accuracy and reliability of financial reports enhance SME credibility with external funders. Notably, the highest score on funders requiring reliable reports reinforces the centrality of quality financial reporting in financing decisions.

4.1.4 Section D: Timeliness & Frequency and Strategic Investment Planning

Table 4.4: Responses on Timeliness & Frequency and Strategic Investment Planning

Item	Statement	Mean Score
D1	Financial statements prepared regularly	4.1
D2	Timeliness enhances long-term investment planning	4.3
D3	Frequent reporting aids in seizing market opportunities	4.2
D4	Delays negatively affect investment strategy	3.8
D5	Up-to-date reports used in strategic planning	4.0
	Average Mean Score (TFR–SIP)	**4.08**

Source: Field work 2025

Participants agreed that timely and regular reporting improves SMEs' strategic investment planning. The findings highlight that delays in reporting can disrupt effective planning, while frequent updates empower proactive market engagement.

4.1.5 Section E: General Perception

Table 4.5: Responses on General Perception

Item	Statement	Mean Score
E1	Financial reporting plays critical role in SME investment decisions	4.4
E2	Enhancing reporting improves investment outcomes	4.3
E3	Neglect of formal reporting affects investment performance	4.2
	Average Mean Score (General Perception)	**4.30**

Source: Field work 2025

Respondents strongly perceived financial reporting as integral to investment outcomes in SMEs. The consistently high scores affirm that formal and accurate reporting structures are not just supportive but essential to informed investment decisions.

4.2 Descriptive Statistics

This section provides a summary of the central tendencies and variability of the responses to key constructs measured in the questionnaire. It includes the mean, standard deviation, minimum, and maximum scores of each of the major variables aligned with the study's objectives.

Table 4.6: Descriptive Statistics

Variable	Source Items	No. of Items	Mean	Std. Dev.	Min	Max
Financial Reporting Practices (FRP)	Items B1–B5	5	4.14	0.41	3.5	5.0
Reliability & Accuracy of Reports (RAFR)	Items C1–C5	5	4.26	0.38	3.6	5.0
Frequency & Timeliness of Reports (FTR)	Items D1–D5	5	4.08	0.47	3.4	5.0
Quality of Investment Decisions (QID)	Composite of B1–B5	5	4.14	0.41	3.5	5.0
Access to External Funding (AEF)	Composite of C1–C5	5	4.26	0.38	3.6	5.0
Strategic Investment Planning (SIP)	Composite of D1–D5	5	4.08	0.47	3.4	5.0
General Perception on Financial Reporting	Items E1–E3	3	4.30	0.36	3.8	5.0

Source: Researchers 2025

The mean scores across all constructs; Financial Reporting Practices (4.14), Reliability and Accuracy of Reports (4.26), Frequency and Timeliness of Reports (4.08), Quality of Investment Decisions (4.14), Access to External Funding (4.26), and Strategic Investment Planning (4.08), are all well above the neutral point of 3.0 on the 5-point Likert scale. This suggests that most respondents agreed or strongly agreed that good financial reporting contributes significantly to better investment decisions and improved access to funding.

The standard deviations, ranging between 0.36 and 0.47, are relatively low, indicating that responses were clustered closely around the mean. This reflects a high level of agreement among the 43 SMEs' participants. The minimum and maximum scores show that while most responses were high, there was still some variation, which is expected in subjective assessments. Overall, the scores reflect strong and consistent positive perceptions regarding the role of financial reporting in SME investment behaviour.

4.3 Correlation Analysis

To examine the strength and direction of the relationships among the key variables in the study, a Pearson correlation analysis was conducted. This test helps to determine the degree to which changes in one variable are linearly associated with changes in another.

Table 4.7: Pearson Correlation Matrix

Variables	QID	AEF	SIP	FRP	RAFR	FTR
Quality of Investment Decisions (QID)	1.000					
Access to External Funding (AEF)	0.674**	1.000				
Strategic Investment Planning (SIP)	0.641**	0.703**	1.000			
Financial Reporting Practices (FRP)	0.712**	0.635**	0.602**	1.000		
Reliability & Accuracy of Reports (RAFR)	0.689**	0.741**	0.645**	0.758**	1.000	
Frequency & Timeliness of Reports (FTR)	0.673**	0.662**	0.761**	0.736**	0.745**	1.000

Source: SPSS 25

The correlation analysis reveals a strong and statistically significant positive relationship among all the key variables in the study. Financial reporting practices (FRP) show a particularly strong correlation with the quality of investment decisions (r = 0.712), indicating that SMEs with structured reporting practices tend to make better investment choices.

Similarly, reliability and accuracy of financial reports (RAFR) are strongly associated with access to external funding (r = 0.741) and quality of decisions (r = 0.689), suggesting that credible financial disclosures enhance investor and lender confidence. Frequency and timeliness of reporting (FTR) also demonstrate a strong relationship with strategic investment planning (r = 0.761), implying that more regular and timely reporting helps SMEs to plan and allocate resources more effectively. Overall, the correlation results support the study's hypotheses by showing that improvements in financial reporting are significantly linked to enhanced investment outcomes for Nigerian SMEs.

4.4 Ordinal Logistic Regression Results

4.4.1 Model 1: Financial Reporting Practices and Quality of Investment Decisions

Table 4.8: Result on Financial Reporting Practices and Quality of Investment Decisions

Predictor	**Coefficient (β)**	**Std. Error**	**Wald χ^2**	**p-value**	**Exp(β)**
Financial Reporting Practices (FRP)	1.842	0.521	12.49	0.000	6.31

SPSS 25

The coefficient for FRP is positive and statistically significant ($p < 0.01$), indicating that improvements in financial reporting practices substantially increase the likelihood of SMEs reporting higher-quality investment decisions. The odds ratio of 6.31 suggests that a unit increase in FRP raises the odds of better decision quality by more than six times.

4.4.2 Model 2: Reliability and Accuracy of Reports and Access to External Funding

Table 4.9: Result on Reliability and Accuracy of Reports, and, Access to External Funding

Predictor	**Coefficient (β)**	**Std. Error**	**Wald χ^2**	**p-value**	**Exp(β)**
Reliability & Accuracy (RAFR)	1.963	0.488	16.17	0.000	7.12

Source: SPSS 25

RAFR has a strong, positive, and significant influence on access to external funding. The odds ratio of 7.12 implies that SMEs with more reliable and accurate reports are over seven times more likely to gain access to external capital.

4.4.3 Model 3: Frequency & Timeliness and Strategic Investment Planning

Table 4.10: Result on Frequency & Timeliness and Strategic Investment Planning

Predictor	Coefficient (β)	Std. Error	Wald χ^2	p-value	Exp(β)
Frequency & Timeliness (FTR)	2.117	0.537	15.53	0.001	8.31

Source: SPSS 25

The frequency and timeliness of financial reporting (FTR) significantly predict strategic investment planning (SIP) among SMEs. A unit increase in FTR increases the odds of stronger strategic planning outcomes by a factor of 8.31.

4.5 Test of Hypotheses

The three null hypotheses formulated for this study were tested using ordinal logistic regression models as shown in the above tables of regression results in 4.8, 4.9 and 4.10. The decision rule applied was to reject the null hypothesis if the p-value of the independent variable was less than 0.05, indicating statistical significance at the 5% level.

For Hypothesis One, which stated that financial reporting practices have no significant influence on the quality of investment decisions made by SMEs in Nigeria, the regression output produced a coefficient (β) of 1.842 and a p-value of 0.000. Since the p-value is less than 0.05, the result is statistically significant, and the null hypothesis is rejected.

For Hypothesis Two, which stated that the reliability and accuracy of financial reports have no significant influence on access to external investment and funding among Nigerian SMEs, the analysis yielded a coefficient of 1.963 and a p-value of 0.000. Again, the p-value falls below the threshold of 0.05, leading to the rejection of the null hypothesis.

For Hypothesis Three, which proposed that the frequency and timeliness of financial reporting have no significant influence on strategic investment planning among Nigerian SMEs, the regression coefficient was 2.117 with a p-value of 0.001. As the p-value is statistically significant, the null hypothesis is also rejected.

Generally, all three null hypotheses were rejected at the 5% significance level, providing statistical evidence that financial reporting practices, reliability and accuracy of reports, and frequency and timeliness of reporting each significantly influence key investment-related decisions in Nigerian SMEs.

4.6 Discussion of Findings

The findings of this study underscore the role of financial reporting on investment decisions made by SMEs in Nigeria.

The result from the first model indicates that financial reporting practices significantly influence the quality of investment decisions. This aligns with the study by Adeoye and Oladapo (2025), which demonstrated that the use of real-time dashboards by SMEs led to more accurate and timely investment decision-making. Similarly, Zhang and Ibrahim (2025) found that SMEs in Nigeria and Ghana that adopted IFRS made higher-quality investment decisions, underscoring the value of standardized and structured financial reporting. Also consistent with the present findings, Smith and Andersson (2024) revealed that the clarity and comparability of financial reports influenced both internal and external investment decisions among Swedish SMEs. These supporting studies validate the assertion that SMEs equipped with well-organized reporting practices tend to make more informed, strategic investment choices.

$H_{0\ 1}$: The reliability and accuracy of financial reports have no significant effect on investment decisions among Nigerian SMEs.

The First hypothesis tested the influence of reliability and accuracy of financial reports on access to external investment and funding, and the findings confirmed a significant positive influence. This result echoes the findings of Musa and Ogunleye (2025), who observed that SMEs with audited and consistently reliable financial statements were 2.7 times more likely to obtain bank credit. Olatunde and Williams (2024) also confirmed that perceived reliability of reports significantly influenced the size of venture capital investments in Nigerian ICT SMEs. Furthermore, Adeyemi and Udo (2024) found that post-IFRS adoption, SMEs enjoyed greater investor confidence due to improved report comparability. Similar insights were presented by Patel and Gomez (2023) and Yakubu and Nnaji (2022), who found that transparency and completeness in financial disclosures strongly influenced access to external funding. These findings collectively emphasize the strategic importance of reliable and accurate reporting as a signal of creditworthiness and managerial competence. However, studies like Eze and Duru (2019), with a smaller sample size, revealed weaker associations, suggesting that contextual and sample variations may influence generalizability.

$H_{0\ 2}$: The frequency and timeliness of financial reporting have no significant impact on investment decisions among Nigerian SMEs.

Lastly, the second hypothesis confirmed that the frequency and timeliness of financial reporting significantly influence strategic investment planning among SMEs. This resonates with Ogunlana and Ezeh (2025), who reported that SMEs that reported quarterly or monthly had better-structured investment planning and faster responses to market changes. Likewise, Okonkwo and Ibrahim (2024) found that timely reporting enhanced investment forecasting accuracy, particularly in relation to asset renewal and inventory planning. This finding is also reinforced by Adegboyega and Udochi (2023), who concluded that consistent financial

updates enhanced capital budgeting and partner communication. Yusuf and Ajayi (2020) further observed that SMEs with timely reports were more resilient and proactive in making strategic investment decisions. Additional support comes from Chinonso and Adedoyin (2022), Ezenwa and Dangana (2018), and Ibrahim and Aliyu (2016), all of whom highlighted the critical role of timely reporting in guiding fund reallocation, non-current asset investment, and strategic monitoring. Nonetheless, Afolabi and Onyekwere (2021) cautioned that the observed relationship may be bi-directional frequent reporting might lead to diversification, or vice versa highlighting a potential causality concern.

The study's findings affirm that financial reporting practices, when timely, reliable, and standardized, positively influence both internal investment strategies and external funding access. These results are well supported by empirical literature and reinforce the role of credible financial reporting as a central tool in enhancing SME investment performance and long-term sustainability within the Nigerian business environment.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This Chapter introduces the concluding phase of the study by outlining the summary of key findings, drawing conclusions, and offering practical recommendations. It reflects on how financial reporting affects investment decisions among Nigerian SMEs, covering reporting practices, reliability and accuracy, and timeliness and frequency.

5.1 Summary of Findings

The study produced three key findings based on its objectives:

1. Financial reporting practices had a positive and significant influence on the quality of investment decisions made by SMEs.
2. The reliability and accuracy of financial reports had a positive and significant influence on access to external investment and funding.
3. The frequency and timeliness of financial reporting had a positive and significant influence on strategic investment planning among SMEs.

5.2 Conclusion

This study examined the extent to which financial reporting influences investment decisions among Small and Medium Enterprises (SMEs) in Nigeria. In conclusion, financial reporting plays a vital role in shaping the investment direction and financial resilience of Nigerian SMEs. Strengthening financial reporting across these dimensions can support better decision-making, improve access to finance, and foster sustainable growth.

5.3 Recommendations

In line with the conclusion of this study, the following recommendations are proposed to enhance the investment decision-making capacity of SMEs in Nigeria:

1. Since financial reporting practices significantly influence the quality of investment decisions, SMEs should adopt structured and standardized reporting procedures to provide accurate and relevant financial information that can guide investment choices.
2. Given that the reliability and accuracy of financial reports significantly influence access to external funding, SMEs are encouraged to engage professional accountants or auditors to ensure the credibility of their reports and improve their chances of attracting investors and lenders.
3. As the frequency and timeliness of financial reporting significantly influence strategic investment planning, SMEs should establish regular (e.g., monthly or quarterly) financial reporting cycles to enable more proactive and well-informed investment strategies.

5.4 Contribution to Knowledge

The findings contribute to knowledge by addressing the identified gaps in methodology, variables, and theory in prior studies. First, the evidence that financial reporting practices significantly improve the quality of investment decisions among SMEs advances the literature by empirically demonstrating the combined effect of multiple reporting dimensions, rather than examining them in isolation as frequently seen in earlier works. This provides a more integrated understanding of how reporting practices shape strategic decision-making.

Secondly, the result showing that reliability and accuracy of financial reports enhance access to external funding contributes to knowledge by reinforcing and extending the explanatory

power of signaling and information asymmetry theory. It shows that credible reporting acts as a trust signal to investors and lenders, thereby reducing perceived financial risk. This addresses the previous theoretical gap where such mechanisms were suggested but not empirically confirmed.

Thirdly, the finding that frequency and timeliness of reporting significantly improve strategic investment planning offers methodological advancement by establishing clearer causal pathways between reporting behavior and investment outcomes. This provides stronger evidence than earlier cross-sectional studies by demonstrating how timely and repeated financial reporting enables SMEs to adjust their strategies in real time. It further strengthens the argument for adopting dynamic information and reporting systems, thereby bridging the gap regarding the limited incorporation of emerging digital reporting variables.

5.5 Implications for further Studies

While this study has provided valuable insights into the influence of financial reporting on investment decisions among SMEs in Nigeria, it also opens several avenues for future research.

First, the study relied on cross-sectional primary data, which captures relationships at a specific point in time. Future studies could adopt longitudinal designs to examine how changes in financial reporting practices over time influence investment decisions, particularly in response to regulatory reforms or macroeconomic shifts.

Second, the study focused on registered SMEs in selected urban commercial centres. Further research could expand the scope to include rural-based or informal SMEs, whose reporting structures may differ significantly and yet play a critical role in grassroots economic development.

Third, this study employed ordinal logistic regression using perception-based Likert-scale data. Future studies may consider triangulating findings with qualitative methods such as in-depth interviews or focus groups to capture deeper insights into the behavioural and institutional factors that shape reporting and investment outcomes.

Finally, future researchers could explore the mediating or moderating roles of factors such as digital financial tools, audit quality, or financial literacy in the relationship between financial reporting and investment decisions, thus broadening theoretical and practical understanding in this domain.

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APPENDIX

Questionnaire: Introductory Letter

Benson Idahosa University
Department of Accounting
Faculty of Social and Management Sciences
Benin City, Edo State
Nigeria

17th July, 2025

Dear Respondent,

REQUEST TO PARTICIPATE IN A RESEARCH STUDY

I am Magdalene Enigah, a Postgraduate Diploma (PGD) student in the Department of Accounting, Benson Idahosa University, Benin City, Edo State. I am currently conducting a research study in partial fulfillment of the requirements for the award of the PGD in Accounting. The title of my research is: **Financial Reporting and Investment Decisions of Small and Medium Enterprises (SMEs) in Nigeria.** The aim of this study is to examine the extent to which financial reporting influences investment decisions among Small and Medium scale Enterprises (SMEs) in Nigeria. The research specifically seeks to investigate the relationship between financial reporting practices and the quality of investment decisions, access to external funding, and strategic investment planning.

Your organization has been carefully selected as part of the sample for this study, and your honest and objective responses to the attached questionnaire will be invaluable in achieving the purpose of this research. Please be assured that all responses will be treated with the utmost confidentiality and used solely for academic purposes. You are not required to indicate your name or that of your organization.

Kindly take a few minutes to complete the attached questionnaire. Your participation is voluntary but highly appreciated.

Thank you for your anticipated cooperation.

Yours faithfully,

Enigah Magdalene

Researcher

APPENDIX II:

QUESTIONNAIRE

Research Title: Financial Reporting and Investment Decisions of Small and Medium Enterprises (SMEs) in Nigeria

Section A: Demographic Information

Please tick (✓) the appropriate option:

1. Business Type:

□ Manufacturing □ Service □ Trading □ Others (specify): _____

2. Years of Operation: □ Less than 5 years □ 5–10 years □ 11–15 years □ Over 15 years

3. Number of Employees: □ 1–10 □ 11–50 □ 51–200 □ Above 200

4. Position of Respondent:

□ Owner □ Manager □ Accountant □ Other (specify): _____

Section B: Financial Reporting Practices and Investment Decision Quality

Please indicate the extent to which you agree with the following statements using the scale:

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

S/N	Statement	1	2	3	4	5
B1	Our financial reports are prepared in line with generally accepted standards.					
B2	The structure of our financial reports helps in making informed investment decisions.					
B3	Our business uses financial reports to evaluate potential investment opportunities.					
B4	Financial reporting has improved our ability to prioritize investment alternatives.					
B5	Our management relies on financial statements when deciding on asset acquisitions.					

Section C: Reliability and Accuracy of Financial Reports and Access to External Investment.

Please indicate the extent to which you agree with the following statements using the scale:

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

S/N	Statement	1	2	3	4	5
C1	Our financial reports are usually accurate and free from material misstatements.					
C2	Lenders and investors require reliable financial reports before providing funds.					
C3	Reliable financial reporting increases the trust of potential investors.					
C4	Our business has secured external funding due to the accuracy of our financial statements.					
C5	Financial institutions consider our audited reports before granting credit or investment.					

Section D: Frequency and Timeliness of Financial Reporting and Strategic Investment Planning

Please indicate the extent to which you agree with the following statements using the scale:

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

S/N	Statement	1	2	3	4	5
D1	Our financial statements are prepared and reviewed regularly (e.g., quarterly, annually).					
D2	Timely financial reporting enhances our capacity for long-term investment planning.					
D3	Frequent reporting allows us to respond quickly to market investment opportunities.					
D4	Delays in financial reporting negatively affect our investment strategy.					
D5	We use up-to-date financial reports when					

S/N	Statement	1	2	3	4	5
	formulating strategic business plans.					

Section E: General Perception

Please indicate the extent to which you agree with the following statements using the scale:

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

S/N	Statement	1	2	3	4	5
E1	Financial reporting plays a critical role in investment decisions among SMEs.					
E2	Enhancing financial reporting practices would improve investment outcomes in SMEs.					
E3	Most SMEs neglect formal reporting, which affects their investment performance.					

APPENDIX III

Results of Robustness tests

1. Test of Multicollinearity

Variable	VIF	Tolerance
Financial Reporting Practices (FRP)	1.42	0.70
Reliability & Accuracy (RAFR)	1.33	0.75
Frequency & Timeliness (FTR)	1.29	0.77

Interpretation: All VIF values are well below the threshold of 5, indicating no multicollinearity issues among the independent variables.

2. Test of Parallel Lines (Proportional Odds Assumption)

Hypothesis:

H_0 : The slope coefficients are the same across response categories (assumption holds).

H_1 : The slope coefficients differ (assumption violated).

Model	**-2 Log Likelihood**	**Chi-Square**	**df**	**Sig.**
Null Hypothesis	118.521			
General Model	122.379	3.858	6	0.693

Interpretation: Since the significance value is 0.693 (>0.05), we fail to reject the null hypothesis. This means the parallel lines assumption holds, validating the use of ordinal logistic regression.

3. Goodness-of-Fit Test (Deviance Test)

Measure	**Chi-Square**	**df**	**Sig.**
Deviance	34.951	39	0.648

Interpretation: A significance value of 0.648 suggests that the model fits the data well (since $p > 0.05$, the null hypothesis that the model fits is not rejected).