Innovations

Diffusion of Innovation and IFRS for SME Adoption in Nigeria

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Abstract : *In a world that is rapidly evolving, accounting organizations are making efforts to conform to a standardized language.However, there is still uncertainty regarding the factors that influence its adoption in small and medium-sized businesses, hence the objective of this study. Online data from 313 Nigerian manufacturing and wholesale/retail businesses were analyzed. Smar-t PLS 3.0 was utilized to do the analysis on the study model. The results showed that relative advantage, compatibility and observability affect significantly the IFRS for SMEs adoption. The study reveals that relative advantage, compatibility, and observability significantly influence SMEs' adoption of IFRS. These factors include improved financial statement presentation, profitability, global market recognition, access to loans, and cost reduction. The findings suggest recommendations for regulators and standard setters to address complexity and improve trialability.* ***Subjects:*** *Accounting, Financial Reporting.*

Keywords: *Relative advantage,Compatibility, Complexity, Trialability, Observability, IFRS for SMEs adoption*

Introduction

A common language is being adopted by accounting organizations in a world that is changing rapidly. A clear, consistent, and comparable high-quality financial statement with a global peer set is essential for the operational stream of foreign portfolio enterprises (Judge et al., 2010). Before the International Financial Reporting Standards (IFRS) became an integrated international financial reporting standard,

the authors made it clear that every nation created, adhered to, and kept its own national accounting standards. Nigeria is no exception.Before IFRS were implemented in Nigeria, all businesses had to report using the Statement of Accounting Standards (SAS), under the Companies and Allied Matters Act of 2004 (CAMA) (Ajekwe & Ibiamke, 2020)

Consequently, increased investor interest in the Nigerian Exchange Group is largely dependent on the implementation of IFRS (NGX)(Beredugo, 2021). In fact, the development of certain guidelines that apply to all Small and Medium Enterprises (SMEs), irrespective of the size of their business, has been the subject of extensive discussion. Certainly, it is crucial to make sure that pertinent and excellent information is generated to increase transparency and accountability. Likewise, it is imperative to guarantee the construction of relevant and high-quality data in order to improve openness and accountability(Rossi et al., 2016). Additionally, in order to draw in outside investment, improve the standard of the financial system, and gain the confidence of global financial organizations such as the World Bank and the International Monetary Fund, financial reports prepared in accordance with IFRS for SMEs are crucial (IMF). The International Accounting Standards Board (IASB) published a global accounting standard for all SMEs because of these discussions (Pacter, 2014). They thoroughly examined the IFRS for SMEs Standard in May 2015 (IFRS, 2022).

Indeed, the success of SMEs does not lie only in the quality of goods or services but the capability to form partnerships to expand business in a global market (Priambodo et al., 2021). Likewise, according to (Zahid & Simga-mugan, 2019), IFRS for SMEs may prove more beneficial in settings with weaker institutions, such as those with poorer governance and regulatory effectiveness. Therefore, small firms in Nigeria stand to gain from more accessible access to foreign capital and investors, bank credits, and good ratings by international credit rating interventions due to IFRS for SMEs adoption. The IFRS for SMEs standard provides effective accounting procedures for SMEs, allowing them to publish high-quality financial statements (Sassi & Damak-Ayadi, 2022). Additionally, IFRS for SMEs has become necessary because of the peculiarities and difficulties encountered by small businesses in reporting their financial and non-financial activities, as well as the need to provide a well-structured standard that is simple enough for the users to comprehend. In emerging economies, SMEs are often recognized as the engine of economic growth and equitable development (Agwu & Emeti, 2014). In that regard, Nigerian SMEs must not be excluded from this revolution in the accounting industry.

They need to be ready for the challenge and adjust their budgets to account for the financial effects of switching to IFRS.

Criteria for small and medium-sized enterprises (SMEs) have been under increased pressure because to their importance and substantial contribution to the global economy.Furthermore, SMEs in Nigeria continue to receive financial and non-financial support from a number of government entities as a result of their important economic contribution. Unexpectedly, some empirical studies revealed that SMEs in comparison to SMEs in neighboring countries appeared to implement IFRS differently. In a similar spirit, Najib and Fahma (2020) proposed that in order to motivate SMEs to embrace new technology, government engagement is essential.

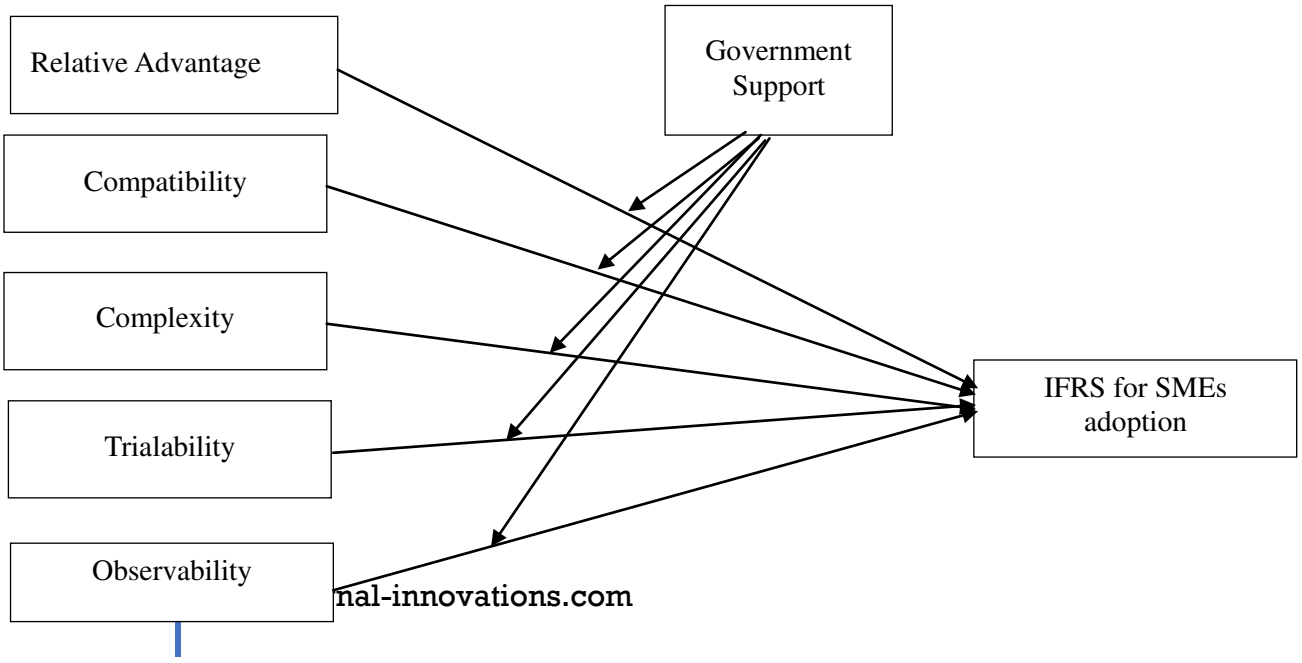
Indeed, the broad debate over the application of standards in less significant framework and rule circumstances resulting from larger businesses or the need to create new regulations specifically for smaller-sized companies makes financial reporting for small and intermediate businesses an important area of study for accounting studies (Quagli & Paoloni, 2012). However, it should be clear that strict SMEs' adherence to all of the IFRS requirements would be costly, burdensome, financially depleting, and perhaps pointless. (Ajekwe & Ibiamke, 2020). It may be necessary for SMEs to adopt IFRS in order for them to comply with regulatory norms. As a result, small and medium-sized businesses (SMEs) are more likely to avoid fines and other legal ramifications that come with non-compliance.

To fully understand the crucial factors influencing the adoption process and the characteristics of SMEs that have implemented IFRS, more study is necessary as the adoption of IFRS by SMEs in Nigeria is still a relatively recent phenomenon.To reiterate, the IFRS for SMEs standard has been accepted in more than 80 countries.However, Nigeria is not one of the nine nations that have made it a legal requirement, along with Ghana, the Republic of Dominica, Brazil, Bhutan, Colombia, El Salvador, Costa Rica, Chile, and Fiji (IFRS, 2022; Sassi & Damak-Ayadi, 2022). Besides, several studies (Abraham & Adeiza, 2020) have revealed that most SMEs in Nigeria do not adhere to fundamental accounting principles and practices consistent with financial reporting standards, even though the country permitted the implementation of IFRS for SMEs in 2014. This shows that the standards have only received limited acceptance and use. Therefore, (Damak-ayadi & Sassi, 2020) suggested that future research should examine the factors determining whether enterprises will implement IFRS for their SMEs.

This paper aims to analyze the factors that influence SMEs in Nigeria to adopt IFRS by utilizing a theoretical framework that integrates the diffusion of innovation theory.Specifically, the study will examine the role of government support as moderators of the relationship between the influence of IFRS for SME adoption, based on the premise that government policies can facilitate the diffusion of IFRS adoption among SMEs in Nigeria.

Research Framework

Using the DOI theory, the researcher made an effort to provide a description of the factors that influence the adoption of IFRS for SMEs. Five innovation qualities, according to Rogers (2003), may influence whether or not an innovation (Innovation here refers to IFRS for SMEs adoption) is adopted; relative advantage: the degree to which the adoption can deliver benefits to enterprises; compatibility: the extent to which the adoption of IFRS for SMEs is consistent with the preexisting corporate practices, value systems, and procedures; complexity: the degree to which the results of the adoption is difficult to use; observability: the extent to which others may see the adoption's consequences; trialability: the extent to which adoption can be tested out. Because of this, decision-makers will evaluate whether this technology has relative advantages over national standards by taking into consideration the adoption of IFRS for SMEs as an innovation in technology.". In the context of adopting IFRS for SMEs, complexity may be caused by the inadequacy of IFRS for SMEs and the difficulty of integrating IFRS with the standards already in place at current firms.



The relationships between the independent variables will be examined in this study.

Relative advantage

According to the findings of a meta-analysis study by Hameed and Counsell (2014), Relative advantage is seen to be the most significant predictor of innovation uptake, especially in small businesses. Additionally, the author made the argument that a small organization's structure—which may feature centralized administration and a streamlined decision-making process—allows for the quick absorption of a relative advantage. Moore and Benbasat (1991) concluded that relative advantage is a significant variable contributing to a higher adoption rate.

Additionally, prior studies have shown that the rate at which innovations are adopted and relative advantage are positively correlated (Alshamaila et al., 2013; Davis, 1989a; Effendi et al., 2020; Gangwar, 2018; Gui et al., 2021; Ismail & Ali, 2016; Kuan & Chau, 2001; Lee & Shim, 2007; Li & Wang, 2018; Maduku et al., 2016; Oliveira et al., 2010; Oliveira & Martins, 2010; Premkumar et al., 1997; Rahayu & Day, 2015; Setiyani & Yeny, 2021; Skafi et al., 2020; Stjepi et al., 2021; Yang et al., 2015; Yoon et al., 2014)

Compatibility and Adoption of IFRS for SMEs

The degree to which users believe that implementing IFRS for SMEs will not conflict with the organization's current work practices, values, or environment is expected to be a determining factor in the likelihood of IFRS for SMEs adoption. Therefore, it has been out that the demand for modifications to the companies' current financial statements was a major factor in the SME's decision to adopt IFRS. In addition, empirical research conducted by Gangwar (2018) has shown that compatibility is one of the most important and relevant factors in BDA adoption.

Complexity and Adoption of IFRS for SMEs

Since the commencement of the process of implementing IFRS, the issue of the difficulty of the international standards has been continuously brought to the forefront; yet, there has been very little progress made (Perera & Chand, 2015). In

the event that the adoption is challenging, it will be necessary to have dedicated time, expert accountants, and operational efforts. The adoption process, on the other hand, will be completed in a significantly shorter amount of time if the adoption is straightforward to use and is going to the implementation stage.

Previous study has also demonstrated the necessity of understanding the complexity of innovation prior to its adoption, which has a significant influence on the decisions that SMEs make on the adoption of new technology. (Gangwar, 2018; Huy et al., 2012, 2020; Lin & Chen, 2012; Ocloo et al., 2020; Perera & Chand, 2015; Premkumar et al., 1997; Sarea & Hanefah, 2013; Sun et al., 2016; Tarmizi & Rahman, 2020; Yoon et al., 2020). SMEs are more likely to adopt IFRS if they consider that it is easy to use or understand. The adoption of IFRS by SMEs may be significantly impacted by the complexity of the situation

Trialability and Adoption of IFRS for SMEs

It is recognized that allowing users and organizations to utilize an innovation before adoption will boost the likelihood of adoption. Previous research has demonstrated a favourable relationship between trialability and the willingness to accept a concept (Moore & Benbasat, 1991a; Rogers, 2003). This study suggests that if SMEs were allowed to test out the IFRS, the likelihood of adopting and upholding such new international standards would increase. It is anticipated that the trialability of an idea (IFRS for SMEs) and its observability will have a positive relationship with the rate at which the IFRS for SMEs will be adopted.

Additionally, the tendency to adopt technology is positively impacted by increased trialability (Ali et al., 2019; Hameed & Counsell, 2014; Moore & Benbasat, 1991a; Sanni et al., 2013). Trialability and adopting accounting standards have been found to be negatively correlated in prior empirical study (Sarea & Hanefah, 2013). Similarly,(Bakar et al., 2019; Sarea & Hanefah, 2013; Siew et al., 2020) revealed a negative relationship between trialability and adoption when environmental and organizational elements are included. However, the decision to adopt is highly impacted by trialability (Maroufkhani et al., 2020). Innovations that are more easily tried and tested by potential adopters are more likely to be adopted

Observabilityand Adoption of IFRS for SMEs

Bakar et al., (2019) discovered a significant relationship between observability and incorporating new technologies. However, the majority of studies found little evidence of a relationship between observability and technology adoption. (Sun et

al., 2018). According to (Xin & Levina, 2008), Uncertainty over how well a change will be able to handle the obligations placed on the organization is one of the main implementation issues.

For example, if SMEs can see that other similar businesses have successfully adopted the standard and are reaping the benefits, they may be more likely to adopt it themselves. Similarly, if the benefits of adopting the standard are more easily measurable and quantifiable, SMEs may be more likely to adopt it.

Moderating Role of Government Support

The adoption intention of the developers was shown to be significantly influenced in a positive way by the policies that the government had in place to assist certain initiatives (Tran et al., 2020). In addition, the support that big organizations received from the government was a crucial component in the success of their attempts to fulfill the statutory commitments that they were required to fulfill. Similarly, (Djokoto et al., 2014) suggest that the absence of complete government support is a major barrier to adoption. In general, government support refers to the help provided by the relevant authority to encourage SMEs in businesses to embrace IFRS.

In previous research, government support's role has been investigated in terms of its direct and indirect relationships (Ismail & Ali, 2016; Nguyen et al., 2021; Ocloo et al., 2020; Yoon et al., 2020). As previously stated, it is abundantly clear that government support as an external factor (Parker et al., 2015) may alter the relationship between internal factors (relative advantage, comparability, and complexity of adoption among SMEs). However, some earlier research found that government support had a direct impact on the adoption of an innovation (Lutfi et al., 2022; Mahama & Dahlan, 2022; Ocloo et al., 2020)(Asiaei & Nor, 2019; Ismail & Ali, 2016; Pulka et al., 2021; Setiyani & Yeny Rostiani, 2021), highlighting the significance of government support in the context of IFRS adoption.

Methodology

A survey method using an on-line questionnaire was employed. The questionnaire was developed by reference to previous studies as in table 3.2. Target respondents for this study were owner/managers and Accountant of Nigerian SMEs.The G*Power application is utilized in determining the minimum sample of 234.

Findings

Profile of the respondents

The study reveals that the majority of respondents are aged 31-35 and 36-40, with a majority working in firms with 10 to 49 employees. Most businesses are sole proprietorships and partnerships, with a tertiary institution level of literacy. The respondents are divided into two main industries: manufacturing (37.1%) and wholesale/retail trade (62.9%). The highest percentage of respondents report a net profit after tax revenue of more than ₦1,500,000 per annum.

Descriptive Statistics of Variables

This table 2 presents descriptive statistics for various latent variables related to the adoption of IFRS for SMEs. Table 2 presents descriptive statistics for various latent variables related to the adoption of IFRS for SMEs. The latent variables include IFRS for SME adoption, with a mean of 3.2032 and a standard deviation of 1.01948. Other constructs, such as relative advantage, compatibility, complexity, trialability, observability, and government support, also exhibit similar patterns with means ranging from 3.0359 to 3.2772 and corresponding standard deviations reflecting the variability within the data.

Table 2 Descriptive Statistics of Latent Variable					
Construct	N	Minimum	Maximum	Mean	Std. Deviation
IFRS for SME adoption	313	1	5	3.2032	1.01948
Relative advantage	313	1	5	3.2772	1.11357
Compatibility	313	1	5	3.2204	1.05883
Complexity	313	1	5	3.147	1.022
Trialability	313	1	5	3.2131	1.04567
Observability	313	1	5	3.1144	1.02373
Government support	313	1	5	3.0359	1.09381

Measurement Model Evaluation

The research model was analyzed using Smar-tPLS 3.0 software, focusing on the measurement model and structural model. The bootstrapping method was used to assess path coefficients and loadings. The study assessed convergent and discriminant validity, determining convergent validity. All constructs achieved loadings above 0.7, with composite reliability and average variance extracted (AVE)

above 0.5, confirming convergent validity (Hair et al., 2014; Ramayah, Yeap, and Ignatius 2013; Ringle et al., 2015). (Refer to Table 3)

Table 3 Convergent validity				
Constructs	Items	Loadings	CR	AVE
IFRS for SME adoption	ADOPT1	0.830	0.921	0.701
	ADOPT2	0.845		
	ADOPT3	0.852		
	ADOPT4	0.804		
	ADOPT5	0.854		
Complexity	CMPLX1	0.825	0.898	0.639
	CMPLX2	0.845		
	CMPLX3	0.711		
	CMPLX4	0.785		
	CMPLX5	0.824		
Compatibility	COMP1	0.875	0.936	0.745
	COMP2	0.866		
	COMP3	0.879		
	COMP4	0.851		
	COMP5	0.845		
Government support	GSUP1	0.870	0.931	0.773
	GSUP2	0.895		
	GSUP3	0.876		
	GSUP4	0.875		
Observability	OBSER1	0.827	0.924	0.710
	OBSER2	0.869		
	OBSER3	0.832		
	OBSER4	0.833		
	OBSER5	0.850		
Relative advantage	RADV1	0.824	0.961	0.732
	RADV2	0.831		
	RADV3	0.847		
	RADV4	0.847		
	RADV5	0.852		
	RADV6	0.888		
	RADV7	0.878		
	RADV8	0.888		
	RADV9	0.842		
Trialability	TRAIL1	0.849	0.949	0.726

	TRAIL2	0.854		
	TRAIL3	0.858		
	TRAIL4	0.878		
	TRAIL5	0.862		
	TRAIL6	0.842		
	TRAIL7	0.822		

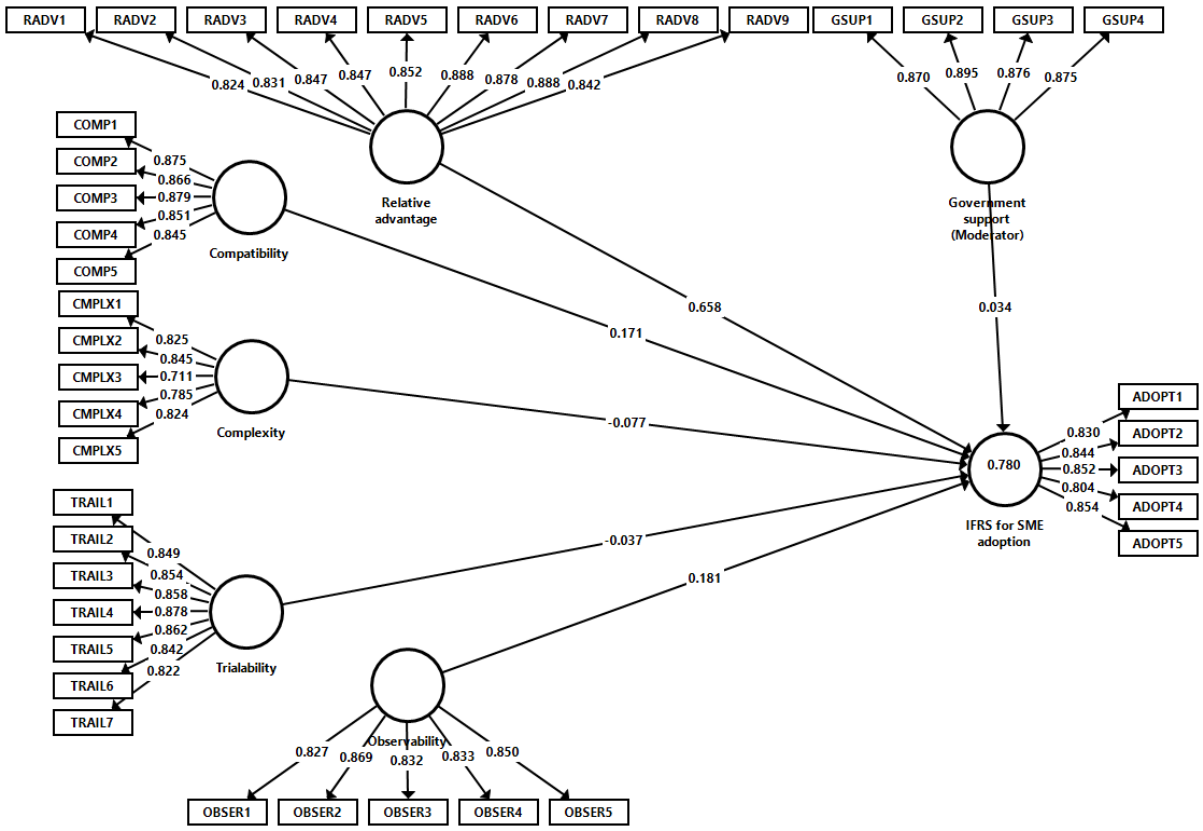


Figure 1 Measurement Model

Discriminant Validity HTMT Ratio

The HTMT ratio was investigated because it is thought to be a trustworthy measure for assessing discriminant validity (Henseler et al., 2015). In this study, the HTMT criterion demonstrates that discriminant validity is attained. As demonstrated in Table 4, all the correlation were within the accepted range of 0.85 (Henseler et al., 2015).

Table 4 Heterotrait-Monotrait Ratio (HTMT)							
	Compatibility	Complexity	Government support	IFRS	Observability	Relative advantage	Trialability
Compatibility							
Complexity	0.846						
Government support (Moderator)	0.604	0.604					
IFRS for SME adoption	0.840	0.765	0.578				
Observability	0.870	0.885	0.667	0.820			
Relative advantage	0.826	0.814	0.567	0.842	0.809		
Trialability	0.836	0.840	0.676	0.819	0.847	0.845	

Compatibility -> IFRS for SME adoption: There is a positive relationship (beta value of 0.168) between compatibility and the adoption of IFRS for SMEs. This relationship is statistically significant (p-value = 0.011), indicating that higher compatibility is associated with increased adoption. The result is supported.

Complexity -> IFRS for SME adoption: The relationship between complexity and IFRS adoption is negative (beta value of -0.068), but it is not statistically significant (p-value = 0.150). Therefore, the evidence does not support a meaningful impact of complexity on IFRS adoption.

Observability -> IFRS for SME adoption: There is a positive relationship (beta value of 0.183) between observability and IFRS adoption. The relationship is statistically significant (p-value = 0.002), supporting the idea that higher observability is associated with increased adoption. Refer to Figure 2 and Table 5.

Relative advantage -> IFRS for SME adoption: The relationship between relative advantage and IFRS adoption is strongly positive (beta value of 0.653), and it is highly statistically significant (p-value = 0.000). This suggests a significant impact, with higher perceived relative advantage leading to increased adoption.
Trialability -> IFRS for SME adoption: The relationship between trialability and IFRS adoption is negative (beta value of -0.031), but it is not statistically significant (p-value = 0.359). Therefore, trialability does not seem to have a meaningful impact on IFRS adoption based on this analysis.The control variables include Firm Age, Firm Size, Industry, and Profitability. The coefficients and associated statistical measures

such as standard errors, t-values, and p-values are reported for each control variable. Firm Age shows a negative coefficient of -0.053 with a standard error of 0.033 and a t-value of 1.615, indicating that there is no statistically significant relationship between Firm Age and the adoption of IFRS for SMEs. Similarly, Firm Size, Industry, and Profitability also exhibit non-significant relationships with IFRS for SME adoption. Overall, these findings suggest that, within the context of the study, these control variables do not provide support for a significant association with the adoption of IFRS for SMEs.

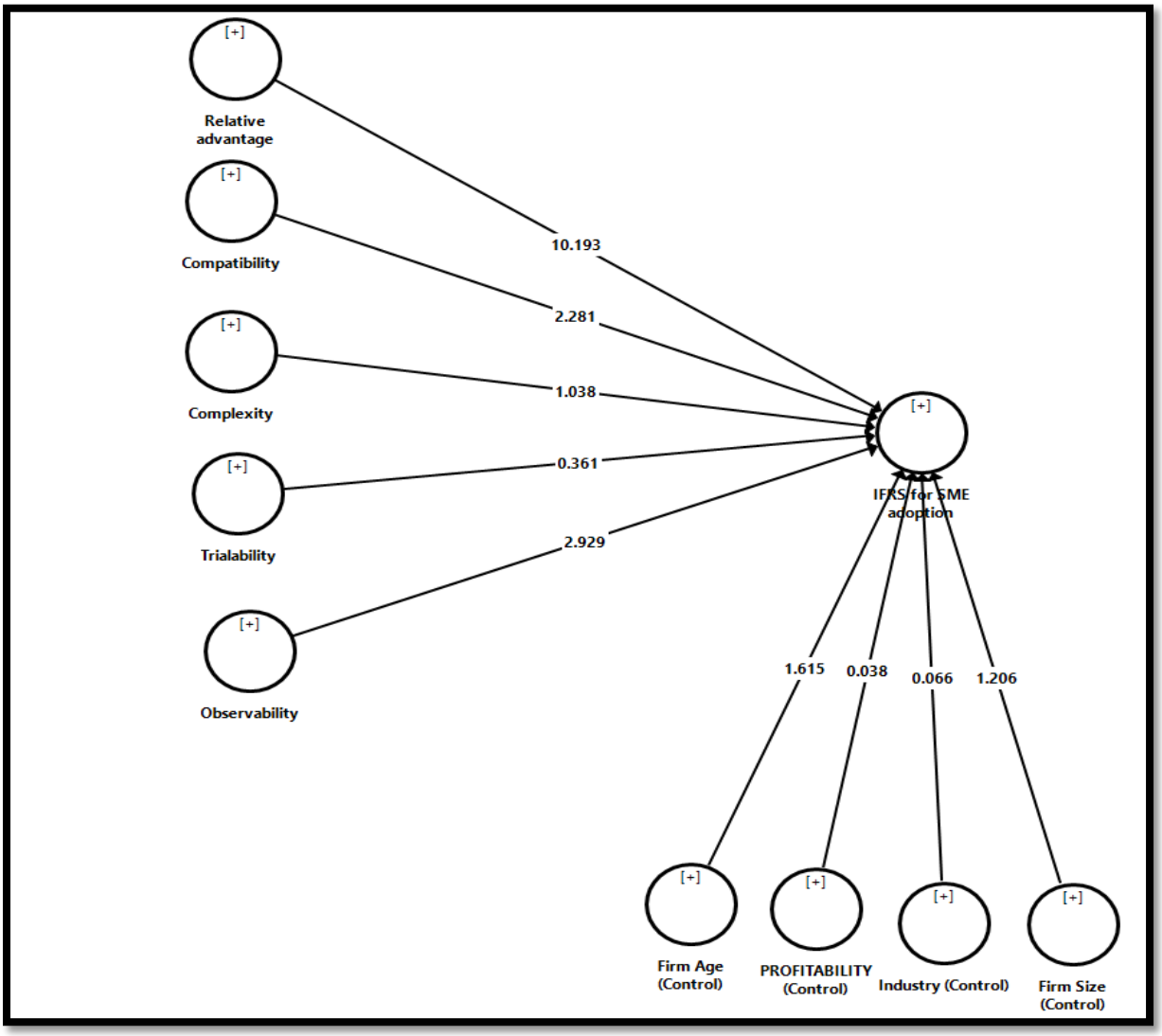


Figure 2 Structural Model Direct Effect

4.7.3 Moderating Role of government support

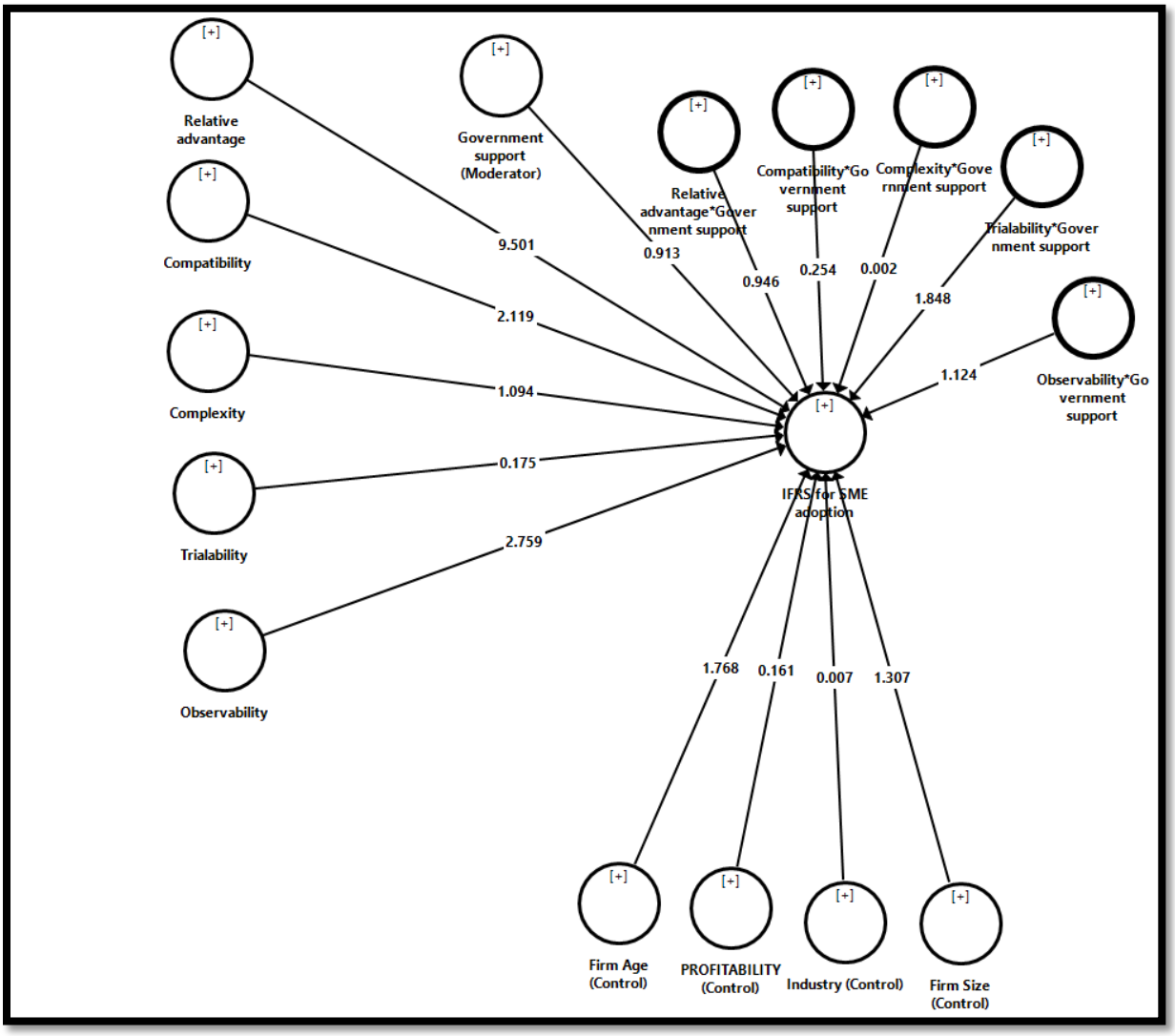


Figure 4.4 Structural Model moderating role of government support

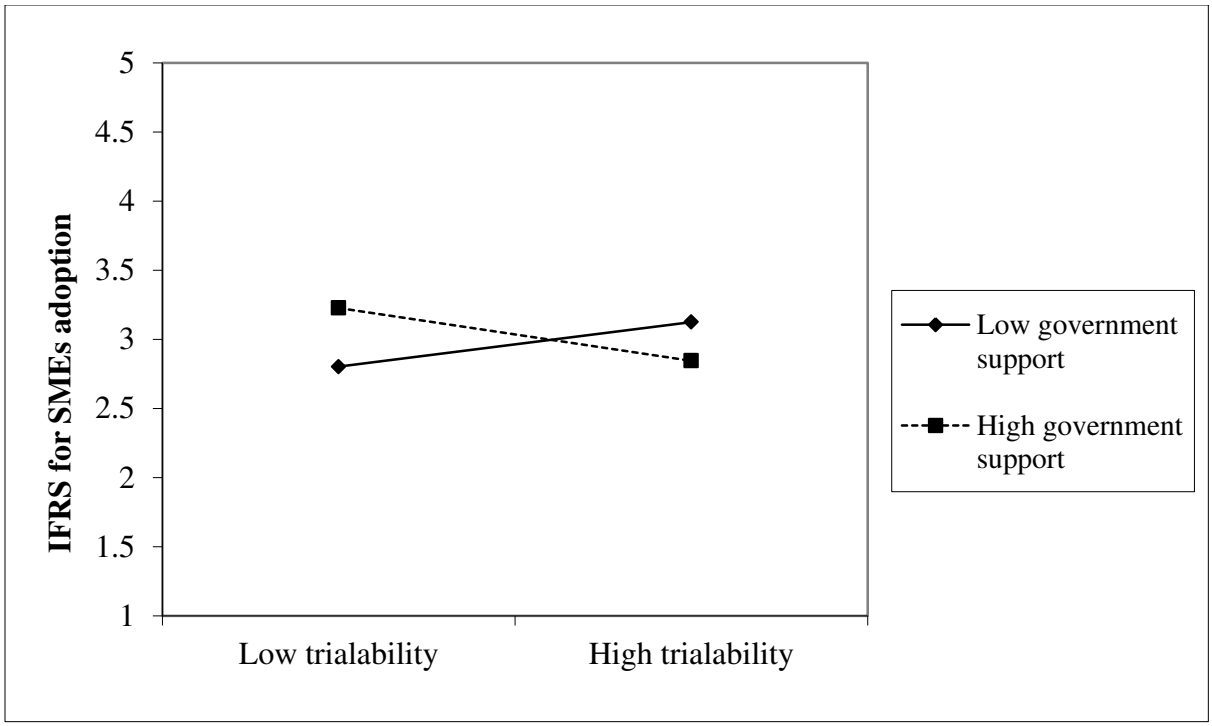


Figure 4.5 interaction effect of trialability and government support on the IFRS for SMEs adoption

R Square

Table 7 R Square		
	R Square	**R Square Adjusted**
IFRS for SME adoption	0.780	0.776

The coefficient of determination (R^2) is a crucial metric for assessing the structural model. The R2 for IFRS for SME adoption is 0.780, suggesting that independent variables all contribute to an overall explanation of 78% of the variability in IFRS for SME adoption (Refer to Table 7).

4.9 Effect-size (f^2)

The effect-size (f^2) criterion, which measures the impact of certain exogenous latent variables on endogenous variables, is another way to evaluate a structural model. Effect sizes of 0.02, 0.15, and 0.35 were categorized by Cohen (1988) as small,

medium, and big, respectively. The effect-size (f^2) for this study is reported in Table 8.

Table 8 f Square	
Constructs	IFRS for SME adoption
Compatibility	0.021
Complexity	0.007
Government support (Moderator)	0.003
Observability	0.032
Relative advantage	0.461
Trialability	0.001

Construct Cross validated Redundancy.

Predictive relevance (Q^2), the last evaluation criterion, is evaluated using construct-cross verified redundancy. Hence, Q^2 greater than zero denotes a model's predictive relevance (Geisser, 1975). The Q^2 for IFRS for SME adoptionis 0.539 which is greater than zero, demonstrating the predictive usefulness of the study's model.

Discussion of result

Hypothesis 1 stated that the more relative advantage of the IFRS for SME adoption, the more likely IFRS for SME adoption will be adopted. PLS analysis indicated a positive and significant relationship with the t-value=9.087 & p- value =0.000. This outcome is consistent with the earlier research on adoption studies (Low et al., 2011)(Li & Wang, 2018b).

This implies that when SMEs foresaw relative advantage (benefits) in the context of better presentation of financial statement, profitability, recognition in the international market, access to loan in foreign financial institutions, cost reduction in harmonization contributed impact on the rate of IFRS for SME adoption.

Based on the data that were collected from the findings, it was discovered that compatibility has a significant positive relationship with IFRS for SME adoption. The study's findings indicate that compatibility plays a crucial role in SMEs' decisions to adopt IFRS.

The findings of this study indicate that there is no significant relationship between complexity and the adoption of IFRS for SMEs in Nigeria. The perceived difficulty of adopting IFRS may be reduced if simplified implementation tools, training programs, and software solutions that are specifically designed for SMEs were

readily available. The adoption procedure can be simplified with the help of these resources, which can also lessen the burden of difficulty.

The study's findings suggest that trialability may not be a significant factor in SMEs' decisions to adopt IFRS. The result is contrary to the studies by (Ali et al., 2019; Hameed & Counsell, 2014; Moore & Benbasat, 1991a; Sanni et al., 2013). The lack of a significant relationship between trialability and IFRS adoption may indicate that SMEs are less concerned with experimenting with IFRS on a limited basis and are more focused on the potential benefits of full adoption.

The findings of this study reveal a significant relationship between observability and the adoption of IFRS for SMEs. SMEs may likely to implement the standards if the benefits of adopting IFRS are more visible and observable to them. Therefore, observability gives SMEs societal proof of the advantages of adopting IFRS.

However, only one of the moderating effects showed a statistically significant moderating characteristic. To be more explicit, the findings suggested significant moderating effect of government support in a relationship between trialability and IFRS for SME adoption. In order to help with the testing and deployment of IFRS, the government have offered resources including financing, training courses, and technical support.

Summary and Conclusion

This paper examined the determinant of IFRS for SMEs adoption in Nigeria. The study found that relative advantage, compatibility and trialabilityhave positive influence with the IFRS for SMEs adoption. The greater the relative advantages, compatibility, and trialability of the IFRS for SMEs, the greater the likelihood that the IFRS for SMEs will be adopted.On the other hand, the complexity and observability variables were found to have insignificant influence on the adoption of IFRS for SMEs. The more relative advantage, compatibility and trialability of the IFRS for SME, the more likely the IFRS for SME will be adopted.

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Acknowledgements

On behalf of all authors, the corresponding author states that there is no conflict of interest.