

Non-financial performance indicators as determinants of VAT compliance: evidence from SMEs in Edo State, Nigeria

Wilson-Oshilim Uduak^{1*}, Frank Osunde²

^{1,2}Department of Accounting, University of Benin, Benin City, Edo State, Nigeria

Corresponding email : uduako.wilson-oshilim@uniben.edu

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Abstract

Purpose: Value Added Tax (VAT) compliance remains an important factor influencing government revenue generation and fiscal sustainability in Nigeria. However, compliance among Small and Medium-sized Enterprises (SMEs) is often constrained by weak internal operational practices. This study explores the impact of customer satisfaction, employees' retention, record keeping quality, and product innovation on VAT compliance among SMEs in Edo State, Nigeria.

Methodology: The study adopted a descriptive survey research design. Data was collected from 392 SMEs Owners and Managers using Structured questionnaires and analysed through descriptive statistics, Pearson correlation, and multiple regression.

Results and conclusion: The results indicate that customer satisfaction, employee retention, record-keeping quality, and product innovation each have a positive and statistically significant influence on VAT compliance among SMEs. The regression analysis further reveals that these variables jointly explain approximately 50.6% of the variation in VAT compliance behaviour. The study concludes that SMEs with stronger internal operational practices are more likely to demonstrate higher levels of VAT compliance.

Implication of Findings: These results suggest that enhancing operational practices in SMEs can lead to improved VAT compliance, benefiting both businesses and tax authorities. Therefore, tax authorities should promote capacity-building initiatives that encourage SMEs to strengthen customer relations, retain skilled employees, maintain accurate financial records, and adopt innovative technologies that facilitate VAT reporting and compliance.

Keywords: Tax compliance, Value added tax, Customer satisfaction, Nigeria, SMEs.

1. Introduction

Small and medium-sized enterprises (SMEs) are salient in economic development through employment generation, innovation, and tax contributions. In Nigeria economy, Value Added Tax (VAT) is a significant source of government revenue; however, compliance among SMEs remains relatively low due to administrative inefficiencies and behavioural constraints (Ojo & Shittu, 2023). Existing studies on VAT compliance have predominantly focused on financial indicators such as profitability, firm size, and turnover, with limited attention given to non-financial or operational performance indicators. Recent literature suggests that non-financial performance measures such as customer satisfaction, employee retention, product innovation, and operational efficiency, significantly influence organisational performance and sustainability. Customer satisfaction enhances repeat patronage and revenue stability, which may indirectly promote tax compliance (Adjei & Mensah, 2022; Oyewumi (2025). Likewise, employee retention contributes to improved internal controls and ethical standards, thereby influencing compliance behaviour (Alsughayer, 2021). Furthermore, product innovation enhances competitiveness and long-term viability, while quality record keeping improves transparency and accuracy in financial reporting, both of which are essential for effective VAT compliance (Adjei & Mensah, 2022). However, there is still a paucity of empirical evidence examining how these non-financial performance indicators jointly affect VAT compliance among SMEs in Nigeria. Most prior studies provide fragmented findings and tend to emphasize economic or regulatory determinants of compliance. Therefore, the problem addressed in this study is the lack of comprehensive empirical evidence on the extent to which customer

satisfaction, employee retention, record-keeping quality, and product innovation serve as determinants of VAT compliance among SMEs, hence, it is important to address this gap as it will provide a better understanding on how compliance behaviour influences VAT compliance, creating the need for further research.

2. Literature review

Value added tax (VAT) compliance

Value Added Tax (VAT) compliance is the adherence of businesses to statutory requirements for charging, collecting, reporting, and remitting VAT to the appropriate tax authorities. It is a critical component of modern tax systems, serving as a major source of government revenue and a tool for fiscal stability and public service financing, charged currently at the rate of 7.5% (Ojo & Shittu, 2023), a rate maintained by the federal government despite proposals for change in recent tax reform debates VAT compliance requires registered businesses to maintain accurate records, issue compliant invoices, file returns timely, and remit collected taxes without delay. However, many SMEs, continue to face challenges in fulfilling these obligations, due to complex tax procedures, limited tax knowledge, and administrative burdens (Adigwe, 2025; Erick et al., 2024). Empirical research highlights that effective taxpayer services, simplified tax systems, and the adoption of computerised tax processes improve VAT compliance among SMEs by making compliance processes more accessible and understandable (Erick et al., 2024). Similarly, studies in Africa show that structural and operational constraints, such as inadequate record systems and cash-flow pressures, hinder SMEs' ability to comply consistently with VAT requirements (Ndlovu & Schutte, 2024).

Customer satisfaction

Customer satisfaction is a critical dimension of business performance that reflects how well a company meets or exceeds the expectations of its customers. In the context of SMEs, high levels of customer satisfaction are associated with stronger customer loyalty, repeat business, and enhanced reputation, all of which can contribute to more stable and transparent business operations. Studies suggest that when SMEs prioritize customer satisfaction through quality service delivery, responsiveness, and engagement, they are more likely to maintain structured processes, including financial and administrative systems, that support regulatory compliance (Ude & Essien, 2022; Agbaje & Ogunyemi, 2021). In relation to VAT compliance, customer satisfaction may indirectly influence a firm's willingness and ability to comply with tax obligations. Businesses that value their reputation and seek to sustain customer trust are often motivated to demonstrate transparency and accountability, which includes accurate financial reporting and timely VAT remittance. Eze and Onwuka (2020) note that customer-oriented firms are more aware of ethical responsibilities, and this awareness can extend to meeting statutory tax requirements.

Employee retention

Employee retention is a good component of organisational stability and performance, reflecting an SME's ability to retain skilled and experienced staff over time. High retention levels contribute to continuity in operations, institutional knowledge, and consistent adherence to established procedures, which are essential for maintaining accurate financial records and complying with regulatory requirements. In the context of SMEs, retaining employees ensures that critical administrative tasks, including VAT reporting and remittance, are carried out efficiently and accurately, reducing the likelihood of errors or delays that could result in non-compliance (Onyema & Ibeh, 2021; Basse & Olatunji, 2023). Employee retention also enhances accountability and operational discipline, as long-term staff are more familiar with internal control systems and financial processes. Nwachukwu and Hassan (2022) highlight that motivated and satisfied employees are more diligent in following organizational procedures, including tax compliance.

Record-keeping quality

Record-keeping quality is a factor influencing VAT compliance among SMEs, as accurate and well-organized financial records provide the foundation for correct tax reporting and timely remittance. SMEs with robust record-keeping systems are better able to track transactions, calculate VAT liabilities, and prepare documentation for audits, reducing the risk of errors, penalties, or disputes with tax authorities (Gbadago & Awunyo, 2019; Cobbold et al., 2023). High-quality records also enable SMEs to demonstrate transparency and accountability, reinforcing trust with regulatory bodies and supporting overall compliance culture. Poor record-keeping, on the other hand, often results in missed deadlines, inaccurate filings, and increased administrative burdens, which can discourage SMEs from fully complying with VAT regulations (Ibrahim & Musa, 2023; Ogunlade & Akintunde, 2021). By maintaining up-to-date, accurate, and systematic financial documentation, SMEs not only meet statutory obligations but also improve internal financial management, decision-making, and operational efficiency.

Product innovation

Product innovation is significant in shaping VAT compliance among SMEs by influencing organisational structure, operational processes, and the adoption of modern technologies. SMEs that actively engage in product or service innovation tend to develop more formalized business systems and processes, which can facilitate accurate financial reporting and timely VAT remittance (Afolabi et al., 2022; Oladimeji & Akpan, 2021). Innovation-driven firms are often more adaptable and forward-thinking, adopting digital accounting tools, automated invoicing systems, and other technological solutions that reduce compliance errors and streamline tax-related procedures. Moreover, innovative SMEs are more likely to view regulatory compliance as integral to sustainable business growth. Nduka and Edafe (2020) highlight that firms embracing innovation tend to formalize operations and engage proactively with tax authorities, increasing adherence to statutory obligations such as VAT. Conversely, SMEs with limited innovation may rely on informal processes, increasing the likelihood of filing errors, underreporting, or delayed VAT payments.

Non-financial performance

Non-financial business performance focuses on aspects such as customer satisfaction, service quality, employee engagement, innovation, and operational efficiency, which collectively influence the overall growth and competitiveness of SMEs (Ayorinde et al., 2024). Scholars argue that business performance should also be evaluated by an organization's ability to achieve strategic goals, respond to market changes, and maintain sustainable operations over time (Bhatnagar et al., 2022). Similarly, Cobbold et al. (2023) emphasize that long-term competitiveness, customer loyalty, and adaptability are important indicators of business performance beyond short-term financial returns. However, traditional performance measurements have often focused heavily on financial metrics, thereby overlooking critical non-financial elements such as employee welfare, organisational learning, and environmental responsibility (Mills, 2024). This limitation can result in incomplete assessments of SME success, especially in dynamic and competitive environments (Kayanula & Quartey, 2022). For SMEs, non-financial performance indicators are particularly important because they influence long-term growth and sustainability. Monitoring factors such as customer satisfaction, product quality, and employee productivity enable SME owners to identify operational strengths and weaknesses, improve service delivery, and enhance market competitiveness (Dare et al., 2022; Efuntade et al., 2020). By focusing on these indicators, SMEs can strengthen their resilience and contribute more effectively to economic development.

Theoretical review

The Theory of Planned Behaviour (TPB), proposed by Icek Ajzen in 1985, explains human behaviour through three key determinants: attitudes toward behaviour, subjective norms, and perceived behavioural control. These factors shape an individual's intention to perform a behaviour, which ultimately influences actual actions. According to Ajzen (2015), individuals are more likely to engage in behaviour they perceive as favourable, socially expected, and within their capability to perform. The theory has been widely applied in areas such as consumer behaviour, health psychology, and tax compliance. In taxation research, TPB has been useful in explaining why taxpayers choose to comply with tax obligations. For instance, Kayanula and Quartey (2022) note that positive attitudes toward tax payment, social expectations regarding compliance, and confidence in the ability to meet tax requirements all strengthen taxpayers' intentions to comply, particularly in developing economies. However, the theory has faced criticism. Scholars such as Leonard E. Burman Blumenthal and Joel Slemrod (2023) argue that TPB assumes intentions always translate into behaviour, which may not hold true where external barriers exist. Similarly, Evans (2019) and Bhatnagar, Onyango, and Mutesa (2022) highlight that the theory does not adequately account for institutional and economic factors such as tax system complexity, government policies, and administrative challenges. Theory of Planned Behaviour is relevant for understanding VAT compliance among SMEs, as attitudes, and social influence shape their compliance behaviour.

Empirical review

Several empirical studies have examined the influence of non-financial performance indicators on VAT compliance, though research specifically relating customer satisfaction, employee retention, record-keeping quality, and product innovation is still limited. For instance, Cobbold et al. (2023) explored operational challenges among SMEs in Nigeria and found that poor accounting systems and lack of understanding of VAT procedures hinder compliance. Their findings underscore the importance of record-keeping quality, as SMEs with structured documentation were more likely to comply with VAT regulations. Similarly, Ndlovu and Schutte (2024) reported that inadequate administrative practices and weak record-keeping systems prevent SMEs from adhering to VAT requirements, reinforcing the role of internal operational processes in compliance outcomes. Studies have also indirectly linked employee retention to VAT compliance. Ayorinde et al. (2024) examined management control systems in non-profit organisations and found that organisations with well-established internal controls and stable, experienced staff performed better financially and were more compliant with tax obligations.

Ogbomah and Omons investigated the multi-faceted impact of Value Added Tax (VAT) on Small and Medium Enterprises (SMEs) within the Nigerian context, with a significant emphasis on both the revenue-generating advantages that it offers and the myriad challenges that it creates for the operational activities of these enterprises. The study employs mixed-method research, analysing secondary data and contrasting Nigeria's VAT regime. The study found that streamlining VAT processes, broadening the tax base, and leveraging digital tax administration can minimize SME tax burdens without compromising fiscal effectiveness. While the study did not focus exclusively on SMEs, it suggests that retaining skilled employees enhances organizational efficiency, which could improve VAT compliance. Dare et al. (2022) further emphasized that consistent staffing and organisational stability support performance outcomes that, in turn, facilitate compliance, demonstrating that employee-related practices are an essential non-financial factor. Empirical research highlights that effective taxpayer services, simplified tax systems, and the adoption of computerised tax processes improve VAT compliance among SMEs by making compliance processes more accessible and understandable (Erick et al., 2024).

Innovation and technology adoption have also been shown to influence VAT compliance. The Skandalis and Skandali (2025) study on tourism SMEs demonstrated that implementing digital tools, which represent product or process innovation, significantly improved VAT compliance by enhancing efficiency and reducing reporting errors. Similarly, Cobbold et al. (2023) emphasize that long-term competitiveness, customer loyalty, and adaptability are important indicators of business performance beyond short-term financial returns. Similarly, Inegbedion et al. (2025) found that SMEs adopting electronic tax systems were more likely to comply, emphasizing that innovation and user-friendly systems positively influence compliance behaviour. Finally, broader evidence from Dong et al. (2025) stated that both record-keeping practices and organisational awareness/behaviour significantly affect compliance. SMEs with better internal practices improved compliance outcomes. Holistically therefore, through these studies, employee retention, record-keeping quality, and innovation emerge as significant determinants of VAT compliance. Ndlovu and Schutte (2024) Similarly, studies in Africa show that structural and operational constraints, such as inadequate record systems and cash-flow pressures, hinder SMEs' ability to comply consistently with VAT requirements. (Ndlovu & Schutte, 2024).

However, customer satisfaction has been underexplored, suggesting a gap in understanding how customer-oriented indicator interacts with tax compliance among SMEs in Edo State, Nigeria. Based on the afore discussions, the following hypotheses were stated in null form, in line with the specific objectives:

- H1: There is no significant relationship between customer satisfaction and VAT compliance among SMEs in Edo State.
- H2: There is no significant relationship between employee retention and VAT compliance among SMEs in Edo State.
- H3: There is no significant relationship between record keeping quality and VAT compliance among SMEs in Edo State.
- H4: There is no significant relationship between product innovation and VAT compliance among SMEs in Edo State.

3. Methodology

A cross-sectional and quantitative survey research design was employed to explore the factors influencing VAT compliance among SMEs in Nigeria. The geographical setting for this study is Edo State, Nigeria. Since the exact population for this study could not be determined with certainty, the Cochran's formular was employed to arrive at the minimum sample size of 384. However, to enhance the reliability of the outcomes, the sample size was increased to 392 spanning four different economic sector of 98 respondents each; trading, Agriculture, services, and Hospitality. The study adopted the primary method of data collection using structured questionnaires. Descriptive statistics were used to summarize responses, followed by inferential analyses to test the formulated hypotheses.

The study adapted the model from the work of Ojo and Shittu (2023) which was modified thus:

$$VT_i = \beta_0 + \beta_1(CS)_i + \beta_2(ER)_i + \beta_3(RKQ)_i + \beta_4(PI)_i + \varepsilon_i \dots\dots\dots 1$$

Where:

CS = Customer Satisfaction.

ER = Employee Retention.

RKQ = Record-Keeping Quality.

PI = Product Innovation.

VT = VAT Compliance (Dependent Variable).

4. Results and discussion

Table 1: Descriptive analysis

	VT	CS	RKQ	PI
Mean	4.234184	4.346429	4.376020	4.407653
Median	4.200000	4.400000	4.400000	4.400000
Maximum	5.000000	5.000000	5.000000	5.000000
Minimum	2.800000	2.600000	2.600000	2.600000
Std. Dev.	0.510909	0.463598	0.495645	0.470558
Skewness	-0.309887	-0.550059	-0.833608	-0.782056
Kurtosis	2.674985	3.043884	3.435322	3.323172
Jarque-Bera	7.999303	19.79903	48.49548	41.66449
Probability	0.018322	0.000050	0.000000	0.000000
Sum	1659.800	1703.800	1715.400	1727.800
Sum Sq. Dev.	102.0619	84.03500	96.05459	86.57704
Observations	392	392	392	392

Source: Researcher’s Computation (2025), EVIEWS 9.0

The descriptive statistics indicate generally high ratings across all study variables among SMEs in Edo State. VAT compliance (VT) recorded a mean score of 4.23, with the median closely aligned at 4.20, suggesting consistent responses and a relatively high level of compliance. The moderate standard deviation (0.51) and slight negative skewness (-0.31) indicate that most respondents reported higher levels of compliance, while the kurtosis value suggests a distribution close to normal. Customer satisfaction (CS) also shows strong performance, with a mean of 4.35 and a median of 4.40, reflecting that most SMEs perceive their customers to be highly satisfied. The low standard deviation (0.46) indicates minimal variability, although the negative skewness suggests responses are concentrated toward higher ratings. Similarly, record-keeping quality (RKQ) demonstrates positive outcomes, with a mean of 4.38 and median of 4.40. The narrow dispersion and negative skewness indicate that many SMEs maintain strong documentation practices. Product innovation (PI) recorded the highest mean score of 4.41, highlighting SMEs’ active engagement in developing new products or services. Holistically, the variables show slight deviations from normality due to the clustering of high responses but remain suitable for further analysis.

Table 2: Pearson correlation matrix

Correlation Probability	VT	CS	RKQ	PI
VT	1.000000			

CS	0.599043	1.000000		
	0.0000	-----		
RKQ	0.591049	0.565607	1.000000	
	0.0000	0.0000	-----	
PI	0.598051	0.583385	0.592941	1.000000
	0.0000	0.0000	0.0000	-----

Source: Researcher’s Computation (2025), EVIEWS 9.0

The Pearson correlation results show significant positive relationships among all variables in the study. VAT compliance (VT) is moderately and positively correlated with customer satisfaction (CS) ($r = 0.599$,

$p < 0.001$), indicating that SMEs with higher customer satisfaction tend to exhibit better VAT compliance. Similarly, VT and record-keeping quality (RKQ) demonstrate a positive correlation ($r = 0.591$, $p < 0.001$), suggesting that SMEs with strong documentation and financial record systems are more likely to comply with VAT regulations. VAT compliance also shows a moderately strong positive relationship with product innovation (PI) ($r = 0.598$, $p < 0.001$), implying that innovative SMEs may maintain more structured operations that support regulatory compliance. In addition, the independent variables are positively related to each other. Customer satisfaction correlates with record-keeping quality ($r = 0.566$) and product innovation ($r = 0.583$), while record-keeping quality and product innovation share a correlation of 0.593. All relationships are statistically significant at $p < 0.001$.

Diagnostic tests

To ensure the reliability and validity of the regression model, diagnostic tests were conducted. These included tests for multicollinearity using the Variance Inflation Factor (VIF), and heteroskedasticity using the Breusch-Pagan-Godfrey test.

Table 3: Variance Inflation Factors (VIF)

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.040833	122.8682	NA
CS	0.002844	163.5209	1.834770
ER	0.002620	152.5003	1.903070
RKQ	0.002537	148.0391	1.870372
PI	0.002938	173.7193	1.952722

Source: Researcher's Computation (2025), EVIEWS 9.0

The VIF values for all the independent variables are below the critical threshold of 10, indicating that multicollinearity is not a serious concern in this model. This suggests that the independent variables (CS, ER, RKQ, and PI) do not exhibit harmful levels of intercorrelation, allowing for reliable estimation of their unique effects on VAT Compliance.

Table 4: Heteroskedasticity test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity				
F-statistic	0.992240	Prob. F(4,387)		0.4116
Obs*R-squared	3.979425	Prob. Chi-Square(4)		0.4088
Scaled explained SS	3.146978	Prob. Chi-Square(4)		0.5335
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.217650	0.091845	2.369754	0.0183
CS	-0.045604	0.024240	-1.881340	0.0607
ER	0.006650	0.023266	0.285809	0.7752
RKQ	0.016945	0.022892	0.740230	0.4596
PI	0.001353	0.024638	0.054912	0.9562
R-squared	0.010152	Mean dependent var		0.128611
Adjusted R-squared	-0.000079	S.D. dependent var		0.164044
S.E. of regression	0.164051	Akaike info criterion		-0.764610
Sum squared resid	10.41518	Schwarz criterion		-0.713956
Log likelihood	154.8636	Hannan-Quinn criter.		-0.744535
F-statistic	0.992240	Durbin-Watson stat		1.929378
Prob(F-statistic)	0.411593			

Source: Researcher’s Computation (2025), EVIEWS 9.0

The probability values from the Breusch-Pagan-Godfrey test are all greater than 0.05, indicating that the null hypothesis of homoskedasticity cannot be rejected. Therefore, the variance of the residuals is constant, confirming that heteroskedasticity is not present in the model.

Table 5: Regression analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.232733	0.202071	1.151737	0.2501
CS	0.276039	0.053332	5.175868	0.0000
ER	0.161741	0.051188	3.159727	0.0017
RKQ	0.232115	0.050365	4.608626	0.0000
PI	0.244813	0.054206	4.516356	0.0000
R-squared	0.506029	Mean dependent var		4.234184
Adjusted R-squared	0.500923	S.D. dependent var		0.510909
S.E. of regression	0.360933	Akaike info criterion		0.812427
Sum squared resid	50.41565	Schwarz criterion		0.863081
Log likelihood	-154.2357	Hannan-Quinn criter.		0.832502
F-statistic	99.11167	Durbin-Watson stat		1.778764
Prob(F-statistic)	0.000000			

Source: Researcher’s Computation (2025), EVIEWS 9.0

A standard multiple regression was conducted to examine the effect of Customer Satisfaction (CS), Employee Retention (ER), Record-Keeping Quality (RKQ), and Product Innovation (PI) on VAT Compliance (VT) among SMEs in Edo State. The model was statistically significant, $F(4, 387) = 99.11$, $p < .001$, and explained approximately 51% of the variance in VAT compliance ($R^2 = .51$, Adjusted $R^2 = .50$), indicating a moderate to strong model fit. All four predictors made significant contributions to the prediction of VAT compliance.

Test of hypotheses

H1: There is no significant relationship between customer satisfaction and VAT compliance among SMEs in Edo State.

From Table 4.11, customer satisfaction (CS) has a significant positive influence on VAT compliance ($\beta = 0.276$, $t = 5.18$, $p < .001$). Since the p-value is less than 0.05, we reject the null hypothesis and conclude that customer satisfaction significantly influences VAT compliance among SMEs in Edo State.

H2: There is no significant relationship between employee retention and VAT compliance among SMEs in Edo State.

Employee retention (ER) also showed a significant positive effect on VAT compliance ($\beta = 0.162$, $t = 3.16$, $p = .0017$). Given that the p-value is less than 0.05, we reject the null hypothesis and affirm that employee retention significantly influences VAT compliance among SMEs in Edo State.

H3: There is no significant relationship between record-keeping quality and VAT compliance among SMEs in Edo State.

Record-keeping quality (RKQ) has a positive and significant relationship with VAT compliance ($\beta = 0.232$, $t = 4.61$, $p < .001$). Since the p-value is well below the 0.05 threshold, we reject the null hypothesis and conclude that record-keeping quality significantly influences VAT compliance.

Lastly, product innovation (PI) significantly and positively influences VAT compliance ($\beta = 0.245$, $t = 4.52$, $p < .001$). Thus, the null hypothesis is rejected, and we conclude that product innovation significantly affects VAT compliance among SMEs in Edo State.

Discussion of findings

The findings reveal several factors that significantly influence VAT compliance among SMEs in Edo State. First, customer satisfaction shows a positive and significant effect on VAT compliance. SMEs that prioritize quality service delivery and responsiveness to customers are more likely to demonstrate transparency and accountability in their operations, which supports tax compliance. This finding is consistent with the studies of Ude and Essien (2022); Agbaje and Ogunyemi (2021), who noted that customer-oriented SMEs tend to comply with financial regulations to protect their reputation and maintain customer loyalty. Similarly, Eze and Onwuka (2020) emphasized that businesses with strong customer engagement are more conscious of their ethical responsibilities, including tax obligations. This supports stakeholder theory, which suggests that firms balance the interests of customers and regulatory authorities. The results also show that employee retention significantly improves VAT compliance. SMEs that retain experienced employees benefit from institutional knowledge that support accurate financial reporting and timely tax remittance. Onyema and Ibeh (2021); Ellawule, et al. (2024) found that lower employee turnover enhances efficiency in tax-related procedures, while Bassey and Olatunji (2023) reported that strong retention strategies strengthen internal controls and compliance. Nwachukwu and Hassan (2022) further noted that high employee morale improves adherence to tax procedures, supporting organizational behaviour theory.

Record-keeping quality was identified as another strong predictor of VAT compliance. SMEs with accurate and well-organized financial records can easily prepare tax reports and avoid compliance errors. This aligns with Ibrahim and Musa (2023); Ogunlade and Akintunde (2021); Ekwe and Iroanya (2020), who highlighted effective documentation as a key factor in tax compliance, consistent with the Resource-Based View. Finally, product innovation positively influences VAT compliance. Innovative SMEs tend to adopt digital tools and modern accounting systems that facilitate VAT reporting and payment. This finding agrees with Afolabi et al. (2022); Oladimeji and Akpan (2021); Nduka and Edefe

(2020), and reflects the Technology Acceptance Model, which links innovation adoption to improved regulatory compliance. Descriptive statistics were used to summarize the characteristics of SMEs, providing insights into means, standard deviations, and response patterns for key variables such as customer satisfaction, employee retention, and VAT compliance. Pearson Correlation was applied to examine the strength and direction of relationships between SME performance indicators and VAT compliance, helping to identify significant associations. Multiple Regression Analysis was further employed to assess the combined effect of independent variables on VAT compliance and to determine their relative contributions while controlling other factors. Together, these methods ensure robust and reliable empirical analysis.

5. Conclusion

This study examined the relationship between SME performance and VAT compliance in Nigeria, with a focus on Edo State. Using data from 392 SME operators and applying descriptive statistics, correlation, diagnostic tests, and multiple regression analysis, the study found significant relationships between SME performance indicators and VAT compliance. Specifically, customer satisfaction, employee retention, record-keeping quality, and product innovation all positively influence VAT compliance. Customer satisfaction enhances formalization and transparency, encouraging adherence to tax regulations. Employee retention contributes to stability in administrative processes, improving consistency in VAT reporting. Record-keeping quality was identified as a critical determinant, as accurate financial documentation enables timely and correct VAT filing. Furthermore, product innovation supports the adoption of digital and structured systems, which facilitate efficient tax compliance. Overall, the findings highlight that improved internal business practices significantly enhance SMEs' ability to comply with VAT obligations.

The study recommends thus:

- i. SME owners should participate in structured training programmes focused on Basic accounting and bookkeeping practices. These training courses can be organized by government agencies, SME development centres, and industry associations.
- ii. SMEs should implement retention strategies such as competitive compensation and staff welfare packages and continuous professional development in financial management and tax compliance
- iii. To promote VAT compliance, SME owners should implement employee retention strategies, prioritize customer satisfaction through service quality, and invest in modern record-keeping and product innovation. Tax authorities should provide training programs on digital VAT platforms and offer tax incentives for SMEs adopting innovative accounting systems.

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