Journal of Accounting and Financial Management ISSN 2504-8856 Vol. 4 No. 2 2018
www.iiardpub.org

Effect of Tax Conformity on the Productivity of Enterprises in Cross River State of Nigeria

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Abstract
This study focuses on the effect of tax conformity on productivity of enterprises in Cross River State of Nigeria with. Stumpy tax conformity is a matter of severe concern in lots of Nigerian enterprises. The problem of this research study is tax non-conformity seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators see non-conformity only as an evasion problem, which does not seem to capture the full nature of the problem. An ex-post facto research design was adopted and data collected from both primary and secondary data. Data collected were analysed using regression analysis. The results revealed that there is a very low relationship between the independent variables Honesty, Guilt & Shame, Fairness and Complexity with the dependent variable productivity of enterprises. The study also revealed that Honesty, Guilt & Shame, Fairness and Complexity do have a significant effect on the productivity of enterprises. Conclusively, concerns about tax conformity in the tax policy area should be considered by the government in Nigeria. Good tax policy should not be a burden to taxpayers. If enterprises in Nigeria are to be supported, reduction in their tax conformity cost should be a priority for Nigerian policy makers and tax officials. Tax officers in dealing with enterprises should not request more information than will be processed and used for the tax administration's purposes. They should provide simple and clear information on what, how where, and by when actions should be completed, and clearly delineate record keeping requirements. Policy makers should standardize procedures nationwide in order to avoid different treatment across different offices and operate with transparency and public accountability. High tax conformity costs may hinder the growth of enterprises in Nigeria.. It is recommended that Nigerian government should intensify effort to simplify the tax system especially for enterprises. Also enterprises tax conformity process should be reviewed by the Nigerian government and if necessary a more cost saving approach for collecting the tax be developed, as this from the findings forms a major conformity burden for enterprises in Nigeria.

Keywords: *Complexity, Fairness, Guilt and Shame, Honesty, Productivity, Tax Conformity*

1.0 Introduction

1.1 Background to the study

Nigeria is governed by a Federal system and the government's fiscal power is based on a three-tier tax structure divided among the Federal, State, and Local governments, each of which has different tax jurisdictions. The Nigerian tax system is lopsided. The federal government controls all the major sources of revenue like import and excise duties, mining rents and royalties, petroleum profit tax and company income tax, value added tax among other revenue sources. State and local government taxes are minimal, hence, this limits their ability to increase independent revenue and so they depend solely on allocation from Federation Account.

According to the traditional model of tax conformity by Allingham and Sandmo (1972), taxpayers choose how much income to report on their tax returns by solving a standard expected utility-maximization problem that trade off the tax savings from underreporting true income against the risk of audit and penalties for detected noncompliance. In this framework, both the threat of penalty and audit makes people pay their taxes (Allingham & Sandmo, (1972).

According to James, Murphy and Reinhart (2005), tax laws cannot cope with every eventuality and has to be supplemented with administrative procedures and decisions and just as importantly, in order to work, it has to have a reasonable degree of willing compliance on the part of the taxpayers themselves. Therefore, a more appropriate definition of conformity could include the degree of willingness with tax laws and administration that can be achieved without the immediate threat or actual application of enforcement activity. Tax conformity may be viewed in terms of tax avoidance and evasion. The two are normally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion as illegal measures. Conformity might therefore be better defined in terms of conformity with the spirit as well as the letter of the law (James, Murphy & Reinhart, 2005).

The subject of taxation has received considerable intellectual and theoretical attention in the literature. Taxation is one of the most volatile subjects in governance both in the developing and developed nations. Tax refers to a “compulsory levy by a public authority for which nothing is received directly in return” (James & Nobes, 1992). According to Nightingale (2001), “a tax is compulsory contribution, imposed by government, and while taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society”. She further explains that taxation is part of the price to be paid for an organized society and identified six reasons for taxation: provision of public goods, redistribution of income and wealth, promotion of social and economic welfare, economic stability and harmonization and regulation.

According Webber and Wildasky (1986), a tax is an imposed levy by the government against the income, profits, property, wealth and consumption of individuals and corporate organizations to enable government obtain the required revenue to provide basic amenities, security and well-being of the citizens. First detailed information about taxation can be found in Ancient Egypt. The Pharaohs appointed tax collectors (called scribes) and paid them high salaries to reduce the incentives to enrich themselves. Furthermore, scribes working in the field were controlled by a group of special scribes from head office. Today, corruption of the tax agency is still a problem, especially in developing countries.

1.2 Statement of the problem

A recent approach to tax conformity has benefited from lots of contributions from different disciplines. There is a range of factors that might influence taxpayer’s behavior. For example, work in sociology has identified a number of relevant variables such as age, gender, race and culture. The role of individuals in the society and accepted norms of behaviour have also shown to have a strong influence. There are limits for a government to increase conformity using traditional policies such as audits and fines. Therefore, if the government can influence a norm, tax evasion can be reduced by policy activities. Socio-cultural factors are important components in the lives of the populace and given the deep-rooted and pervasiveness of these in the societies of Nigerian, there is a clear need for more empirical research on the factors involved in the decision making process regarding conformity, since a better comprehension of these factors can give birth to strategies that improve conformity.

Stumpy tax conformity is a matter of severe concern in lots of Nigerian enterprises. This is the reason why it limits the capacity of government to increase revenue for developmental purposes. This implies that the higher the revenue, the more likely government will put in place developmental plans for the improvement of the living standard of the populace. This is because when populace pays taxes more revenue accrues to the government. The problem of this research study is tax non-conformity seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators see non-conformity only as an evasion problem, this does not seem to capture the full nature of the problem. Clearly, tax evasion is a form of non-conformity. However, if taxpayers go to inordinate length to reduce their liability, this could hardly be considered 'compliance' either; such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Conformity might therefore be seen in terms of complying with the spirit as well as the letter of the law. Tax conformity is a complex behavioral issue and investigation requires the use of variety of methods and data sources as each instrument has strength and weaknesses.

Tax non-conformity is of two types namely intended and unintended. Intended non-conformity is an offence against government in which the taxpayer understates the tax liability and subject to punishment. This could emanate from seeking benefit from avoidance, taxpayers' personal attitude towards compliance, situational factors; complexity of tax structure, dissatisfaction on government service, and others. Social Scientists generally have considered tax evasion as one form of non-conformity. It is a serious challenge dealing with every nation's revenue authorities. It is further commented that unintentional understatement or overstatement of tax liability may arise because of, among others, lack of knowledge and failure to pay due care in the maintenance of book of accounts and the preparation of returns.

1.3 Objectives of the Study

The broad objective of this study is to examine the effect of tax conformity on productivity of enterprises in Cross River State of Nigeria.

The specific objectives are:

1. To examine the extent to which honesty affects the productivity of enterprises in Cross River State.
2. To ascertain the extent to which guilt and shame affects the productivity of enterprises in Cross River State.
3. To determine the extent to which fairness affects the productivity of enterprises in Cross River State.
4. To examine the extent to which complexity affects the productivity of enterprises in Cross River State.

1.4 Research Questions

The research questions for the study are:

1. To what extent does honesty affects the productivity of enterprises in Cross River State?
2. To what extent do guilt and shame affects the productivity of enterprises in Cross River State?
3. To what extent does fairness affects the productivity of enterprises in Cross River State?
4. To what extent does complexity affects the productivity of enterprises in Cross River State?

1.5 Research hypotheses

The research hypotheses stated in null form are as follows:

1. Honesty has no significant effect on the productivity of enterprises in Cross River State.
2. Guilt and shame has no significant effect on the productivity of enterprise in Cross River States.
3. Fairness has no significant effect on the productivity of enterprises in Cross River State.
4. Complexity has no significant effect on the productivity of enterprises in Cross River State.

2.0 Review of related literature

2.1 Theoretical Framework

Models and theories of conformity (compliance) behaviour tend to reflect one of three schools of thought commonly referred to as economic deterrence, social psychology, and fiscal psychology (McKerchar & Evans, 2009).

2.1.1 Economic deterrence models

Economic deterrence models in general are based on the theory that behaviour, in a wide range of contexts including tax evasion, is responsive to punishment or sanctions. Economic deterrence models tend to have a narrow, theoretical view of behaviour, reducing its dimensions to numerical measures and assigned probabilities from which outcomes can be predicted using calculus. In order to determine behaviour in this manner, economic deterrence models tend to rely upon a wide range of fundamental assumptions that are generally unrealistic. For example, that all people respond to a change in any one variable in an identical and predictable manner; that all taxpayers have a full knowledge of the probability of being audited; and that all taxpayers have the same level of risk preference. Although empirical testing has been limited, the theoretical principles of economic deterrence have been widely adopted by tax administrations in developing enforcement strategies that rely principally on penalties and the fear of getting caught (McKerchar & Evans, 2009).

2.1.2 Social psychology models

Social psychology models are concerned with the prediction and understanding of human behaviour, or how people make decisions, using a range of methodological approaches including compositional modeling, attribution theory and equity theory (McKerchar & Evans, 2009).

Compositional modeling is characterized by the view that individuals undertake deliberate and reasoned action according to their personal preferences. This approach assumes that people consider the implications of their actions before they decide, or form an intention, to engage or not engage in a given behaviour. Further, this approach assumes that intention directly translates into behaviour, without any further influences. The model then seeks to explain how intention is formed (Azjen & Fishbein, 1980). Attribution theory is based on the assumption that individuals rationally interpret and analyze events in order to understand causal structures. People have internal (personal) and external (situational) attributes. In judging the behaviour of others, people will generally attribute the outcome as being caused by their own internal attributes. In judging their own behaviour, people tend to believe the cause is due to external attributes. Equity theory proposes that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable. Where there are perceived inequities, individuals will adjust their inputs to the exchange until equity is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance (McKerchar & Evans 2009).

2.1.3 Fiscal psychology models

Fiscal psychology models draw on both the economic deterrence and the social psychology models and generally view tax enforcement as a behavioural problem, one that can be resolved by co-operation between taxpayers and tax collectors. To obtain this co-operation, the role of the tax system itself in providing the positive stimulus (such as decreasing penalties) is emphasized. This stimulus is then expected to generate a more positive attitude in taxpayers that will in turn impact on their compliance decisions (McKerchar & Evans, 2009). It has been held that tax mentality; feelings of tax tension, and tax morale were the three psyches that together made up a taxpayer’s attitude. The more positive the taxpayer’s attitude towards paying tax, the greater the level of co-operation with the tax authority and the greater the willingness to pay tax. However, fiscal ignorance may be a negative influence on a taxpayer’s attitude (Lewis, 1979).

2.2 Conceptual framework

2.2.1 Concept of tax compliance

It seems appropriate to discuss tax compliance here since taxpayers are required to comply with tax legislations. Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though ‘tax laws are not always precise’ (James & Alley, 2002). The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However, like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy.

Andreoni, Erard and Feinstein (1998) claimed that tax compliance should be defined as taxpayers’ willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2008) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayer’ willingness to pay their taxes.

A wider definition of tax compliance given by Song and Yarbrough (1978) suggested that tax compliance should be defined as taxpayers’ ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (Internal Revenue Service Act, 2000).

Alm (1991) and Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filling their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. Singh (2003) notes that tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns (Chow 2004; Harris 1989). Compliance in pure administrational terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames (Ming Ling et al, 2005). In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Singh, 2003).

In line with Somasundram (2005b), the wider perspective of compliance becomes a major issue in a self-assessment system since the total amount tax payable is highly dependent on the levels of tax compliance this perspective reveals, although it is inevitable that tax authorities will seek to 'influence' the areas taxpayers have influence over determining to reduce the risks of non-compliant behaviour they face otherwise e.g. through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education. Some authors have viewed tax compliance from a different perspective. For example, Allingham and Sandmo (1972) described tax compliance as an issue of 'reporting an actual income' and also claimed that tax compliance behaviour was influenced by situation whereby taxpayers have to make a decision under uncertainty. Clotfelter (1983) i.e. either taxpayers would enjoy tax savings due to under-reporting income or have to pay tax on the undeclared amount at a penalty rate which is higher than they would have paid had the income been fully declared at the correct time.

McBarnet (2001) suggested tax compliance should be perceived in three ways, namely;

a) Committed compliance – taxpayers' willingness to pay taxes without compliant
b) Capitulative compliance – reluctantly giving in and paying taxes and
c) Creative compliance – engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the bracket of tax laws.

Spicer and Lundstedt (1976) perceived degrees of tax compliance as 'a special form of gambling' (which may involve likelihood of detection and penalties) which requires the tax authority to understand the factors underlying taxpayers' decision to comply with tax laws. Some literatures like Allingham and Sandmo (1972), Spicer and Lundstedt (1976), Lewis (1982) and Andreoni, Erard, and Feinstein (1998) therefore characterize and explain tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views). Tax enforcement aspects like penalties and the probability of detection also relate to tax compliance while other labor market behaviour factors including an individual's wages and tax bracket also contribute to tax compliance (Kirchler, 2008).

Based on previous authors' definitions, there are some keywords which were widely and interchangeably used to define tax compliance. For example, the words 'obey', 'ability' and 'willingness' (McBarnet, 2001; Andreoni et al, 1998; Kirchler 2007; Song and Yarbrough 1978; IRS 2009). Other keywords were also relevant in defining tax compliance i.e. 'reporting all income' (Alm, 1991; Jackson and Milliron 1986), 'act of filing tax returns' (Singh, 2003), 'declare the correct income' (IRS, 2000). In addition, some authors also included 'timeliness', 'right amount of tax' (Song and Yarbrough 1978; Ming Ling, et al 2005). The wider perspective of tax compliance was also illustrated in the definition provided by Andreoni et al (1998) in which they included the desired outcome as a result of obedience to tax laws – 'to obtain an economic equllibruim': Allingham and Sandmo (1972) and Spicer and Lundstedt (1976) 'enjoy tax saving' or 'penalty.' Singh (2003) described tax compliance as voluntary action 'without having to wait for follow up actions from tax authority.' Apart from these, Song Yarbrough (1978) included some factors of compliance in their definition, i.e. 'determined by ethics, legal environment and other situational factors.'

From the economic point of view, tax compliance has been defined as compliance with reporting requirements, meaning that the taxpayer files and pays all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the taxing system applicable at the time the return is filed (Devos, 2005). This definition holds an important extension from the previous definition, which is the timing issue. Late tax payments cannot be considered as proper compliance as cash today is worth more than cash tomorrow. The rationale behind this notion is that whenever a government does not collect tax payments on time, it would be forced to either cut public expenditure or increases the amount it has to raise elsewhere (James and Alley, 2002). It is further asserted that although late payments of tax fit many of the 'tax gap' measures, they do not represent full compliance.

Tax compliance behaviour may be perceived as a rational economic decision making process; as a reaction to perceived fairness; as an ethical conduct or as an action due to ignorance. Each of these factors in isolation may not by itself contribute to particular compliance behaviour. In fact, analysis of the findings of some empirical studies indicated that tax compliance behaviour varies widely over individual circumstances and influenced by factors such as the desire to avoid sanction as well as being subjected to group influence. Taxpayers may under-declare their income and would be deterred only by the chances of detection and penalties imposed.

Since there have been many empirical studies made to define tax compliance, for the purpose of this study, based on Alm (1991); Jackson and Milliron (1986) and Kirchler (2007), tax compliance is defined as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes on time.

2.2.2 Tax non-compliance

In contrast with tax compliance, tax non-compliance is defined as taxpayer's failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure (Jackson and Milliron 1986; Kesselman 1994 and Kasipillai and Jabbar, 2003). Non-compliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time Kirchler (2007). Some studies also segmented income tax non-compliance into unintentional and intentional behaviour, e.g. Loo (2006), Mohani (2001), Kesselman (1994) and Allingham and Sandmo (1972). Thus, in conclusion, based on Jackson and Milliron (1986), Kesselman (1994), Kasipillai and Jabbar (2003) non-compliance is defined for the purpose of this study as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions, relief and rebates and/or paying the incorrect amount of tax beyond the stipulated time frame.

Tax non-compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators see non-compliance only as an evasion problem, this does not seem to capture the full nature of the problem. Clearly, tax evasion is a form of non-compliance. However, if taxpayers go to inordinate length to reduce their liability, this could hardly be considered 'compliance' either; such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law. Tax compliance is a complex behavioral issue and investigation requires the use of variety of methods and data sources as each instrument has strength and weaknesses.

Tax non-compliance is of two types: intentional and unintentional. Intentional non-compliance is an offence against government in which the taxpayer understates the tax liability and subject to punishment. This could emanate from seeking benefit from avoidance, taxpayers' personal attitude towards compliance, situational factors, and complexity of tax structure, dissatisfaction on government service, and others. Social Scientists generally have considered tax evasion as one form of non-compliance. It is a serious challenge dealing with every nation's revenue authorities. It is further commented that unintentional understatement or overstatement of tax liability may arise because of, among others, lack of knowledge and failure to pay due care in the maintenance of book of accounts and the preparation of returns.

According to Hasseldine (2000), many tax agencies have used various techniques to measure the extent of non-compliance, but there will always be some compliance dependent on the social attitudes and behavioural aspects of taxpayers. Moreover, the extent of non-compliance among individual taxpayers not only depends on individual factors, but on a complex combination of circumstances. Non-compliance represents the most inclusive conceptualization with respect to the failure to meet tax obligations whether intentional or unintentional (Kinsey, 1985), as cited in Kasipillai and Jabbar(2003). Tax evasion however, involves some elements of fraudulent conduct accompanied by a real intention on the part of the taxpayer to willfully or deliberately mislead, deceive or conceal from IRB to pay less tax than actually owed. In general, non-compliance may take several forms and they include: failure to submit a tax return within the stipulated period or non-submission, understatement of income, overstatement of deductions and failure to pay assessed taxes by the due date.

Webley et al. (1991), detect a positive relationship between performance and tax compliance, but in spite of all the researches that have been done, more empirical work is needed to confirm the existence of these relationships and to measure the strength of their influence on tax compliance. This is particularly so, since tax compliance is of obvious importance for most countries. This work aims to study tax compliance in Nigeria, thereby supplementing empirical research on this important international problem

2.2.3 History of Taxation in Nigeria

Direct taxation has been in existence in Nigeria before the advent of the British rule in

1861: particularly in the North where there was an efficient and stable administration based on Islamic system (Abdulrazaq, 1993).

There were various forms of taxes in the Northern Nigeria in 1861, such as the “Zakat” (a tax levied on Muslims for charitable, religious and educational purposes), “KurdinKasa” (an agricultural tax), and “Jangali” (a cattle tax levied on livestock). In the South Western Area, there were various forms of taxes such as “Isakole” (tax levied on land used by local communities who are normally expected to pay “tribute tax” to the local chief), “Owo-ori” (tax paid by every individual in the community to the government).

The Eastern Area of Nigeria is said to be premised on the republican nature of the Igbos. The following are some of the form of taxes in this area: “egbu-nkwu” (tax imposed before palm oil is harvested, it is compulsory and there can be no harvest without it), community effort (tax on members of each community for specific purpose, it is also applicable in the Western Area of Nigeria). It is possible for those who are unable to physically take part in the community work to pay their levy in cowries (form of cash), food as well as palm wine.

During the pre-colonial era, taxation functioned more or less on an ethnic basis with a centralized authority, administrative machinery and judicial institutions such as the Northern areas where we have “Emirs”; Yoruba and Benin Kingdom where we have the “Obas”. In the non-chieftaincies areas like the Igbo, Tiv, Bura, Igbira and Bachama areas, there exists little or no form of organized taxation (Abdulrazaq, 1993). It should be noted however, that taxes were not necessarily paid in money during this period. They were mostly paid in kind and obligatory personal services otherwise known as “tribute taxes”.

The creation of the Colony of Lagos in 1862 brought about the English law, therefore the income tax as we have it today was first introduced in Nigeria by the British through Lord Lugard in 1904 (Due 1962) as cited in Abdulrasaq, 1993. To raise additional revenue, Lugard took steps to institute a uniform tax structure patterned on the traditional system that he had adopted in the North during his tenure there. Taxes, therefore, became a source of discontent in the South and in effect contributed to disturbances protesting British policy.
An amended ordinance that extended the provisions in the Native Revenue Ordinance of 1917 to Southern Nigeria was passed in 1918. The first ordinance applied to Abeokuta in Ogun State and Benin in Edo State, and in 1928 it was extended to Eastern Nigeria.

The Native Revenue Ordinance of 1917, 1918, and 1928 were later incorporated into the Direct Taxation Ordinance No4 of 1940, cap 54, which repealed the Native Revenue Ordinance, cap 74, of the 1923 edition and the Native Direct Taxation (colony) Ordinance No41 of 1937. The Direct Taxation Ordinance of 1940 could therefore be the fore runner of Nigerian tax legislations. Under the ordinance, the Europeans in the regions were not subjected to tax in the region in which they were resident whereas both the Africans and Europeans in the Federal Territory of Lagos were taxed. This situation led to the Raisman Fiscal Commission of 1958 that recommended the introduction throughout Nigeria of basic principles for taxing incomes. This recommendation was embodied in the Nigeria Constitution Order in Council of 1960, and formed the basis of the Income Tax Management Act of 1961 (Ola, 1981).

It is clear to note that the Nigerian tax system, although not documented, was virile and alive except for the differences in nature and method. Without a good tax structure that was in place in the North, it would probably have been tougher for Lord Lugard to start off the exercise. A good organization in place in the North, made it possible for him to lay proper foundation through codification and hence the subsequent extension to other part of Nigeria after the amalgamation.

In the Eastern Area of Nigeria, the initial attempt in 1928 to codify and restructure the tax after the enactment of the Native Revenue Ordinance practically resulted in the well-known "Aba riot" of 1929, which was triggered off from the imposition of taxation on the Ibo women. "The Ibo women, in our opinion, merely served as fronts for their men who would have needed to pay more tax anyway" (Otusanya, 2001).

2.2.4 Factors Affecting Conformity

There is a clear need for more empirical research on the factors involved in the decision- making process regarding conformity, since a better understanding of these factors can give birth to strategies that improve conformity. This is specifically true for Nigeria, where there is little empirical evidence on which to base policy prescriptions. The following are factors affecting conformity:

Honesty

The contribution of enforcement, penalties, prices, income, and institutions limits the set of possibilities of individuals in the economy. Institutions can be formal such as constitutions, statute law, and regulations or informal, for example, self-enforced codes of behaviour, social norms and conventions in the society. Individuals create institution to set the limit of what people in a certain group are allowed to do, or alternatively, to determine under what condition people may not take certain actions. In general, institutions also establish criteria for punishment and sanctions. Individuals, from their expectations about the behaviour of the society, respect or obey the laws. Based on these expectations, they will make their strategic choices. In the traditional model of tax compliance, this view of individual choices within a social environment is missing, only the threat of external sanction e.g. audits and penalties generate conformity. The fact that informal institutions can affect compliance has been excluded from the model.

Furthermore, if it is true that the threat of external punishment is important, it is also true that informal institutions, such as codes of behavior and honesty can also constraint people's choices .If others behave according to a socially accepted mode of behaviour, the individuals will also comply and pay taxes as long as they believe that compliance is a social norm. Polinsky and Shavell (2000), present a survey of the economic theory of public enforcement of law, emphasize the aspect of social norm, that social norms can be seen as a general alternative to law enforcement in channeling individuals behaviour. However, some points remain unexplained- how do these norms arise in the first place and how can these norms be changed by deliberate government policies? There are limits for a government to increase compliance using traditional policies such as audits and fines. Therefore, if the government can influence a norm, tax evasion can be reduced by policy activities. Also, taxpayer may be aware that their evasion could damage the welfare of the community they live in.

As a consequence, evasion can produce psychological costs. People may not be comfortable with dishonesty. However, when a taxpayer is convinced that he pays too much tax compared with the provided public goods, his psychological costs will be reduced.

In literature, there are two interesting theories that enable us to integrate moral constraints in a rational taxpayer model. The first theory is an altruistic approach (Chung

1976). Here taxpayers are not only interested in their own welfare but also concerned about the general welfare. The decision to evade is constrained by the knowledge that their evasion will reduce the amount of resources available for social welfare. The second is the “Kantian” morality approach (Sugden 1984). This approach broadly related to Kant’s definition of morality, is based on assumption that a fair tax is a tax which a taxpayer believes to be fair for all to pay. A false declaration will generate anxiety, guilt or a reduction in taxpayer’s image. It is assumed that a taxpayer feels these costs only if he believes that his tax share is not higher than what is defined fair. If he is paying a higher amount, evasion can be seen as a sort of self-defense.

Guilt and Shame

The process of being audited carries social risks, such as loss of reputation among family members, friends, and colleagues. In an extreme case, an audit can put the taxpayer’s job at risk. People commonly discuss issues related to their taxes among family members and at their jobs. Grasmick and Bursik (1990) find that the feeling of shame and the loss of respect when people evade taxes increase the level of compliance.

They differentiate between shame and embarrassment. The former is something that the individual feels personally, it does not depend on others, while embarrassment includes pressure from family and significant others. According to Lewis (1971), guilt arises when individuals realize that they have acted irresponsibly and in relation to a rule or social norm they have institutionalized. Since the obligation of paying taxes to the government is an accepted social norm, it makes sense that individual who choose not to pay all of their taxes may feel guilty.

Aitken and Bonneville (1980) found in a Taxpayer Opinion Survey that over 50% of the respondents claimed that their consciences would be bothered “a lot” after having engaged in any of the following activities;

(1) Padding business activities,
(2) Over stating medical expenses,
(3) Understating income,
(4) Not filing a return or
(5) Claiming an extra dependent.

Erard and Feinstein (1994) incorporate shame and guilt directly into the taxpayer utility. They hypothesized that a taxpayer feels guilty when he under-reports and escapes detection. He also feels ashamed when he under-reports and caught. The problem with Erard and Feinstein’s approach is that the taxpayer will not experience the threat of embarrassment if the people whose opinion is most value do not discover his crime. Thus, there is need to incorporate how the perceived probability of detection by significant others can also act as deterrent as well.

Fairness

Fairness is another factor that can affect tax compliance. An unfair tax system could enhance the incentives to rationalize cheating. A number of survey research studies have reported positive correlations between perceptions of fiscal inequity and tax evasion (Spicer 1974). Lack of equity in an exchange relationship creates a sense of distress, especially for the victim. Homes (1961) argued that disadvantage is followed by anger, advantage by guilt. Tax evasion may be seen as a reaction to restore equity.

Spicer and Becker (1980) in experimental research found that the amount of tax evaded increases when people are told that their tax burden is higher than that of the rest of the group. Nevertheless, there is no agreement regarding the empirical evidence on fairness.

Webley et al. (1991) found that there is no relation between perceived inequalities and compliance of the taxpayer. Bordignon (1993) introduced fairness as an additional motivation to the evasion decision. He rationalizes ethical norms by making them dependent on the tax structure, the supply of public goods, and the perceived behaviour of other taxpayers, The taxpayer's perception about the fairness of the system determines willingness to pay taxes; the more the tax burden and the provision of public goods differ from an individual's moral idea, the less willing will he be to pay his taxes. Bordignon finds that there is a percentage of the population that does not evade, even when incentives exist to cheat.

Alm, McClelland and Schulze (1992) suggest that compliance occurs because some individuals value the public goods their tax finance. If there is an increase in the amount individuals receive from a given tax payment, their compliance rate increases. Individuals then pay taxes to receive government services even when there is no chance to be detected or punished when evading. Cowell (1992) shows that taxpayer will reduce tax evasion when perceiving equity. Falkinger (1995) has pointed out concrete economic situations in which individuals reduce evasion if the socio-economic system is considered to be relatively equal and fair. The fairness of a system in which a person lives may result in bad reputation for evaders if people consider evasion to be blame-worthy, so that risk aversion will increase with perceived equity.

Taxpayer and Government

Another approach to moral and social influence is the degree of satisfaction taxpayers have with the government. Positive actions by the State are intended to increase taxpayers' positive attitudes and commitment to the tax system and tax payment and thus compliance behaviour. One of the most important social psychological reasons for expecting cooperation is reciprocation. Positive reciprocity is the impulse to be kind to those who have been kind to us. On the other hand "an eye for an eye" is a principal example of negative reciprocity. Positive behaviour of a state toward taxpayer will increase the likelihood of compliance.

Taxpayers are more inclined to comply to tax laws if the exchange between the tax paid and the performed government services are found to be equitable. According to Frey and Holler (1998), an increase in deterrence disrupts such a balance based on reciprocity for honest taxpayers. This feeling becomes stronger when taxpayers who consider themselves pay fair dues, are audited and fined. Equally, the balance will be disrupted when they noticed that other taxpayers who are violating the tax laws do not get punished. The way people are treated by the authorities affects their valuation of authorities and their willingness to cooperate.

Tyler (1997) argues that understanding what people want in a legal procedure help to explain public dissatisfaction with the law and points towards directions of building public support for the law in the future. Therefore, taxpayers, when they are treated fairly and respectfully by the tax authorities, tend to cooperate better. Another perspective admits the relationship between the taxpayer and the government, where elements such as government performance, public goods, the impact of public expenditure, and the taxpayer's internal motivation affect tax compliance decisions. Taxpayers will refuse to pay their taxes if they feel that the government is wasting their money. Looking to connect the performance of the government with the satisfaction of the taxpayer, Cowell and Gordon (1988) link the two sides of the government budget, income and expenditure, by introducing public goods. They found out that when tax rates increase, evasion decreases, the main result of their model is that tax evasion appears to depend not only on public revenue and audit system, but also on public expenditures. In other words, individuals pay taxes because, on the one hand, they value the goods provided by the government, and on the other, they recognized that their payments are necessary to finance these goods. Research to date supports the notion that compliance depends, in part, on how tax revenues are used. This was also corroborated by the work of Effiok, Tapang and Eton (2013).

Looking at voluntary contributions to public goods, for instance, Alm, Jackson and Mckee (1992) find that when individuals perceive that they receive benefits from a public good funded by the taxes collected, they show higher responses to comply. While both studies conclude that individuals pay more as the benefits from their contribution increase, the nature of individual responses is still somewhat unclear and controversial. Frey (1992) argues that the motivation of the taxpayer to comply depends on internal and external factors. Tighter monitoring and higher penalties can negatively affect the taxpayer's morale schema, since they imply that authorities do not trust taxpayers. Therefore, positive incentives should be used to encourage compliance. More research is needed on the relation between the taxpayer and the government generally, and particularly, in cases like Nigeria where lack of evidence limits the analysis of direct policy changes.

Recently, Feld and Frey (2002) analyze how tax authorities treat taxpayers. Using a data set of tax authorities' behaviour (26 cantonal tax authorities), they found that tax authorities of the cantons with more direct participation rights, compared with cantons of less democracy, treat taxpayers more respectively and are less suspicious if taxpayers report too low incomes. On the other hand, not submitted tax declarations are more heavily fined. This empirical work indicates the importance of differences (here political participation right) for explaining the relationship between taxpayers and tax authorities which influences tax morale. Tax compliance is not just a function of opportunity, tax rates, probability of detection and so on but of each individual's willingness to comply shaped by tax morale. This means that if tax morale is favorable, tax compliance will be relatively high.

Creative Conformity

According to Torgler (2003), "Taxpayers have different possibilities to express their attitude towards a tax system". While tax evasion might produce moral costs, tax avoidance reduces such moral costs but increases information or advice costs. Tax avoidance seems to be more broadly accepted than tax evasion. With tax practitioners, the focus on tax avoidance brings a new important player on the stage of analysis. The main argument is that tax evasion and tax avoidance have the target to reduce the tax burden. While tax evasion might be coupled with a possible disutility and thus create moral costs, tax avoidance is stamped by information and advice cost to find legal reductions in tax liabilities and take advantage of the tax law. Tax avoidance reduces the risk of penalty and gives the feeling to comply with the tax law. While distinguishing tax evasion and avoidance, McBarnet (1992) states "it is not what you do but the way you do it".

Tax avoidance being in line with the law, citizen's sense of duty might remain intact. Tax avoiders use the possibilities offered by the law to neutralize their moral cost of acting illegally. In a study of Kirchler, Maciejovsky and Schneider (2001), tax avoidance was associated with "legal, the intention to save taxes, cleverness, a good idea and costs" and was perceived as "moral" and associated with "the acceptance of tax reduction, horizontal justice and tax loophole" In contrary to avoidance, tax evasion was associated with "illegal, fraud criminal prosecution, risk, tax-audit, and the risk of getting caught", and was seen as "immoral" and associated with "risk tendency, intentional evasion, audit and sanction, opportunity, black money, unintentional errors, and vertical justice".

Critical analysis of tax avoidance helps to explore the incentives tax law can create. Tax avoidance is possible because tax laws in many countries give the opportunity to make adjustments in form of deductions, exclusions and allowance for income losses (Long and Gwartney 1987). Complicated tax laws may generate higher incentives for tax evasion which in turn depends on how tax laws defined illegal activities. Law can be used by the taxpayers and tax preparers in a "creative" way, seeing it as a material to work on and possibly able to transform taxpayers own interest. Tax avoidance is in general accepted as lawful.

Complexity

Complexity inevitably puts compliance at risk as some proportion of taxpayers will not fully understand their obligations and make errors while others may simply ignore what is expected of them. In addition, the possibilities to avoid or evade taxes normally also increase with the complexity of the tax system-which may encourage taxpayers to spend even more resources on reducing their tax bill and which increase the amount of resources needed in the tax administration to prevent and detect tax fraud. In reducing the complexity of tax system by broadening tax bases through the reduction in the number of tax exemptions and allowances, authorities might reduce the opportunities for taxpayers to make filing errors and to avoid and evade taxes. Less complexity then leads to an increase in tax compliance.

Standard models of tax compliance assume that taxpayers are fully informed of all the aspects that cover the tax reporting process (Andreoni et al. 1998). The level of knowledge and information might be an important factor in the way taxpayers behave. Well-educated taxpayers are supposed to know more about tax law and fiscal connections and thus would be in a better position to assess the degree of compliance. However, it should be noted that there might be people with lower education who have acquired a high knowledge about taxation. More educated taxpayer may be less compliant because they better understand the opportunities for avoiding taxes. Also, Fiscal knowledge may positively influence the practice of avoidance. Fiscal ignorance might be an important contributor to the development of negative feelings towards taxation.

Lewis (1982) reports that more educated taxpayers have in general more sympathetic fiscal preferences than those with a lower education because they are area of the benefits and services the state provides for the citizen from the revenues. According to Torgler (2003), experiments in the tax compliance literature have just started to pay attention to the effect of information on tax compliance.

Complexity may result in unintentional non-compliance if taxpayers have problems with filling the tax form. In addition, complexity can reduce the moral costs of evading taxes. Such noncompliance differs from other crimes, because it can be argued that the errors occurred unintentionally due to misrepresentation of the rules. Krause (2000) states that when rules are complex, compliance and enforcement will be imperfect. It imposes costs on the taxpayers and the tax administration and undermines the effectiveness of the tax policies.

Tax examiners in the tax administration will have greater problems to identify a case of noncompliance and comparing whether the violation was deliberate or unintentional. This can increase tax collection costs. Also additional compliance and administration costs are higher and taxpayers could be frustrated. A simplification would reduce taxpayers' expenditure in time and money to comply with tax law. Increasing tax complexity may shift taxpayers trade-off between costly compliance by using either owns' effort or external help (tax practitioners) and evading taxes towards the "exit" decision.

But, Schmidtchen (1994) argues that tax authority have the possibility to increase tax compliance by creating a more complex tax system as imperfect actors might behave more honestly and follow certain rules when uncertainty increases.

Tax Practitioners

People need a minimum fiscal knowledge to practice tax avoidance otherwise they can use tax practitioners as paid assistance to devise strategies to exploit legal ambiguities. Therefore, it could be argued that practitioners increase compliance level by reducing legal uncertainties and time or even anxiety. In other word, tax practitioners provide services and information and might be “guardians against unequivocal breaches of legal code and, on the other hand, exploiters of legally ambiguous features of tax code to the advantage of taxpayers” (Beck et al. 1994).

There are many reasons why taxpayers choose to use a tax agent. These reasons range from taxpayer wanting to file an accurate return, not having the knowledge to complete a complex return, wanting to minimize the tax they are required to pay, or simply not having enough time to complete their own return. Whatever the reason, taxpayer demand for tax agents increased substantially over the past few decades.

After the introduction of the self-assessment system in Australia in 1986, Sakurai and Braithwaite (2001) report that the number of taxpayers seeking advice from tax practitioners has increased. In the United States of America, approximately half of all federal individual income tax returns are prepared by professional tax return preparers (Erard 1993). Research in the United States of America has shown that professionally prepared returns tend to be more non-compliant than self-prepared returns and tax practitioners have stated that their clients demand such work (Erard 1993). In contrast, a number of studies have reported that taxpayers demand cautious behaviour and accurate returns from their tax agents (Murphy and Byng, 2002).This debate is far from being resolved.

The tax practitioners alleviate many of the informational and computational barriers to compliance- they also possess the expertise to assist their clients in exploiting opportunities for tax non-compliance. To this end, Klepper, Mazur and Nagin, (1991) suggest that tax agents can be both ‘exploiters’ and ‘enforcers’ of the law. When a tax agent is faced with an ambiguous situation, they tend to be exploiters of the law, in that they encourage tax avoidance.

The tax agents do have the knowledge and expertise to exploit the gray areas of tax laws, a number of studies have examined whether professionally prepared returns are more non-compliant in nature than self-prepared returns. For example, Erard (1993) found that paid tax preparer exhibited greater non-compliance. Thus the potential loss of tax revenue due to non-compliant reporting poses a serious problem for the Tax Authorities. The question of who instigates this non-compliant reporting, whether the tax agent or taxpayer, is therefore, an important one.

The aggressive tax planning industry argue that they are simply responding to the demand of their clients, there have been many situations where participants in aggressive tax planning scheme have been led to agree or invest based on trust in the proposals marketed to them (Murphy and Byng, 2002). Results from a number of surveys (Collins, Milliron, and Toy, 1990) indicate that the majority of taxpayers want their tax agents to assume an honest role and prepare accurate returns. Collins et al., (1990) concluded that approximately 70% of their sample used tax agents to file an accurate return, with only 25% indicating that minimizing their tax liabilities was their primary motive or objective. Sakurai and Braithwaite (2001) also report that taxpayers generally want an honest tax agent who files an accurate return. On the other hand, studies conducted on tax agents themselves indicate that they view their clients as the initiators of aggressive tax reporting (Attwell and Sawyer,2001: Tooley,1992). This point of view was supported by Sakurai and Braithwaite (2001) research on a sample of 2040 Australian taxpayers.

Sakurai and Braithwaite identify three types of tax adviser sought by taxpayers. The most popular type sought was one who was honest and risk-averse. The second most popular type was one who engaged in 'cautious minimization of tax'. The third type of tax practitioner sought by taxpayers was the 'creative accountant', aggressive tax planning type. In this case, the taxpayer wants a practitioner who is well net-worked and knows what issues a tax authority is targeting at that time. Unlike the second type of practitioner, the creative practitioner is not threatened by conflict. According to Sakurai and Braithwaite, the creative practitioner is by far the least popular preference among ordinary taxpayers but identifies a niche-market that is significant and of great concern to tax authorities.

The relationship between taxpayers and tax preparers is based on two side information asymmetry. Taxpayers have less information about the tax law and the tax liabilities. But it is difficult for taxpayers to distinguish between high quality and low quality tax preparers. However market mechanism might drive low quality tax preparers out of the supply side.

High quality tax practitioners have an incentive to build up reputation and to signalize their knowledge and ability. Studies have shown that the average level of noncompliance is higher for returns prepared with paid assistance. Erard (1993) found that the use of a tax practitioner significantly increase tax cheating.

Tax professionals are more aggressive when audit and penalty risks are low (McGill 1983). The probability of using tax practitioners is significantly higher for self-employed, married and older taxpayers and increases with complexity (Erard 1993). Also, Dubin et al. (1992) found that an increase in the Inland Revenue Service audit rate, the frequency of penalties and state, local or real estate taxes significantly increases the demand for practitioners.

Tax practitioners reduce the amount of unintentional reporting errors but increase problems with intentional noncompliance. Sakurai and Braithwaite (2001), show that taxpayers are quite successful in finding their suitable client, that is, tax practitioner

Taxpayers who intend to minimize their taxes and who are high risk takers find tax agents who are good at finding loopholes. On the other hand, risk averse taxpayers find tax practitioners who fit in their demand.

2.2.5 Concepts of Small and Medium Enterprises

Defining small business has always been very difficult and controversial. The term 'small business' covers a variety of firms (Hart, 2000) and it is used loosely in most of the literature. According to Peterson (1987), a small business is one which is independently owned and operated and which is not dominant in its field of operation. Researchers and other interested parties have used specific criteria to operationalize the small business, from the perspective of value added, value of assets, annual sales, and number of employees. Annual sales and number of employees are most often used to delimit the category. The problem of definition confronts all researchers as well as operators in the field.

A review of the literature on Small and Medium Enterprises (SMEs) shows that the definition of SMEs significantly varies from country to country depending on factors such as the country's state of economic development, the strength of the industrial and business sectors, the size of SMEs and the particular problems experienced by SMEs (Harabi, 2003). Hence, there is no uniform or universally accepted definition of SMEs (Investment Climate Assessment (ICA), 2009). In Nigeria, parameters such as asset base (excluding land), the number of workers employed and the annual turnover are used for the classification of MSMEs. The 1992 review by the National Council on Industrial Standards (NCIS) defined small and medium scale enterprises (SMEs) as enterprises with total cost (including working capital but excluding cost of land) of more than ₦31m, but not exceeding ₦3,150million, with a labour size of between 11 and 100 employees. There is, however, a consensus of opinions when it comes to defining SMEs in terms of asset base than on any other parameter. This is because in case of an economic depression, the impact on turnover and employment base would be greater than the impact on asset base. For instance, during a depression, there is a tendency for turnover and the number of people employed to fall substantially, while the asset base may be unaffected (NCIS, 1992).

SMEs can be divided into small and medium enterprises. The Federal Ministry of Industries defines a medium-scale enterprise as any company with operating assets less than ₦200 million, and employing less than 300 persons. A small-scale enterprise on the other hand, is one that has total assets of less than ₦50 million, with less than 100 employees. Annual turnover is not considered in the definition of an SME. The National Economic Reconstruction Fund (NERFUND) defines an SSE as one whose total assets are less than ₦10 million, but makes no reference either to its annual turnover or the number of employees.

The National Policy on SMEs adopts a classification based on the dual criteria: of employment and assets (excluding land and buildings), as follows:

Table 2.1
Classification Adopted by SMEDAN for National Policy on SMEs

	SIZE CATEGORY	EMPLOYMENT	ASSETS (N million) (excluding land and buildings)
1	Micro enterprises	Less than 10	Less than 5
2	Small enterprises	10-49	5 – less than 50
3	Medium enterprises	50-199	50- less than 500

Source: SMEDAN, 2007

Where there exists a conflict in classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (N7m but employs 7 persons), the employment-based classification would take precedence and the enterprise would be regarded as micro. Employment-based classification tends to be relatively a more stable definition, given that inflationary pressures may compromise the asset-based definition. In choosing these definitions, cognizance was taken of all possible factors, including international comparisons and peculiarities of the various sub-sectors/enterprises (SMEDAN, 2007).

It is obvious that there is no universal definition of SMEs. Some countries define SMEs according to number of employees; others define them based on the level of assets or turnover or both. However, most definitions are based on a mix of the above parameters. This creates a definite problem for SME operators. Lack of proper definition makes it difficult for them to take advantage of government-assisted programs meant for them.

2.2.6 Role of the Small and Medium Enterprises

A review of historical experience of economic growth and development in various countries is replete with success stories of the salutary effect and positive impact and contributions of SMEs in industrial developments, technological innovations and export promotion (Guerrero, 2005). The Industrial Revolution of 1760-1850 represents a good testimony of the inherent innovative spirit of SMEs, which is increasingly challenged in the present century particularly after winds of economic change cum technological innovations and industrial liberalization have swept various economies of the world (Diamond& William, 1993). These challenges notwithstanding, SMEs have remained as much important and relevant economic catalysts in industrialized countries as they are in the developing world. In many developed countries, more than 90% of all enterprises are within the SME sub-sector while 80% of the total industrial labour force in Japan, 50% in Germany and 46% in USA small businesses contribute nearly 39% of the country's national income. Comparable figures in many other developed countries are even higher.

Clark, John, Zalaha, Jack & Zinsser, 1988 indicated that the sustenance of interest in SMEs in the developed economies is due to technological as well as social reasons more so as those economies are currently driven by knowledge, skill and technology as opposed to material and energy-intensiveness. This is also as a result of a paradigm shift to new processes of manufacturing that are based on flexible systems and processes of production driven by sophisticated software on robust hardware platforms. The social reasons include the need for generation of more employment and poverty reduction through self-employment ventures and decentralized work centres. Though it is difficult to obtain exact and comparable figures on SMEs for developing countries, it is obvious that the role of SMEs is equally important in the economies of developing and developed countries alike. Small domestic markets, inadequate infrastructure, high transportation costs, shortage of capital and foreign exchange, weak currency, lack of access to technology and foreign markets as well as surplus low quality labour are the general characteristics of developing countries and hence are susceptible to being trapped in a technology divide and investment gap.

Foreign direct investment and the acquisition of technology are indispensable elements for economic transformation these countries require to achieve sustainable economic growth and poverty alleviation (Boyett & Boyett, 1996). Although SMEs in developing countries and countries with economies in transition are regarded as the engine of economic growth, they face enormous challenges in attracting investors and accessing modern technology. Other barriers which SMEs in developing economies face include the lack of effective investment and technology promotion policies, inappropriate legal and regulatory frameworks, inadequate capabilities of investment promotion and technology support institutions and the lack of access to potential investors and sources of new technology, limited technical and managerial skills, difficulty in obtaining financing and insufficient knowledge about laws and regulations. Others are inability to achieve economies of scale through integration or linkages, problems of size and relative isolation such as the difficulties in entering into national and global value chains driven by large multinational corporations.

Although, a competitive and resilient industrial sector relies on an appropriate mix of large, medium and small enterprises for optimum performance. SMEs certainly play a major role in creating employment income and value added, accounting for up to ninety percent (90%) of manufacturing enterprises and between forty (40%) to eighty percent (80%) of manufacturing employment.

In developing countries, the role of SMEs is even more important since SMEs often offer the only realistic prospects for creating additional employment and thus reducing poverty and enhancing the quality of lives (Suleiman, 2005). A healthy SME sub-sector is a sine qua non for inclusive and socially sustainable development even though institutions that provide support services where available are often limited in capacity and coverage in developing economies. Exports by SMEs usually range between 30 and 50 percent of total industrial exports in developed and developing countries. In tune with the latest developments in the world economy and the attendant globalization effects, the role of SMEs going forward is bound to be even greater and more pervasive, with a demonstrable impact on the emerging world trading order (Oyedijo, 2005).

2.2.7 Significance of the Small and Medium Enterprises

The SMEs operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developed countries (Nwankwo, 2005). Almost every country assists her SMEs largely because of the crucial inherent role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services than on protection and subsidies. Other services provided by some governments include commercial finance, venture capital, information training and retraining, Research and Development (R&D) support, infrastructure and tax incentives. Some of these facilities are provided through local authorities and industry associations at times with the involvement of non-governmental organizations (NGOs). In recognition of the crucial roles played by SMEs with respect to economic growth and development, succeeding governments in Nigeria had various initiatives aimed at promoting the cause of SMEs in the country (Nnanna, 2005). The most tangible among the different incentive packages that varied with almost every change in government leadership was the focus on enhancing the financial opportunities for the SMEs.

2.2.8 Characteristics of small and medium enterprises in Nigeria

A major characteristic of Nigeria's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships (Buchele, 1977). Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business.

Other common features of Nigeria's SMEs include the following among others (Egbabor, 2004).

1. Labour intensive production processes
2. Concentration of management on the key man
3. Limited access to long term funds
4. High cost of funds as a result of high interest rates and bank charges
5. High mortality rate especially within their first two years
6. Over-dependence on imported raw materials and spare parts
7. Poor inter and intra-sectoral linkages - hence they hardly enjoy economies of scale benefits
8. Poor managerial skills due to their inability to pay for skilled labour
9. Poor product quality output
10. Absence of Research and Development
11. Little or no training and development for their staff
12. Poor documentations of policy, strategy, financials, plans, info, systems
13. Low entrepreneurial skills, inadequate educational technical background
14. Lack of adequate financial record keeping

15. Poor Capital structure, i.e. low capitalization
16. Poor management of financial resources and inability to distinguish between personal and business finance
17. High production costs due to inadequate infrastructure and wastages.
18. Use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage.
19. Lack of access to international market
20. Lack of succession plan
21. Poor access to vital information

2.2.9 Challenges of the small and medium enterprises

Most small and medium enterprises die within their first five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity (Mordi, 2005).

Many factors have been identified as to the possible causes or contributing factors to the premature death. Key among this include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, painlessness, cut-throat competition, lack of official patronage of locally produced goods and services, dumping of foreign goods and over concentration of decision making on one (key) person, usually the owner (David-Ikpe, 2005). Other challenges which SMEs face in Nigeria include irregular power supply and other infrastructural inadequacies (water, roads etc.) unfavorable fiscal policies, multiple taxes, levies and rates, fuel crises or shortages, policy inconsistencies, reversals and shocks, uneasy access to funding, poor policy implementation, restricted market access, raw materials sourcing problems, competition with cheaper imported products, problems of inter-sectoral linkages given that most large scale firms source some of their raw material outside instead of subcontracting to SMEs, insecurity of people and property, fragile ownership base, lack of requisite skill and experience, thin management, unfavourable monetary policies, lack of preservation, processing and storage technology and facilities, lack of entrepreneurial spirit, poor capital structuring as well as poor management of financial, human and other resources.

Their characteristics and the attendant challenges notwithstanding, it is the consensus that SMEs, which globally are regarded as the strategic and essential fulcrum for any nation's economic development and growth have performed rather poorly in Nigeria (Mordi, 2005). The reason for this all-important sectors dismal performance have been varied and convoluted depending on who is commenting or whose view is being sought. For sure it has nothing to do with government's appreciation of the vital central role of the sector as evidenced by how well SMEs have been acknowledged and orchestrated in various government's budget, with the imperativeness of SMEs as the bulwark for employment generation, poverty reduction and technological development being highlighted. While many attribute the relatively poor performance of SMEs in Nigeria when compared with the significant roles which SMEs have played in developed economies such as the United Kingdom, Germany and the United States and even developing countries of the world like India to the challenges outlined above, some others hinge the reasons on the fair share of neglect on the sector by the government (Mordi, 2005).

The latter group argues that government's appreciation of the SMEs in capacity building has always been restricted to the pages of the budget presentations and submissions at various fora. Essentially, they argue that poor budget implementations over the years account for the unsavory impacts of SMEs on the Nigerian economy, which has had a record sluggish growth and declining future as measured by the population of Nigerians becoming literate, having more access to better health care, shelter, food, and other necessities of life such as access to more and better paying jobs as well as declining per capita income. Other parameters usually used to measure the performance of SMEs include percentage of working population employed by the SMEs in a given country or economy, the percentage contribution to the country's GDP, managerial and technical capacity building, percentage of revenue internally generated or percentage of total PAYE accruing to the government from the SMEs employees, years increases in average household income, etc.

2.2.10 Problems of small and medium enterprises in Nigeria

The fact that SMEs have not made the desired impact on the Nigerian economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled (Owolabi, 2005).

A review of literature reveals indeed the following plethora of problems, which are enormous, fundamental and far-reaching:

1. Inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc.
2. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.
3. Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
4. Discrimination from banks, which are averse to the risk of lending to SMEs especially start-ups
5. High cost of packaging appropriate business proposals
6. Uneven competition arising from import tariffs, which at times favour imported finished products
7. Lack of access to appropriate technology as well as near absence of research and development
8. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times
9. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
10. Unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalization and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.

11. Weakness in organization, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff.
12. High incidence of multiplicity of regulatory agencies, taxes and levies that result in high cost of doing business and discourage entrepreneurs. This is due to the absence of a harmonized and gazette tax regime, which would enable manufacturers to build in recognized and approved levies and taxes payable.
13. Widespread corruption and harassment of SMEs by some agencies of government over unauthorized levies and charges
14. Absence of long-term finance to fund capital assets and equipment under project finance for SMEs
15. The lack of scientific and technological knowledge and know-how, i.e. the prevalence of poor intellectual capital resources, which manifest as:

i. Lack of equipment, which have to be imported most times at great cost (capital flight) and which would require expatriate skills to be purchased at high costs.
ii. Lack of process technology, design, patents, etc., which may involve payment of royalties, technology transfer fees, etc. and heavy capital outlay.
iii. Lack of technical skills in the form of technological and strategic capability
iv. Inability to meet stringent international quality standards, a subtle trade barrier set up by some developed countries in the guise of environmental or health standards. A relevant example is the impending ban of marine foods, vegetables, fruits and other agricultural products from Africa into the United States of America markets.
v. The inability to penetrate and compete favorably in export markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate mechanism and technology to process, preserve and package the products for export.

16. Lack of initiative and administrative framework or linkage to support and sustain SMEs development, which to a large extent, is also a reflection of poor technological capability or intellectual resource.
17. Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organizational set-up, transparent operational system, etc. on the part of many founders and managers of SMEs in Nigeria. As a fallout of this, many of the SME promoters purchase obsolete and inefficient equipment thereby setting the stage ability for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.
18. Lack of suitable training and leadership development. In spite of the fact that training institutions abound in Nigeria, they rarely address the relevant needs of SMEs especially in the areas of Accounting, Marketing, Information Technology, Technological processes and development, International trade, Administration and management of Small and Medium Enterprises. Essentially, SMEs are left most often on their own to eke out success amidst the avalanche of operational difficulties inherent in the Nigerian environment as well as the operational shortcomings, which characterize institutions set up to facilitate SME businesses (Siaka-Momoh, 2005).

A recent survey by Business Day reveals that power supply ranks top on areas SMEs would want improved in the New Year. Other factors identified by those sampled include government policies, infrastructure, and access to funds. Some of those interviewed asserted that the year 2004 was catastrophic as far as power and policy are concerned. Some firms had to close down because of government's decision to ban the importation of some items. A specific case was a carpet-producing company in Ota. Some others observed that the greatest problem confronting the development of entrepreneurship in Nigeria is corruption given that huge sums of stolen funds are taken out of the country instead of being used to develop the country.

2.2.11 Prospects of small and medium enterprises in Nigeria

The identified problems of SMEs notwithstanding their enormous depth, breadth and intensity, it is only fair and proper to acknowledge the fact that the government did not fold its arms to watch the SMEs wallow in the gamut of problems. Doubtless, the government fully appreciates the opportunities SMEs create for employment, their contributions to economic growth and development as well as the constraints and difficulties in their operating environment (Nnanna, 2005). These explain why in the past forty-five years or so, the government has established various support institutions and relief measures specially structured to render assistance and succour to minimize the constraints, which SMEs typically face if not to eliminate them. The support institutions established by the government range from specialized banks designed to focus on the funding of SMEs to agencies and departments all meant to give a flip to the fortunes of SMEs. It is also pertinent to note that government policies behind the establishment and operations of the SME support institutions had not been effective and productive.

From all indications, as well as observed lapses inherent in them, the policies were either defective in their formulation and conceptualization, or were not truly and religiously implemented (Nnanna, 2005). Our investigations also revealed that part of the reason why the policies were not effective could be explained by the fact that the operators, managers or proprietors of the SMEs were neither consulted nor involved in the formulations of the policies, which were expected to solve their problems; hence, there were apparent misplacements of priorities and emphases. All the stakeholders in the SME sub-sector should be involved in policy formulations and implementation for them to be effective and yield expected results.

The comfort is that the governments (local, state and federal) are neither relenting nor giving up in their bid to revamp and invigorate the fortunes of SMEs as to enable them play the expected role in Nigeria's economic growth and development. This is evidenced by the government's recent establishment of as well as the mandate given to the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the facilitation of the Bankers Committee's institutionalization of the Small and Medium Industries Equity Investment Scheme (SMIEIS), the federal government's drive and focus on realizing the objective of NEPAD, the government's endorsement and support of multilateral agencies and loans, and the government's backing of international development finance facilities such as the European Investment Bank (EIB) facilities and the likes. Other indications relate to the government's programmes aimed at poverty alleviation and providing succour to those whose jobs could be affected by the current government reforms as well as the proposed establishment of a Credit Guarantee Scheme for loans to SMEs (Uzodike, 1999).

Given the crucial role SMEs play in the industrial and economic growth and development of developing countries like Nigeria, the various governments in Nigeria cannot afford to relax in their efforts towards making the SME sub sector very vibrant and productive. Aside from the government's concerted and relentless efforts towards revamping and sustaining to vibrancy of this all-important sub-sector, the private sector as well as professional groups and associations are also not relenting in their own vital contributions to the development of the sub sector. The capital market driven by the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) have been not only expanding its facilities but also working to make it cost effective for SMEs to access funding from the market. Professional groups and associations such as the various Chambers of Commerce, Nigerian Association of Small and Medium Enterprises (NASME), Nigerian Association of Small Scale Industries (NASSI) and the likes are vigorously pursuing, pushing and lobbying the governments for improved welfare and a better and more enabling operating environment.

Given the current awareness of the Nigerian investing public as well as the depth of the Nigerian capital market, it is expected that many SMEs would approach the capital market to raise funds. On a related note, there is a reawakening and new impetus towards the establishment of venture capital companies primarily targeted at developing SMEs. Even some banks are exploring this option towards finding a sure window or vehicle through which they would invest the SMIEIS funds, which they have reserved since the commencement of the scheme.

The on-going reforms being undertaken by the government ministries, inter-ministerial departments, agencies and parastatals are bound to render quite a handful jobless. Certainly one sub-sector, which many of the affected persons may want to venture into would be the SME. Thus, this scenario would make it compelling for the government not to ignore this one of the most important sub sectors of the Nigerian economy (Ufeli, 2005).

At the international front, SMEs in Nigeria have better and much improved operational environment. The current thrust on commercialization and privatization of government-owned companies has also opened up new vista for SMEs and entrepreneurs. The effect of globalization has also had salutary impact on the sub-sector. The liberalization of trade through WTO agreements has provided awareness through which SMEs could access international markets. The African Growth and Opportunities Act (AGOA), which favours and gives incentives to exporters from African countries to the United States of America represents another opportunity. Similarly, NEPAD has provided other growth opportunities for Nigerian SMEs. On a related note, the federal government has been consistently making overtures to developed countries to come to invest in Nigeria. Efforts in this direction include personal visits by the president, trade missions, trade fairs, exhibitions and other promotional and showcasing activities. The intensified activities of the Nigerian Export Promotion Council (NEPC) and the Nigerian Investment Promotion Council (NIPC) underscore the government efforts in this direction.

In the same token, Nigeria, by virtue of its huge economic and investment opportunities, as well as the vase market, has attracted so many foreign trade delegations and missions. In November 2004, a high-powered trade delegation from Thailand's Department of Export Promotion was in Nigeria with a view to strengthening bilateral trade relationships between Nigeria and Thailand. Aside from meeting with some SME operators in Lagos, the delegation led by Charoon Lewechalermvong, a director in the department, also met with leaders of the National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) and representatives of Lagos, Kaduna and Enugu Chambers of Commerce. The focus of the World Bank's IFC, which emphasizes on SMEs, has remained high in its priority. The same can be said for many other international agencies like the United Nations Industrial Development Organization (UNIDO), the United Kingdom's

Department for International Development (DFID), the United States Agency for International Development (USAID), and the World Bank's International Development Agency (IDA). Recently (in February 2005), the Institute of Directors (IOD) president, Ms. Bennedikter Molokwu confirmed that the Blair Commission for Africa is to assist the SMEs in Nigeria by creating access to loans and a structure for on-lending through banks. She noted that it is a well-known fact that the African economy is government-driven while SMEs are the veritable engine of growth in developed economies.

Molokwu stated that SMEs are the largest employer of labour, providing livelihood for over 80 percent of the African work force especially women and the young. She noted that statistics have it that only about 10% of SMEs in Nigeria are involved in manufacturing while the rest are in agriculture, services and commerce. This fact largely informed the recent (February 2005) modification of the SMIEIS fund, which is no longer limited in its scope. As regards SMEs challenges in Nigeria, the IOD president had this to say: Unfortunately, these SMEs over the years, have been bedeviled by several inhibitions, which tend to make their growth perpetually stunted by infrastructural decay, insecurity of lives and property, multiplicity of taxation, lack of access to good and modern technology, lack of research and development as well as good entrepreneurship, difficulties in building coalitions and business linkages among others (Mordi, 2005).

Similarly, during the commissioning of the headquarters of the Small and Medium Enterprises Development Association of Nigeria (SMEDAN) on March 1, 2005, President Olusegun Obasanjo charged the Central Bank of Nigeria (CBN) to ensure the realization of the primary objective of the Small and Medium Industries Equity Investment Scheme (SMIEIS), which is expected to complement the development efforts of the financial institutions like the Bank of Industry (BOI), the Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB), which provide a medium for long-term financial resources to enterprises in Nigeria. He also noted that the on-going reform of commercial banks by the CBN is expected to boost the flow of funds at competitive interest rates to businesses including the SMEs. The president reminded Nigerians that the present administration has made the development of SMEs a primary focus of its reform programme as stipulated in the National Economic Empowerment and Development Strategy (NEEDS) stressing that our primary goal is to provide greater access to income-generating opportunities for our people and enhance their capacity to respond to those opportunities, "adding that our economic history and experiences of other countries show us the immense potentials of SMEs to redress poverty growth, wealth creation, employment generation and job creation. Unfortunately, these were largely neglected for many years prior to our coming into office in 1999¨. Chief Obasanjo further acknowledged that the increasing hostile operating environment, including the deteriorating state of infrastructure, in the past led many companies to fold up while other operators moved their business activities to the informal sector. He also confirmed that SMEs in Nigeria lack access to business information, markets, finance and even production technology. President Obasanjo however expressed optimism for the future of SMEs as his administration has instituted a comprehensive economic package of reforms, which have started yielding good results. These are evident in the remarkable improvement in the legal and regulatory environment, especially as regards company registration, taxation, and state of infrastructure (telecommunication in particular).

In furtherance of its efforts towards making the SME sub-sector more vibrant, the government through SMEDAN recently called on G8 to assist in providing an enabling environment for small businesses to thrive in Nigeria.

The current thrust of the recently established Small and Medium

Enterprises Development Agency of Nigeria (SMEDAN) gives hope, confidence and optimism that going forward, government's attention would continue to be attracted to the SME sub-sector. The Agency is already about concluding a nationwide census/survey of micro, small and medium enterprises (MSMEs), which it commenced in March, 2004. Given its challenging mandate of initiating and articulating ideas for micro, small and medium enterprises policy thrust as well as promoting and facilitating development programmes, instruments and support services to accelerate the development and modernization of MSMEs, SMEDAN badly needed to have a comprehensive understanding and knowledge of the population of MSMEs in the country, their distribution by sectors such as agriculture, manufacturing, services, trade, construction, mining, technology, etc., and their distribution by rural and urban areas as well as the level of vertical and horizontal linkages within and between various sectors of industry so as to access the level of industrial integration and the incidence of sub-contracting and its potential in giving a flip to industrial development (Siaka-Momoh, 2004). The census/survey will also enable SMEDAN to determine and assess the major operating difficulties of MSMEs relating to both market functions (such as demand-pricing factors, supply factors, raw materials, technology infrastructure, etc.) and policy environment as it relates to regulatory, incentive and support regimes. The overall benefits of the census/survey would hinge on the expected robust data and information, which SMEDAN would employ as a basis for policy formulation, implementation and intervention, effective developmental planning, vital advice on new investments, raw materials availability as well as available technology, available markets, available sources of funds and assistance (Mordi, 2005).

The survey exercise is also expected to adequately equip and empower SMEDAN to effectively do the following, inter alia:

- **i.** Map out effective strategies for revamping and reforming the MSMEs sub-sector through appropriately advising the government on policy formulation and execution.
- **ii.** Recommend the right operators for various incentives and support by government including funding, be it loan, equity and grants.
- **iii.** Offer relevant advisory services to state governments on how best to support and invigorate MSMEs in their domains bearing their peculiarities and circumstances in mind.
- **iv.** Identify viable projects for both local and foreign investors in order to attract foreign investment.
- **v.** Identify viable projects with export potentials and also identify and advise on the appropriate foreign markets in order to boost foreign exchange earnings.
- **vi.** Identify and assess MSMEs critical requirements in the areas of capacity building, skills gap, knowledge, skills and process and liaise with the relevant institutions and agencies of government like the National Poverty Eradication Programme (NAPEP), the Centre for Management Development (CMD), the National Directorate of Employment (NDE), etc.
- **vii.** Establish a befitting business support centre for each state in the federation.
- **viii.** Facilitate the promotion and government patronage of quality local products of SMEs for either local consumption or export or both.

3.0 Methods and Materials

Research design is the blueprint for the collection, measurement and analysis of data

(Etuk, 2010). In this study the researcher made use of the ex-post facto design. According to Etuk (2010), ex-post designs do not provide the investigator the opportunity to control the variables mainly because they have already occurred or cannot be manipulated. In effect, there is no manipulation of independent variables to be use in this study. The design has helped the researcher to find out, describe and explain existing problem and draw generalization on the population based on the data collected from the respondents.

The study area of Cross River State is where the selected small and medium scale enterprises operate. Cross River State is the first capital city of Nigeria. It is located within South-Eastern axis of Nigeria named after the Cross River; the major waterway which passes through the State is located in the Niger Delta. Cross River State occupies 20,156 square kilometres. It shares boundaries with Benue State to the North, Enugu and Abia States in the West, Cameroon Republic to the East and Akwa Ibom State and Atlantic Ocean to the South (Wikipedia, 2012). The researcher took cognizance of the entire spectrum of small and medium scale enterprises operations to ensure that the survey had a wide coverage.

According to Etuk (2010), population comprises all the elements that form the basis of analysis. The population of this study would cover all the three senatorial districts viz. North, Central and South and the eighteen local government areas in Cross River State. The population size is 12,396 SME$_S$ owners as obtained in the Table 3.1 below:

Table 3.1
Determination of the population size

SENATORIAL DISTRICT	NUMBER OF REGISTERED SME$_S$	TOTAL
NORTH SENATORIAL DISTRICT		
BEKWARA	128	
OBANLIKU	209	
OBUBU	749	
OGOJA	526	
YALA	165	
TOTAL		**1,777**
CENTRAL SENATORIAL DISTRICT		
ABI	29	
BOKI	168	
ETUNG	70	
IKOM	1,483	
OBUBRA	801	
YAKURR	423	
TOTAL		**2,974**
SOUTH SENATORIAL DISTRICT		
AKAMKPA	768	
AKPABUYO	11	
BAKASSI	Nil	

BIASE	272	
CALABAR MUNICIPAL	4,151	
CALABAR SOUTH	2,415	
ODUKPANI	28	
TOTAL		**7,645**
		12,396

Source: Researcher's Estimation, 2018

The sample size for the study was 388 small and medium scale enterprises owners obtained using the Taro Yamane formula in determining the sample size. According to Yamane (1967), the sample size is obtained thus:

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

Where: n = Sample size
N = Actual population = 12,396
e = Tolerable error = 5%

$$N = \frac{12,396}{1 + [12,396 \text{x} (0.05^2)]}$$

$$= \frac{12,396}{1 + (12,396 \times 0.0025)}$$

$$= \frac{12,396}{1 + 30.99}$$

= 387.5 Approximately 388

Sample size (n) = 388 SME_S Owners

A simple random sampling technique is adopted to effectively select the sample for this study. To do this, the list of the small and medium scale enterprises was collected from the Cross River State of Nigeria Microfinance and Enterprise Development Agency (MEDA) and the names of each of the small and medium scale enterprise were written on pieces of papers and put in a basket. Three hundred and eighty-eight (388) draws were randomly made and the names of the small and medium scale enterprise on the selected pieces of papers were used for the study. In all, a total of three hundred and eighty-eight (388) small and medium scale enterprises owners were selected (See Table 3.2 below).

Table 3.2
Determination of sample size per local government and senatorial districts

Senatorial District	**Number of Registered SME_S**	**Sample Size Computation**	**Sample Size (n)**
North Senatorial District			
Bekwara	128	128/12396 X 388 = 4	
Obanliku	209	209/12396 X 388= 7	
Obubu	749	749/12396 X 388= 23	
Ogoja	526	526/12396 X 388= 17	
Yala	165	165/12396 X 388= 5	
Total			**56**

Central Senatorial District			
Abi	29	29/12396 X 388 = 1	
Boki	168	168/12396 X 388 = 5	
Etung	70	70/12396 X 388 = 2	
Ikom	1,483	1483/12396 X 388 = 46	
Obubra	801	801/12396 X 388 = 25	
Yakurr	423	423/12396 X 388 = 13	
Total			**92**
South Senatorial District			
Akamkpa	768	768/12396 X 388 = 24	
Akpabuyo	11	11/12396 X 388 = Nil	
Bakassi	Nil	Nil	
Biase	272	272/12396 X 388 = 9	
Calabar Municipal	4,151	4151/12396 X 388= 130	
Calabar South	2,415	2415/12396 X 388= 76	
Odukpani	28	28/12396 X 388 = 1	**240**
TOTAL	**12,396**		**388**

Source: Researcher's Estimation, 2018

4.0 Findings

Based on the analysis and the empirical results the study revealed that the estimated coefficient of the regression parameters conform to the a-priori expectation. The study also revealed that there is a very low relationship between the independent variables Honesty (HON), Guilt & Shame (GS), Fairness (F) and Complexity (COM) with the dependent variable productivity (PROD) of enterprises. The study further revealed that Honesty (HON), Guilt & Shame (GS), Fairness (F) and Complexity (COM) has a significant effect on the productivity of enterprises in Cross River State of Nigeria. These results are in line with the work of Webley, Robben, .Elffers, and Hessing, (1991).

5.0 Conclusion/Recommendations

5.1 Conclusion

Concerns about tax conformity in the tax policy area should be considered by the government in Nigeria. Good tax policy should not be a burden to taxpayers. If enterprises in Nigeria are to be supported, reduction in their tax conformity cost should be a priority for Nigerian policy makers and tax officials. Tax officers in dealing with enterprises should not request more information than will be processed and used for the tax administration's purposes. They should provide simple and clear information on what, how where, and by when actions should be completed, and clearly delineate record keeping requirements. Policy makers should standardize procedures nationwide in order to avoid different treatment across different offices and operate with transparency and public accountability. High tax conformity costs may hinder the growth of enterprises in Nigeria. This will spell doom for Nigeria's vision of becoming one of the 20 most industrialized country in the year 2020 since enterprises are the engine of growth and development the world over.

5.2 Recommendations

Based on the background of the above conclusion, the study therefore recommended that:

1 There is need for government to provide tax advisory services to enterprises in Nigeria as this would increase conformity that are associated with using external tax experts. This study therefore suggest that apart from collecting tax from enterprises, government tax offices should also be willing to provide free advisory and conformity support services to enterprises as this will reduce the likelihood of their adoption of private tax professionals.

2 Nigerian government should intensify effort to simplify the tax system especially for enterprises. This is because understanding and interpreting a complex tax regulation by enterprises increases their level of tax compliance which often has a distortionary effect on the growth of enterprises. Filing returns and paying taxes can be extremely burdensome, particularly if the forms are complex, the requested information hard to obtain, and return filing requires time consuming visits to the tax office in order to comply with tax obligations. Enterprises often spend much time in analyzing the difficult and unstable tax legislation in order to find out which tax rules exactly apply to them in a certain tax year. Enterprises regularly even appeal to expensive tax experts to assist them in correctly interpreting the tax laws. Consequently, simplifying tax legislation should be one of the major objectives of policy makers in order to decrease conformity costs. We also recommend that Nigerian government should develop information technology tools to facilitate the understanding, interpretation, and calculation of taxes for enterprises by taxpayers.

3 Enterprises tax conformity process should be reviewed by the Nigerian government and if necessary a more cost saving approach for collecting the tax be developed, as this from the findings forms a major conformity burden for enterprises in Nigeria.

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