Public Governance Quality and Tax Compliance of SMEs in North-East Nigeria

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ABSTRACT

The study investigates the relationship between public governance quality (PGQ) indicators and tax compliance among Small and Medium Enterprises (SMEs) in Northeast Nigeria. The research examines six PGQ dimensions government effectiveness, rule of law, control of corruption, political stability, regulatory quality, and voice and accountability as determinants of SMEs' tax compliance behavior. A quantitative survey design was adopted, with data collected from 140 owner-managers of registered SMEs using cluster sampling. Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed to analyze the data. The findings reveal that government effectiveness, rule of law, and regulatory quality exert a positive and significant influence on SMEs' tax compliance, while control of corruption and voice and accountability show significant negative relationships. Political stability indicated a positive but statistically insignificant relationship. The results underscore the importance of effective institutions, credible legal systems, and sound regulatory frameworks in enhancing tax compliance among SMEs, suggesting that effective institutions, fair enforcement, and transparent regulations foster compliance, whereas poorly perceived anti-corruption efforts and accountability mechanisms may undermine it. The study recommends strengthening institutional trust, simplifying regulatory frameworks, and ensuring transparent governance practices to enhance SMEs' voluntary tax compliance and broaden the revenue base for sustainable development.

Keywords: Public Governance Quality (PGQ)**,** Small and Medium Enterprises (SMEs), Tax compliance, Northeast

INTRODUCTION

Most large corporations originate as small and medium-sized enterprises (SMEs), implying that today's SMEs represent the future conglomerates that must be nurtured to achieve sustainable growth. Consequently, SMEs are widely regarded as the foundation of indigenous entrepreneurship, serving as the seedbed for numerous small-scale investments that might not otherwise occur (Aryeetey & Ahene, 2025). Governments from developing economies such as Nigeria must prioritize the development of the private sector by fostering an enabling environment for SMEs' growth, reinforcing the determinants of business success, and addressing the challenges that threaten their survival and expansion (Chu, Kara & Benzing, 2018). Their contributions span from mobilizing domestic savings for investment, enhancing gross domestic product, utilizing local raw materials, generating employment, alleviating poverty through sustainable livelihoods and income enhancement, stimulating technological progress, and promoting export diversification (Smatrakalev, 2023). Additionally, SMEs possess the unique advantage of penetrating remote areas of the country, unlike larger firms.

It is widely recognized that revenue generated through taxation of businesses constitutes a critical source of government revenue. This is particularly significant in the Nigerian economy, which is struggling to maintain economic stability. Tax revenue provides the financial resources required for developmental initiatives, including the provision of essential infrastructure, reliable electricity, among others. These facilities collectively foster an enabling environment that supports SMEs' operations and stimulates overall economic growth.

Failure to comply with tax provisions may indicate that a taxpayer is involved in noncompliance (Kirchler, 2017). Public governance quality in developing countries is low, according to Olanrewaju (as cited in Rotberg & Gisselguist 2009), despite its relevance in determining tax compliance. Several studies have found that deteriorating public infrastructure, religion and inter-ethnic conflict, and ineffective administration in return for taxes are all contributing factors (Alabede 2012). Low transparency and accountability of governmental institutions, lack of legal guidance, and a weak financial environment are all elements that contribute to non-compliance behaviour (Sebele-Mpofu 2020). As a result, a country might be prone to tax evasion by both individuals and businesses. Olola-Kasum (2016) stated that introducing taxes in the face of significant infrastructural deterioration and high levels of corruption will discourage SMEs' tax compliance.

Various researches on public governance and tax compliance have been published in developing countries such as Nigeria and others (Hamza et. al., (2025); Isyaku et. al., (2023); Gurama et. al., (2022) Sebele-Mpofu, 2020; Abiodun, 2020; Olanrewaju, 2019; Haning, Hasniati & Tahili, 2019; Aladebe, 2012). This paper endeavors to fill that gap by examining the relationship between PGQ indicators and SMEs' tax compliance within the Northeastern States since most of the existing studies focus on Gombe State and employed other analytical tools, this study adopts Partial Least Squares (PLS) path modeling to provide a more robust analysis of the relationship of the variables.

Therefore, the aim of this study is to examine the relationship between PGQ indicators and SMEs' tax compliance in Northeast Nigeria. Specifically, the study seeks to examine the extent of PGQ indicators, namely, government effectiveness, rule of law, control of corruption, political stability, regulatory quality, and voice and accountability, in relation to the tax compliance behavior of SMEs operating within the region.

To answer the above objectives, the following hypotheses have been formulated.

H_{01}: There is no relationship between government effectiveness and SMEs' tax compliance in Northeast Nigeria.

H_{02}: There is no relationship between rule of law and SMEs' tax compliance in Northeast Nigeria.

H_{03}: There is no relationship between control of corruption and SMEs' tax compliance in Northeast Nigeria.

H_{04}: There is no relationship between political stability and SMEs' tax compliance in Northeast Nigeria.

H_{05}: There is no relationship between regulatory quality and SMEs' tax compliance in Northeast Nigeria.

H_{06}: There is no relationship between voice and accountability and SMEs' tax compliance in Northeast Nigeria.

LITERATURE REVIEW

Public Governance

The concept of public governance was first introduced in the 1989 World Bank report on Africa, which described it as the use of political power to manage national affairs (Sardar, 2021).

Since the 1990s, governance has been recognized as integral to economic development, with international aid agencies identifying poor governance as a major obstacle in developing countries (Ngobo & Fouda, 2022). According to World Bank (2024) governance can be define as the exercise of economic, political, and administrative authority in managing nation's affairs at various levels, encompassing institutions and processes through which citizens express interests, exercise rights, and fulfill obligations.

Therefore, public governance is not only a policy concept but also a strategic driver of economic development, particularly in emerging economies like Nigeria where SMEs serve as a major engine of employment and innovation.

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Governance Quality

According to World Bank (2006), as stated in Alabede and Zainal Affrin (2011), governance quality refers to the processes for selecting, monitoring, and replacing leaders, as well as the efficient, effective, and equitable management of government resources. The relationship between public governance quality determinants to SMEs' tax compliance is based on an implicit social contract. SMEs' operators support government functions by paying taxes, but they also expect transparency, accountability, and tangible benefits from government (Williams, 2020; Vlachos & Bitzenis, 2018; Dickerson, 2014).

PGQ is a critical determinant of SMEs' tax compliance, where governance quality is high, SMEs' operations tend to be more efficient, risks are reduced, and business confidence is strengthened.

Public Governance Quality

According to the World Bank (2024), public governance quality is a set of traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored, and replaced, and the capacity of government to effectively formulate and implement sound policies (World Bank, 2020).

The quality of public governance is when a country efficiently provides sufficient qualitative public goods, it is said to have good governance.

Public Governance Quality Determinants

Public governance quality determinants are set of indicators proposed by Kaufmann, Kraay & Mastruzzi (2010), these indicators include government effectiveness, rule of law, control of corruption, political stability, regulatory quality, and voice and accountability. These indicators are generally accepted as central measures of governance quality in the society (Alabede, 2012; Olanrewaju, 2019; Abiodun, 2020).

Concept of Tax Compliance

Tax compliance refers to the act of adhering to all tax laws and regulations set by the government on citizens, businesses, and others. Tax compliance includes proper reporting and remitting taxes on time, maintaining accurate records, and avoiding fraudulent activities related to tax computation. Failure to comply with tax laws may result in penalties, fines, or even legal action (Gombe State Tax Codification and Consolidation Act, 2020)

Olanrewaju (2019) stated that tax compliance is one fundamental issue confronting many relevant tax authorities across the world. Hence, it’s a difficult task to persuade taxpayers to comply with the requirements even though tax laws are always dynamic (Abiodun, 2020).

Recent tax reforms in Nigeria have made SME compliance easier by introducing a presumptive tax framework that sets clear, predictable obligations instead of arbitrary assessments. They also harmonize tax administration, reducing paperwork and overlapping demands from different agencies. Importantly, the reforms provide protections against unfair treatment, encouraging small businesses to formalize and comply without fear of harassment. In short, SMEs now face a simpler, fairer, and more transparent tax system that lowers compliance costs and builds trust.

Public Governance Quality and Tax Compliance

Hamza et al. (2025) posited that the PGQ is a critical prerequisite for the establishment of an effective tax system. A well-functioning tax system is deemed significant in enhancing the quality of governance.

In analyzing the relationship between taxpayers and the government, Mpofu and Mispa (2020) stated that tax compliance is influenced by a vertical contract, this vertical contract is concerned with whether taxpayers get public goods in exchange for taxes paid.

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Small and Medium Enterprises (SMEs)

The term "SMEs" can be defined in a variety of ways. Individuals, institutions, organizations, and countries used their own guidelines to define SMEs.

The differences between the large companies and SMEs are not only in terms of number of staff, but there are several other considerations such as capital, turnover, and technology. Most African countries use the number of staff and capital as the basis of defining SMEs (Olanrewaju, 2019). Generally, SMEs in developing countries have no more than 250 employees.

Below is the categorization of SMEs by the Small and Medium Enterprise Development Agency (SMEDAN, 2024).

Table 2.1: Categories of Small, and Medium-Sized Enterprises (SME) Businesses

Enterprise category	Small Enterprise	Medium-Scale enterprise
Number of Employees	>11 ≤ 50	> 51 ≤ 200
Total Assets (₦)	> 5 ≤ 100 million	> 100 ≤ 500 million
Annual Turnover (₦)	≤ 100 million	≤ 500 million

Source: (SMEDAN, 2024).

In Nigeria, Small and Medium Enterprises (SMEs) are generally referred to as enterprises with up to 250 employees. SMEs' play a big role in the Nigerian economy and the world at large. SMEs outnumber large companies by a wide margin and also employ many more people and are responsible for driving innovation and competition in many economic sectors (Bello et al., 2023). In Nigeria, most small-scale businesses are often owned and managed by sole proprietors (Isyaku et al., 2023).

Due to definitional inconsistencies, researchers have adopted definitions for SMEs that are more appropriate to their respective jurisdictions. Therefore, SMEs in the context of this study is defined as any business enterprise with 10 to 199 full-time employees and total assets between N10 million and N500 million (excluding land and buildings), as defined by the SMEDAN (2021).

Small and Medium Enterprises in Nigeria

Small and Medium Enterprises (SMEs) plays vital role in Nigerian economy, because such enterprises constitute about 90.6% of all businesses in the country, and account for over 80% of employment in the country (PwC MSME Survey 2024). Furthermore, SMEs sector in Nigeria contributes approximately 46.31 % to GDP according to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2024). The rapid growth of SMEs in Nigeria is a significant indication to the expansion of commercial and industrial activity in the country, which if correctly maintain will increase the country's GDP and eliminate many of the country's economic difficulties in suburban and rural areas (SMEDAN, 2024).

Theoretical Framework

This study is underpinned by two theories describing the relationship between SMEs tax compliance and public governance quality, the theories are Social Exchange Theory, Institutional Theory, and the Slippery Slope Framework.

Social exchange theory is a sociological and psychological theory which studies how people interact by weighing the potential costs and benefits of their relationships, as propounded by George C. Homans in 1958. The theory asserts that exchanges between citizens and government are premised on the state of reciprocity and mutual benefit (Emerson, 2023). SMEs are likely to adhere if they feel that government is engaged in providing

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infrastructure, safety and security, and favorable policies. Low quality governance experienced through poor service delivery, poor policy, or high levels of corruption eliminates such a transaction and encourages non-compliance behaviour among SMEs. Effectiveness of the government therefore becomes significant in influencing SMEs compliance by providing efficient services and tangible returns on taxes paid.

Institutional theory which underscores that organizations are working with institutional settings, rules, norms, and governance structures determining legitimacy (Scott, 2024). SMEs' compliance to pay tax hinges on the institutional framework's perceived legitimacy and justice. Institutional credibility is undermined by lack of rule of law and corruption, providing incentives for SMEs to avoid paying tax or stay informal. Strong legal enforcement and transparent tax administration, on the other hand, support compliance by sustaining institutional trust. Rule of Law reflect the strength and integrity of the institutions, which implied that the legal framework is applied in an equal manner, whereas control of corruption is deals with the integrity and degree of transparency of the institutions which can improve trust in public governance, and regulatory quality represent how well institutions are able to design and implement good policies, which foster compliance and legitimate governance.

While these theories provide strong conceptual models, SMEs fail because of implementation gaps, weak institutional capacity, lack of trust, and economic pressures that override theoretical compliance incentives.

Empirical Review

This section reviews the existing empirical research on the relationship between public governance quality and SMEs tax compliance. The evaluation includes studies conducted in both developed and developing countries.

Hamza et al. (2025) examined Public Governance Quality and Tax Compliance: A Study of Small and Medium Enterprises in Gombe Metropolis. The study employed a survey research design, data were collected from a sample of 326 SMEs. Data analysis was conducted using Structural Equation Modeling (SEM). The findings revealed that voice and accountability, rule of law, and control of corruption exerted a positive and significant effect on SMEs' tax compliance, while government effectiveness, political stability, and regulatory quality showed positive but insignificant relationships. This study will use Partial Least Squares (PLS) to better capture the complex relationships among variables within smaller and more varied sample. Additionally, the study will concentrate on SMEs registered with the Gombe State Board of Internal Revenue Service (SBIRS). In contrast, Hamza et al. (2025) focused on registered SMEs under the Gombe State Ministry of Commerce, Industry, and Tourism, and Structural Equation Modeling (SEM) was used for data analysis.

Ikidi et al. (2024) analyzed tax morale, governance quality, and tax compliance in Nigeria based on secondary data which scoured books, scholarly documents, and conference papers. It was established that tax compliance in Nigeria is still below expectation because of low tax morale, which is influenced by low provision quality services, lack of fairness, and low trust in public institutions (Ikidi et al., 2024). The result indicates positive relationship between public governance quality in terms of accountability, government service delivery, and tax compliance. The research was conducted using secondary data to examine the relationship between tax morale, quality governance, and tax compliance in Nigeria. Whereas the current study targets SMEs in Bauchi and Gombe States and uses a survey research design where data was gathered using questionnaires and examined with PLS as a tool of analysis.

Bello et al. (2023) examined the impact of tax fairness and public governance quality on tax compliance among MSEs in Nigeria's Northeastern States using tax morale. Voice and ccountability, political stability, rule of law, and corruption control were all used in examining the quality of public governance. The research population consists of 124,231 registered MSEs in Nigeria's northeastern states, with a sample size of 527 MSEs. PLS-SEM was used to ensure proper data analysis and hypothesis testing. The study indicated a positive relationship between public governance quality and direct tax assessment compliance. In contrast, this study focused on Bauchi and Gombe States and aimed to examine registered SMEs with SBIRS within the 2 states using six (6) PGQ indicators.

The impact of public governance quality, tax awareness, and religion on taxpayer compliance was investigated by Abiola et al. (2023) using a sample size of 393 SMEs from all states in the Southwest region of Nigeria. The study used a survey-style descriptive research design. Data was obtained from the sampled respondents using a closed-ended questionnaire. The responses were analyzed using basic linear regression and Pearson correlation. It was found that SMEs' tax compliance is positively and significantly impacted by the quality of public governance. However, the present study used Partial Least Square (PLS) as the tool for data analysis, and geographically, the study of Abiola et al. (2023) focused on the Southwest region, emphasizing tax awareness and religion, while the current studies focused on Northeast Nigeria.

The relationship between tax compliance and the quality of public governance in Malaysia was examined by Abu Bakar et al. (2023). The study used the two aspects of public governance quality rule of law and political stability. Data was obtained from 592 taxpayers, both self-employed and civil servants. The result of the analyses showed political stability had a positive and significant impact on tax compliance, and rule of law had a positive but insignificant impact. The study was conducted in a different country and focused on personal income tax. In contrast, the current study extends the literature by examining how public governance quality indicators affect tax compliance among SMEs in Northeast Nigeria.

Abdul-Jabbar and Al-Ttaf (2023) explored the effect of public governance quality on tax compliance among Yemeni small and medium-sized businesses. The study examined four (4) public governance quality indicators, which include rule of law, voice and accountability, government effectiveness, and corruption control. A survey was employed to gather data from the 339 respondents. The results revealed a negative and significant relationship between tax compliance and the public quality governance. The study's findings might not be rely upon given Yemen's political instability. In contrast, this study focuses on the impact of PGQ on tax compliance of SMEs in Bauchi and Gombe States, which has a stable political environment.

The impact of tax compliance and public governance quality on Micro-Small Enterprises (MSEs) in Gombe State was also investigated by Isyaku et al. (2023). A questionnaire administered to 136 owner-managers of small businesses registered with the Gombe State Ministry of Commerce, Trade, and Tourism was used to gather data. The results of multiple regression analysis showed a strong and positive relationship between Gombe State's MSEs' tax compliance, political stability, and government effectiveness.

However, in Gombe State, there was a negative and insignificant relationship between MSEs' tax compliance and voice and accountability. The study selected 2 LGs from each senatorial district of Gombe State and focused on Micro and Small Enterprises (MSEs), whereas the current study focused on SMEs within Northeast Nigeria.

Gurama et al. (2022) investigate public governance quality and personal income tax compliance of SMEs in Gombe State, Nigeria. The study utilized 104 registered SMEs of cluster sampling, and data were gathered using a structured questionnaire.

Multiple regression analysis with SPSS was used to analyze the connections. It was discovered that three indicators of PGQ control of corruption, rule of law, and regulatory quality statistically and significantly determined SME tax compliance. From the findings, it was concluded that the fight against corruption, the improvement of the rule of law, and regulatory capacity building are essential to improving tax compliance of SMEs in Gombe.

The study examined public governance quality and personal income tax compliance in Gombe State, Nigeria. In contrast, this study examines the relationship between public governance quality and tax compliance of SMEs in Northeast Nigeria, using Partial Least Squares (PLS) for data analysis.

Research Framework

This study uses tax compliance as the dependent variable, whereas the independent variables are the six (6) PGQ indicators propounded by Kaufmann & Kraay (2010). The study has developed a framework (as illustrated in figure 2.1) to demonstrate the relationship between the tax compliance and the PGQ indicators.

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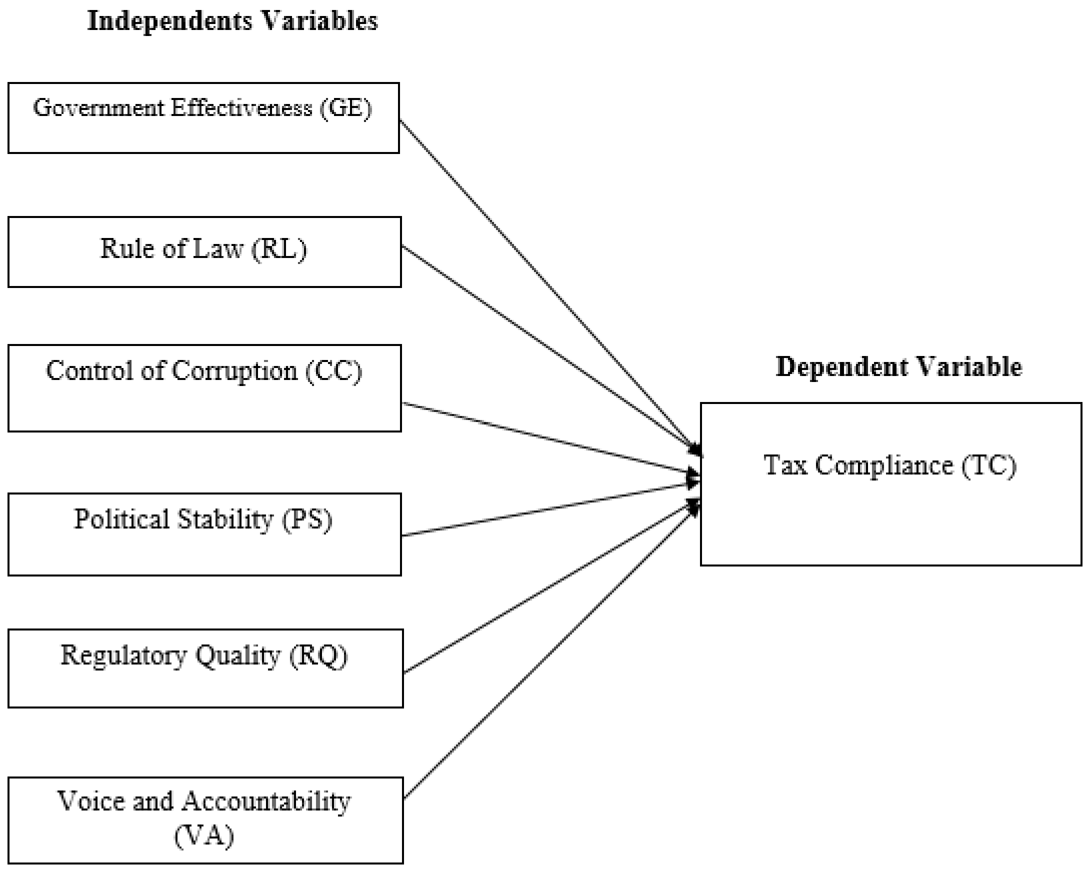

Figure 3.1: Research Frameworks for the Relationship between Variables

Figure 2.1: Research framework

METHODOLOGY

The quantitative method is useful for this study because it is based on objective information. This method was chosen for this study because of its ability to reduce the effects of subjectivity (Welman et al., 2005).

Northeast region of Nigeria comprises six states; Adamawa, Bauchi, Borno, Gombe, Taraba and lastly Yobe. This study focuses on two selected states, Bauchi and Gombe, specifically examining Bauchi and Gombe Local Government Area. These states were chosen because they host a substantial number of commercial activities, particularly SMEs. The level of relative peace and stability has created a conducive environment for business growth and SMEs development in the region.

The target population for this study was Six Hundred and Sixty-Four (664) Small and Medium Enterprises (SMEs) registered with the Bauchi and Gombe State Board of Internal Revenue Services (SBIRS). To determine the sample, a cluster sampling technique was employed.

To determine the appropriate sample size, Yamane’s formula for finite populations was applied for the survey and to ensure a more realistic result using primary data was obtained. Yamane's formula for calculating the sample size of a finite population shall be used. i.e.

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

Where, n = Sample Size 0, N = Population, 1 = Constant, and e = exponential (usually 5% or 0.05).

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$$n = \frac{664}{1 + 664(0.05)^2} \approx 249.624 \approx 250$$

Based on the population size, Using Taro Yamane's (1967) formula, the sample size was derived from 664 population at 5% margin of error, approximately 250 respondents of the SMEs owner-managers in Bauchi and Gombe local government.

Method of Data Analysis

The data collected through the questionnaires were analyzed for the study. A variety of elements were considered during the analysis of the research instruments. The information gathered from the questionnaires was coded. Descriptive analysis shall be used to analyze data from questionnaires. The Partial Least Square (PLS) path modeling was used for the analysis and transformation of data (Sekaran and Bougie, 2010). The data provide the researcher with trends and other relevant information necessary for the study. This information was used to construct the findings of the study (Welman et al, 2005).

Specification of the model

TC = a + b1GE + b2RL + b3CC + b4PS + b5RQ + b6VA + μ

TC= Tax Compliance

GE= Government Effectiveness

RL= Rule of Law

CC= Control of Corruption

PS= Political Stability

RQ= Regulatory Quality

VA= Voice and Accountability

a = constant

b = coefficient or estimate of the parameter of the independent variable

μ = disturbance term or error term.

The model specification for the study considered only two major variables, namely, the independent variables, which are Government Effectiveness (GE), Rule of Law (RL), Control of Corruption (CC), Political Stability (PS), Regulatory Quality (RQ), and Voice and Accountability (VA), while the dependent variable is Tax Compliance (TC).

Data Analysis, Result and discussion

Data Presentation

Table 4.1: Response rate

Questionnaires Status	Frequency	Percentage (%)
Questionnaires Administered	250	100.00

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Questionnaires Status	Frequency	Percentage (%)
Unreturned Questionnaires	29	11.60
Returned but Invalid Questionnaires	13	5.20
Returned and Usable Questionnaires	208	83.20
Total Administered	**250**	**100.00**

Source**:** Computed from field survey data, 2026

Table 4.1 above presents the total number of questionnaires distributed as 250. 208 questionnaires were duly completed, returned, and valid for analysis, representing 83.20% of the total questionnaires distributed.

Validity and reliability of instrument: PLS path modeling was used to assess the internal consistency and reliability of the constructs. Specifically, the PLS algorithm, as recommended by Geladi and Kowalski (1986), was calculated to ascertain the values of the average variance extracted (AVE) and the composite reliability coefficients of the constructs as shown below.

Table 4.2: Reliability and Validity of Constructs (n = 35)

S/N	Construct	No. of Indicators	Average Variance Extracted (AVE)	Cronbach's Alpha	Composite Reliability
1	Government Effectiveness	5	0.509	0.746	0.833
2	Rule of Law	5	0.563	0.711	0.826
3	Control of Corruption	5	0.553	0.759	0.846
4	Political Stability	5	0.647	0.755	0.840
5	Regulatory Quality	5	0.620	0.844	0.889
6	Voice and Accountability	5	0.620	0.823	0.882
7	Tax Compliance	5	0		

Source**:** Authors' computation, 2026.

According to Nunnally (1978) and Hair et al. (2013), the recommended threshold values for composite reliability are .70 and above. As shown in Table 4.2, the calculated values for composite reliability ranged from .711 to .862, which exceeded the recommended level of .70.

The reliability results of the study using Cronbach's alpha showed values of 0.70 to 0.80 Cronbach's alpha was achieved on the variables' measurements. According to Babarinde, Abdulmajeed, Gidigbi and Ndaghu, (2019), if the result of Cronbach;s alpha of measured variables is generally above 70%, it is considered to be reliable. Hence, the instrument in this study was considered both valid and reliable for the investigation.

Furthermore, in order to assess the convergent validity of the constructs, the Average Variance Extracted (AVE) should be above .50 (Fornell & Larcker, 1981; Gefen et al., 2000). As shown in Table 4.2, all the values of AVE were greater than the acceptable values of .50. That means a minimum of 50% of the measurement variance was captured by the constructs.

Assessment of PLS SEM Measurement Model (Path Model Analysis)

In assessing the measurement model, this study judiciously follows the suggestions of Hair et al. (2013), which involves determining individual item reliability, internal consistency reliability, content validity, convergent validity and discriminant validity. The measurement model is shown in Figure 4.1 below.

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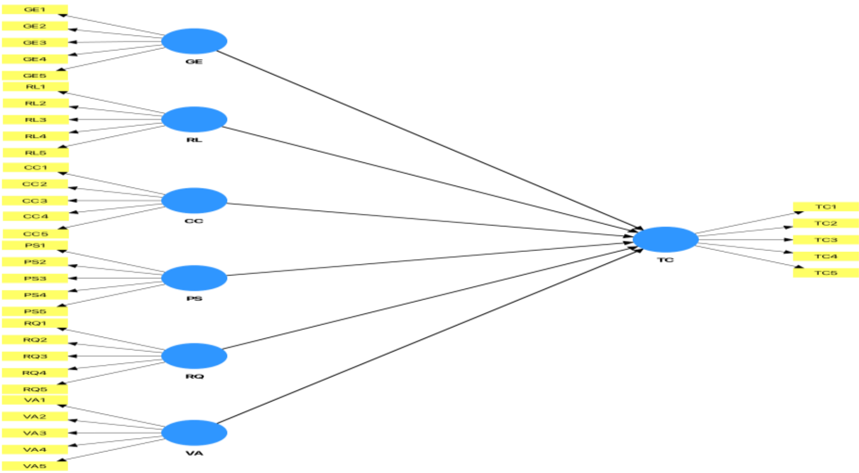

After conducting the PLS-SEM MODEL, of the 35 manifest variables from the 7 constructs, only all items were retained for further analysis.

Table: 4.3 Structural Model Results

Hypotheses	Relation	Beta Values (β)	Std. Error	T-Statistic	P-Value	Decision
H01	GE → TC	0.35	0.07	4.51	0.00	Supported
H02	RL → TC	0.23	0.08	2.83	0.00	Supported
H03	CC → TC	-0.18	0.07	2.45	0.01	Supported
H04	PS → TC	0.24	0.13	1.79	0.07	Not Supported
H05	RQ → TC	0.12	0.06	2.15	0.03	Supported
H06	VA → TC	-0.50	0.11	4.51	0.06	Not Supported

Source**:** Authors' computation, 2026.

H_{01}: There is no relationship between the government effectiveness and SMEs' tax compliance in Northeast Nigeria.

Based on the result from table 4.3 above, Hypotheses 1,2,3 and 5 were accepted while hypothesis 4 and 6 were rejected.

Hypothesis (H_{01}) predicted no relationship between the government effectiveness and SMEs' tax compliance in Northeast Nigeria. The results revealed a significant positive relationship between government effectiveness (GE) and SMEs' tax compliance (TC), ($\beta = .03$, $t = 4.51$, $p = .00$), supporting hypothesis (H_{01}). Therefore, hypothesis 1 was accepted.

The finding shows that government effectiveness has significant relationship with tax compliance of SMEs in Northeast Nigeria. This indicates the SMEs' operators in Bauchi and Gombe States believe that government effectiveness in terms of the provision of quality infrastructure, quality health service and quality educational system play a crucial role in determining SMEs willingness to comply with tax obligations in the states. Thus, The finding of this study is supported with the findings of Isyaku et. al. (2023), Abiodun (2020); Alshira'h, Alsqour, Lutfi, Alsyouf, & Alshirah, (2020); Areo, Gershon, & Osabuohien (2019); Olanrewaju (2019); and Augustine (2016) who reported government effectiveness has a positive and significant relationship with tax compliance. While it contradicted Abubakar et. al., (2025)

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H_{02}: There is no relationship between rule of law and SMEs tax compliance in Northeast Nigeria.

Hypothesis (H_{02}) posited no relationship between rule of law and SMEs tax compliance in Northeast Nigeria. The results show that rule of law (RL) had a significant positive relationship with SMEs' tax compliance (TC) (β = 0.23 , t = 2.83, p =.00), supporting hypothesis (H_{02}).

This indicates that SMEs operators believe that effective law that can protect their rights and support their development will encourage their compliance and vice versa. Rule of law creates a compliance environment, also lack of an efficient and effective administration of rule of laws might undermine the willingness of the citizens to pay tax. The finding is supported by the studies of This indicates that MSEs operators believe that effective law that can protect their right and support their development will encourage their tax ompliance and vice versa. Rule of law creates a compliance environment, also lack of an efficient and effective administration of rule of laws might undermine the willingness of the citizens to pay tax. The finding is supported by the studies of Abubakar et. al. (2025); Isyaku et al., (2023); Gurama, et al, (2022); Abiodun (2020); Mahdi (2020); Olanrewaju (2019) and Torgler (2005). However, it contradicts the studies of Fagbemi, & Abogun, (2014) and Alabede (2012).

H_{03}: There is no relationship between control of corruption and SMEs' tax compliance in Northeast Nigeria.

With respect to the control of corruption, hypotheses (H_{03}) predicted no significant relationship between control of corruption (CC) and tax compliance (TC). The results (Table 4.3) showed significant negative relationship control of corruption and SMEs' tax compliance (β = -0.18, t = 2.45, p = .01). Thus, this hypothesis was supported.

The result shows that the level of SMEs' tax compliance in Gombe state will improved when government implements suitable measures for the prevention of corrupt practices, fostering transparency, and promoting public accountability, undoubtedly resulting in the establishment of an efficient tax system in the State. The result is in tandem with Isyaku et. al., (2023); Gurama et. al., (2022); Mpofu, & Msipa, (2020); Mahdi (2020); and Alabede (2012). However, it contradicted Abiodun (2020); Olanrewaju (2019); Okoye et. al., (2018); Augustine (2016), and Kasum, et. al., (2013).

H_{04}: There is no relationship between political stability and SMEs' tax compliance in Northeast Nigeria.

The results for hypothesis (H_{04}), which predicted no significant relationship between the political stability (PS) and SMEs' tax compliance (TC), indicated that insignificant positive relationship with SMEs' tax compliance (β = 0.24, t = 1.79, p .07), This indicates that while political stability appears to have a positive influence on SMEs' willingness to comply with tax obligations, the effect is not strong enough to be considered statistically significant at the conventional 5% threshold.

In practical terms, the finding suggests that improvements in political stability may encourage better tax compliance among SMEs. The insignificance could be attributed to contextual factors such as weak institutional enforcement, limited trust in governance, or other economic pressures that overshadow the role of political stability. Therefore, H_{04} is supported in its null form, despite showing a positive direction. This is in line with was documented by Abdul-Jabbar and Al-Ttaf (2023). However, is contrary to Isyaku, et al. (2023), Gurama et. al., (2022) who reported a positive relationship between political stability and SMEs' tax compliance.

H_{05}: There is no relationship between regulatory quality and SMEs tax compliance in Northeast Nigeria.

In relationship with the regulatory quality, hypothesis (H_{05}) hypothesized no significant relationship between regulatory quality (RQ) and SMEs' tax compliance (TC). This hypothesis was also supported because the estimates as shown were significant (β = .012, t = 2.15, p = .03). Therefore, hypothesis (H_{05}) was fully supported.

The significance of trust-building for investors and their enterprises cannot be overstated. Therefore, regulatory quality is important for investors and their business development. It helps build trust and provides rules and stability needed for planning investment in the medium and long term. To enhance transparency and establish

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credibility, innovative mechanisms for monitoring and evaluating public management are commonly employed. This finding was supported by studies of Abubakar et. al., (2025); Isyaku et al., (2023) Abiodun (2020); and Augustine (2016). However, contrary to what was found by Rashid, et al, (2021), Mas'ud, et al. (2021) and Salam, (2019) who revealed that regulation quality has no significant effect on SMEs' tax compliance.

H_{06}: There is no relationship between voice and accountability and SMEs tax compliance in Northeast Nigeria.

Regarding the relationship between voice and accountability and SMEs' tax compliance, the results indicated that voice and accountability had significant but negative relationship with SMEs' tax compliance ($\beta = -.50$, $t = 4.51$, $p = .06$). Therefore, the null hypothesis (H_{06}), which predicted no relationship, is accepted.

This finding suggests that higher levels of voice and accountability are associated with lower tax compliance among SMEs in Northeast Nigeria. The finding implies that while democratic participation and accountability mechanisms are important, they may also expose weaknesses in tax enforcement or reduce SMEs' willingness to comply, possibly due to distrust in institutions or perceived inefficiencies. The finding is in tandem with the studies of Abubakar et. al., (2025); Isyaku et al., (2023); Mahdi (2020), and Alshira'h, Alsqour, Lutfi, Alsyouf, & Alshirah, (2020). However, this is contrary to the findings of Olanrewaju (2019); Hassen (2017); Areo, Gershon, & Osabuohien (2019); and Augustine (2016).

CONCLUSION

The result of the study indicates that government effectiveness, rule of law, and regulatory quality have a positive and statistically significant relationship with SMEs' tax compliance in Northeast Nigeria, control of corruption and voice and accountability exert a significant negative relationship with SMEs' tax compliance and lastly, political stability has a positive but statistically insignificant relationship. The study found that strengthening government effectiveness, rule of law, and regulatory quality is essential for improving SMEs' tax compliance. At the same time, anti-corruption measures and accountability mechanisms must be implemented transparently to avoid unintended negative effects on compliance. Political stability, while supportive, should be complemented by institutional reforms that build trust and reduce compliance burdens. Government should focus on creating a fair, efficient, and predictable tax environment where SMEs perceive compliance as both beneficial and necessary for sustainable growth. The study recommends that future researcher(s) could study the entire northeastern state which were not covered by this study, these are Adamawa, Borno, Taraba and Yobe States.

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