

Assessing the Role of IFRS for SMEs in Enhancing Accounting Quality and Economic Efficiency among Architectural Enterprises Somalia

Mohamed Ali Abdinur¹, Resat Karcioğlu²

Abstract

The primary aim of this study was to assess the role of the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) in enhancing accounting quality and economic efficiency among architectural enterprises in Somalia. A quantitative research design with a descriptive and explanatory approach was employed. Data were collected through structured questionnaires administered to 384 respondents selected via stratified random sampling from architectural SMEs operating in major Somali cities. The instrument's validity and reliability were confirmed through expert review and Cronbach's alpha coefficients above 0.70. Descriptive statistics, Pearson correlation, and multiple regression analyses were conducted using SPSS version 27 to test the hypothesized relationships among awareness, accounting quality, financial management practices, regulation, and economic efficiency. The results revealed that all independent variables such as awareness of IFRS for SMEs, accounting quality, financial management practices, and regulation had significant and positive effects on economic efficiency ($p < 0.05$). The model explained 54% of the variance in economic efficiency ($R^2 = 0.540$), with regulation emerging as the strongest predictor ($\beta = 0.397$, $p < 0.001$). The findings suggest that improved awareness and informal application of IFRS for SMEs, coupled with sound financial management and supportive regulatory frameworks, substantially enhance the performance and sustainability of architectural firms in Somalia. The study concludes that adopting IFRS for SMEs principles can serve as a strategic instrument for strengthening financial transparency, decision-making, and economic growth in Somalia's architectural sector.

Keywords: *IFRS for SMEs, Accounting Quality, Financial Management, Regulation, Economic Efficiency, Architectural Enterprises, Somalia.*

Introduction

The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) was issued by the International Accounting Standards Board (IASB) in 2009 as a stand-alone, simplified framework designed for entities without public accountability that prepare general-purpose financial statements for external users (IFRS Foundation, 2009). Compared with full IFRS, the IFRS for SMEs significantly reduces complexity and disclosure requirements while retaining the core principles needed to generate decision-useful information, thereby lowering compliance costs for smaller entities and improving the comparability, transparency and credibility of their financial reports (IFRS Foundation, 2017; IFRS Foundation, 2025). Globally, SMEs are widely recognized as engines of employment, innovation and inclusive growth, and many jurisdictions now permit or require the use of IFRS for SMEs as part of broader efforts to strengthen financial reporting infrastructure and attract investment. In Africa, the diffusion of IFRS and IFRS-based frameworks has been driven by expectations of improved reporting quality and capital market integration, but progress has been uneven and often constrained by institutional and professional capacity gaps (Tawiah, 2019).

In Somalia, SMEs constitute the backbone of the economy and are central to job creation and private-sector-led recovery (Abdinur 2021). Official policy documents describe small and medium companies as "the greatest economic sources of the nation," emphasizing their role in youth employment and production (MOCI 2025). Empirical work likewise shows that SMEs make a significant contribution to economic growth and job creation in Somalia, while simultaneously facing structural

¹PhD Student at Accounting & Finance, School of Economics & Administrative Science, Ataturk University, Erzurum, Turkey
Email: Liban.aly23@gmail.com. Orcid: 0000-0002-9388-0769 (corresponding author).

² Department of Accounting & Finance, School of Economics & Administrative Science, Ataturk University, Erzurum, Turkey.
Orcid: 0000-0002-0903-3816.

obstacles such as limited access to finance, weak management capacity and an uncertain policy environment (Maow, 2021). Yet Somalia still lacks a comprehensive national system of accounting standards, and its financial reporting environment remains underdeveloped (Abdinur & Karcioğlu 2024). Recent research on IFRS adoption in Somalia highlights both the perceived benefits of moving toward international standards such as enhanced transparency and decision-making and the serious challenges posed by inadequate regulatory frameworks, high implementation costs and limited technical expertise (Abdinur & Ali, 2025). These conditions create a setting in which the potential role of IFRS for SMEs in improving accounting quality and economic outcomes is conceptually compelling but empirically uncertain (Abdinur & Karcioğlu 2025).

Architectural enterprises occupy a particularly important position within Somalia's reconstruction and urban development agenda. As project-based professional service firms, they are typically organized as SMEs and must manage complex contracts, cost structures and cash flows in an environment characterized by fragile institutions, infrastructure deficits and volatile demand (Abib, 2020). International programs and local initiatives aimed at promoting construction, housing and urban services underline the sector's contribution to rebuilding physical capital and supporting broader private-sector development (UNIDO 2024). In such a context, high-quality accounting information and robust financial management are essential for evaluating project profitability, controlling operational costs, attracting external finance and sustaining competitiveness (Abdinur & Karcioğlu, 2023). However, in the absence of nationally mandated standards and strong regulatory oversight, many firms rely on informal or heterogeneous accounting practices, raising concerns about reliability, comparability and economic efficiency. IFRS for SMEs offers a conceptually attractive framework for addressing these weaknesses, but there is limited evidence on its actual awareness, informal use and impact at the enterprise level in Somalia's architectural industry (Khan et al., 2019).

Against this backdrop, the present study investigates how awareness of IFRS for SMEs, accounting quality, financial management practices and regulatory or institutional support relate to the economic efficiency of architectural enterprises in Somalia. By focusing on a professional service sector that is strategically important for reconstruction yet under-researched in the accounting literature, the study responds to calls for more context-sensitive evidence on IFRS and SME reporting in African and post-conflict economies (Tawiah, 2019; Abdinur & Ali, 2025; Abdinur & Karcioğlu 2025). Specifically, the study assesses whether greater awareness and informal application of IFRS for SMEs principles are associated with higher perceived accounting quality and more effective financial management, and how these factors, together with regulatory conditions, shape firms' economic efficiency. In doing so, the research contributes empirically to the emerging literature on IFRS for SMEs in Somalia, offers sector-specific insights into the economics of architectural practice and provides evidence that can inform policymakers, regulators and professional bodies seeking to design appropriate reporting frameworks and capacity-building interventions for SMEs.

Literature Review

Awareness of IFRS for SMEs is increasingly recognized as a critical precondition for meaningful adoption and use, especially in developing economies. Hossen et al. (2025) show that in developing countries, accountants' knowledge of IFRS and perceptions of its benefits are strongly associated with improved financial reporting quality, but that awareness remains uneven outside major financial centers. Firm and individual level determinants such as education, professional training and perceived relative advantage are central in shaping adoption intentions, as demonstrated in Morocco by Benhayoun and Zejjari (2024), who apply a diffusion-of-innovations lens to IFRS for SMEs and highlight perceived complexity and compatibility as key barriers. In Romania, Marina and Tiron-Tudor (2024) find that accounting professionals support improving SME reporting but are ambivalent about using an international standard, suggesting that awareness is often accompanied by nuanced cost-benefit assessments rather than automatic acceptance. For Somalia, Abdinur and Karcioğlu (2025) report that accountants overwhelmingly support the idea of adopting IFRS for SMEs, yet simultaneously emphasise limited training opportunities and lack of formal national guidance. Systematic reviews also note that low levels of education and insufficient professional support are persistent obstacles to IFRS for SMEs awareness and implementation in African contexts. Taken together, this literature suggests that awareness is not merely informational, it is shaped by local institutional capacity and perceived implementation burdens factors that are highly relevant for architectural SMEs in Somalia.

Accounting quality has been a central outcome in IFRS and IFRS for SMEs research, with most studies arguing that the move toward international standards enhances the reliability, comparability and decision-usefulness of financial reports. Ma et al. (2022), using data from developing economies'

banking sectors, find that IFRS adoption improves accounting quality and contributes to financial stability, in part by constraining opportunistic reporting behavior. Similarly, Hossen et al. (2025) show that IFRS adoption in developing countries is associated with higher reporting quality, reflected in more informative earnings and stronger investor confidence. A bibliometric review by Effah (2024) synthesizes African evidence and concludes that IFRS based regimes generally strengthen disclosure quality and enforcement, though the magnitude of improvement depends on country-specific institutions. Studies focusing explicitly on IFRS for SMEs also argue that the standard enhances faithful representation and comparability for non-public entities, especially when implementation is supported by regulators and professional bodies. These findings imply that, even where Somalia has not yet formally adopted IFRS or IFRS for SMEs, aligning architectural firms' accounting practices with IFRS principles can be expected to raise accounting quality and, by extension, improve stakeholders' ability to assess firm performance and risk.

Financial management practices such as budgeting, working-capital management, internal controls and use of financial information in decision-making have been consistently linked to SME performance and sustainability. Otoo (2024) finds that working-capital and capital-budgeting practices significantly enhance the organizational performance of small and medium-scale enterprises, emphasizing that financial management is not merely administrative but strategic. Venkatesan (2024) reports similar results for Indian SMEs, showing that more sophisticated financial management practices are associated with better performance measurement and improved profitability. Recent evidence from Uganda further demonstrates that budgeting, cash-flow management and financial planning all exert a statistically significant positive effect on SME financial performance, underscoring the importance of structured financial systems in resource-constrained environments. Deligero (2025) documents that costing, budgeting and financing practices positively influence micro and small enterprises' performance in the Philippine food retail sector. Across contexts, these studies suggest that robust financial management practices mediate the translation of high-quality accounting information into concrete economic outcomes, a mechanism particularly pertinent to project-based architectural enterprises that must manage cash flows, cost overruns and project profitability.

Regulation and institutional support emerge in the literature as decisive contextual factors for both IFRS (and IFRS for SMEs) adoption and the quality of financial reporting. Ruhinda (2024), examining IFRS in Africa, shows that adoption decisions and their consequences are closely tied to national governance structures, including regulatory quality and enforcement mechanisms. At a cross-country level, Fanani et al. (2024) find that education levels and the existence of alternative accounting standards significantly shape the likelihood of IFRS for SMEs implementation, and that countries with weaker regulatory efficiency and limited standard-setting capacity are more inclined to adopt the IASB's SME standard. Complementing this, Segotso, Mvunabandi and Phesa (2024) systematically review challenges in IFRS for SMEs adoption in South Africa and identify low education, implementation costs, political pressures and inadequate training and support by regulatory bodies as major constraints. Together, these studies emphasize that government policies, professional bodies and legal frameworks play a central role in shaping whether IFRS for SMEs can deliver its promised benefits. In fragile regulatory environments such as Somalia, the absence of national standards, limited enforcement capacity and scarce professional support may simultaneously create a rationale for adopting an international SME standard and hinder its effective implementation for sectors like architecture.

The economic efficiency is increasingly examined as a broader outcome of improved reporting regimes and financial management capacity. At the sectoral level, Ma et al. (2022) provide evidence that IFRS adoption enhances banking sector performance and stability by improving the quality and comparability of financial information, which in turn facilitates better allocation of capital and risk pricing. At the macroeconomic level, Mujalli et al. (2024) investigate GCC countries and find a complex relationship: IFRS adoption yields short-run gains in GDP but is associated with a long-run decline in growth if not accompanied by strong institutional quality, suggesting that standards alone cannot guarantee sustained economic efficiency. Studies of SMEs reinforce this micro–macro link: Otoo (2024), Venkatesan (2024) and Julius (2025) all show that firms with stronger financial management practices achieve higher profitability, better cost control and improved financial sustainability. This body of evidence supports the notion that economic efficiency in architectural enterprises is likely to depend on an interaction between IFRS-aligned accounting quality, internal financial management capabilities and the surrounding regulatory environment precisely the nexus your study seeks to investigate in the Somali context.

Methodology

This study adopted a quantitative research design using a descriptive and explanatory survey approach to examine the role of IFRS for SMEs in enhancing accounting quality and economic efficiency among architectural enterprises in Somalia. The total number of architectural SMEs in Somalia is not officially documented, the sample size was determined using Cochran’s formula for an infinite population. At a 95% confidence level ($Z = 1.96$) and a 5% margin of error ($e = 0.05$), with an assumed population proportion ($p = 0.5$) to maximize variability, the minimum required sample size was calculated as 384 respondents. This ensures adequate representativeness and statistical reliability of the study findings despite the absence of an established population frame. The target population comprised owners, managers, accountants, and financial officers of architectural firms operating within major urban centres, from which a sample of 384 respondents was selected through stratified random sampling to ensure representativeness across firm sizes and professional roles. Data were collected using a structured questionnaire consisting of Likert-scale items designed around five key variables: awareness of IFRS for SMEs, accounting quality, financial management practices, regulatory and institutional support, and economic efficiency. The instrument’s validity was ensured through expert review and pilot testing, while reliability was confirmed using Cronbach’s alpha, with all constructs exceeding the acceptable threshold of 0.70. Data were analysed using SPSS version 27, employing descriptive statistics, Pearson correlation, and multiple regression analysis to test relationships and hypotheses at a 5% significance level. This methodological approach enabled a rigorous empirical assessment of how IFRS-related awareness, accounting and financial practices, and regulatory conditions collectively influence the economic efficiency of Somalia’s architectural enterprises.

Finding and Results

Demographics

Table 1: Gender of the respondents

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------|-----------|---------|---------------|--------------------|
| Valid | Male | 334 | 87 | 87 | 87 |
| | Female | 50 | 13 | 13 | 100 |
| | Total | 384 | 100 | 100 | |

Table 1 shows the gender distribution of respondents participating in the study on the role of IFRS for SMEs in enhancing accounting quality and economic efficiency among architectural enterprises in Somalia. The findings reveal a strong male dominance, with 334 respondents (87%) identifying as male, while only 50 respondents (13%) were female. This gender imbalance reflects the broader gendered structure of the architectural and construction-related sectors in Somalia, where professional and managerial roles are predominantly occupied by men. The result aligns with patterns observed in similar developing contexts, where cultural, educational, and structural barriers have historically limited women’s participation in technical and financial management positions within small and medium-sized enterprises (SMEs).

Table 2: Age of the respondents

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------------|-----------|---------|---------------|--------------------|
| Valid | Under 25 | 9 | 2.3 | 2.3 | 2.3 |
| | 26-30 | 99 | 25.8 | 25.8 | 28.1 |
| | 31-35 | 27 | 7 | 7 | 35.2 |
| | 36-40 | 158 | 41.1 | 41.1 | 76.3 |
| | 40 and above | 91 | 23.7 | 23.7 | 100 |
| | Total | 384 | 100 | 100 | |

Table 2 presents the age distribution of the respondents, indicating that a significant proportion (41.1 percent) were between 36 and 40 years old, followed by 26–30 years (25.8 percent) and those aged 40 and above (23.7 percent). Smaller groups included respondents aged 31–35 years (7 percent) and those under 25 years (2.3 percent). This distribution suggests that most participants were mature professionals with considerable experience, which enhances the reliability of the responses concerning accounting practices and financial management in architectural enterprises

Table 3: Highest Educational Level

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------------|-----------|---------|---------------|--------------------|
| Valid | Below Secondary | 65 | 16.9 | 16.9 | 16.9 |
| | Undergraduate Degree | 229 | 59.6 | 59.6 | 76.6 |
| | Master Degree | 90 | 23.4 | 23.4 | 100 |
| | Total | 384 | 100 | 100 | |

Table 3 illustrates the educational attainment of respondents, showing that the majority (59.6 percent) hold an undergraduate degree, followed by 23.4 percent with a master’s degree, while 16.9 percent possess education below the secondary level. This indicates that most participants are relatively well-educated, reflecting a workforce with substantial academic grounding relevant to professional and financial decision-making within architectural enterprises. The high proportion of degree holders enhances the credibility of responses related to accounting quality and IFRS for SMEs awareness, as these individuals are more likely to understand financial reporting standards and management practices.

Table 4: Respondents Experience

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------------------|-----------|---------|---------------|--------------------|
| Valid | Less than 5 Years | 119 | 31 | 31 | 31 |
| | 6-10 Years | 174 | 45.3 | 45.3 | 76.3 |
| | 11-15 Years | 42 | 10.9 | 10.9 | 87.2 |
| | More than 16 Years | 49 | 12.8 | 12.8 | 100 |
| | Total | 384 | 100 | 100 | |

Table 4 presents the respondents’ work experience, revealing that the largest group (45.3 percent) had between 6 and 10 years of professional experience, followed by 31 percent with less than 5 years, 12.8 percent with more than 16 years, and 10.9 percent with 11–15 years of experience. This distribution suggests that most respondents possess moderate to substantial professional exposure

within architectural enterprises, providing a balanced perspective between emerging and seasoned practitioners.

Section B: Role of IFRS for SMEs in Enhancing Accounting Quality and Economic Efficiency

Table 5: Awareness

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|-----|---------|---------|--------|----------------|
| I am aware of the International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs). | 384 | 1 | 5 | 3.8958 | 1.17395 |
| Our firm informally uses some IFRS for SMEs principles or guidelines when preparing financial reports. | 384 | 1 | 5 | 3.7656 | 1.23155 |
| Management recognizes the importance of aligning our accounting practices with international standards such as IFRS for SMEs. | 384 | 1 | 5 | 4.1276 | 1.07517 |
| Lack of officially adopted national accounting standards affects the consistency of our financial reporting. | 384 | 1 | 5 | 4.0938 | 1.06281 |
| Adopting IFRS for SMEs in Somalia would improve the quality and credibility of financial statements for architectural enterprises | 384 | 1 | 5 | 4.237 | 1.1071 |
| Valid N (listwise) | 384 | | | | |

Table 5 presents respondents' awareness and perceptions regarding IFRS for SMEs. The results show generally high levels of awareness and positive attitudes toward the standard. Respondents agreed most strongly that adopting IFRS for SMEs in Somalia would improve the quality and credibility of financial statements ($M = 4.24$, $SD = 1.11$), followed closely by the recognition that management values alignment with international accounting standards ($M = 4.13$, $SD = 1.08$) and that the lack of officially adopted national standards affects consistency in financial reporting ($M = 4.09$, $SD = 1.06$). Moderate agreement was also observed regarding personal awareness of IFRS for SMEs ($M = 3.90$, $SD = 1.17$) and informal use of its principles in practice ($M = 3.77$, $SD = 1.23$). The relatively high mean scores across all items indicate that professionals in Somalia's architectural enterprises possess a considerable level of familiarity with IFRS for SMEs and recognize its potential to enhance accounting quality and reporting credibility, even in the absence of a formal national adoption framework. This finding underscore growing interest among practitioners in adopting globally recognized financial reporting standards to improve transparency and economic efficiency within the sector.

Table 6: Accounting Quality

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--|-----|---------|---------|--------|----------------|
| Our financial statements present information that is reliable and free from material errors. | 384 | 1.00 | 5.00 | 4.4010 | 0.58760 |
| Accounting records in our firm are updated regularly and reflect accurate financial data. | 384 | 1.00 | 5.00 | 4.6016 | 0.70810 |

| | | | | | |
|---|-----|------|------|--------|---------|
| Financial reports are transparent and can be easily understood by external users. | 384 | 1.00 | 5.00 | 4.6979 | 0.54307 |
| IFRS for SMEs has enhanced the comparability of our financial reports with other firms. | 384 | 1.00 | 5.00 | 4.2370 | 0.53454 |
| Our accounting information supports effective decision-making by management | 384 | 1.00 | 5.00 | 4.9036 | 0.42578 |
| Valid N (listwise) | 384 | | | | |

Table 6 summarizes respondents' perceptions of accounting quality within architectural enterprises in Somalia. The results reveal consistently high mean scores across all indicators, suggesting strong agreement that firms maintain reliable and transparent financial reporting practices. The highest mean score was recorded for the statement "Our accounting information supports effective decision-making by management" (M = 4.90, SD = 0.43), indicating that accounting data are actively utilized for strategic and operational decision-making. Similarly, respondents agreed that financial reports are transparent and easily understood by external users (M = 4.70, SD = 0.54) and that accounting records are regularly updated and accurate (M = 4.60, SD = 0.71). Moderate but still strong agreement was noted regarding the reliability of financial statements (M = 4.40, SD = 0.59) and the enhancement of report comparability through IFRS for SMEs (M = 4.24, SD = 0.53). The overall pattern of responses reflects a high level of accounting quality among architectural firms, implying that even in the absence of officially adopted national standards, these enterprises prioritize accurate, transparent, and decision-oriented financial reporting. This finding further suggests that voluntary alignment with IFRS for SMEs principles may already be fostering better accounting practices and promoting confidence in financial information across the sector.

Table 7: Financial Management Practices

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|-----|---------|---------|--------|----------------|
| Our firm has an effective budgeting process to control operational costs. | 384 | 1.00 | 5.00 | 4.3646 | 0.70611 |
| Financial decisions are based on accurate accounting information and analysis. | 384 | 1.00 | 5.00 | 4.5182 | 0.69288 |
| We maintain proper Regulations over cash flow and project finances. | 384 | 1.00 | 5.00 | 4.3516 | 0.76397 |
| Financial reports are used to evaluate the profitability of architectural projects. | 384 | 1.00 | 5.00 | 4.3542 | 0.68903 |
| Our management regularly reviews Economic Efficiency to guide future planning | 384 | 1.00 | 5.00 | 4.5911 | 0.57993 |
| Valid N (listwise) | 384 | | | | |

Table 7 presents findings on financial management practices among architectural enterprises in Somalia. The results indicate that respondents generally perceive their firms as demonstrating sound financial management behavior, with all mean values exceeding 4.30 on a five-point scale. The highest agreement was recorded for the statement "Our management regularly reviews economic efficiency to guide future planning" (M = 4.59, SD = 0.58), suggesting that most firms integrate financial performance

evaluation into their strategic decisions. Respondents also strongly agreed that financial decisions are based on accurate accounting information and analysis (M = 4.52, SD = 0.69), reflecting data-driven decision-making approaches. Similarly, effective budgeting processes to control operational costs (M = 4.36, SD = 0.71), evaluation of project profitability through financial reports (M = 4.35, SD = 0.69), and proper regulation of cash flow and project finances (M = 4.35, SD = 0.76) were all positively rated. Collectively, these findings demonstrate that architectural firms in Somalia exhibit mature financial management practices, emphasizing control, accountability, and the use of financial information for efficiency and sustainability. This trend implies that even in a developing regulatory context, firms actively pursue prudent financial management consistent with IFRS for SMEs principles, thereby enhancing both accounting quality and overall economic performance.

Table 8: Regulation

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--|-----|---------|---------|--------|----------------|
| Government policies encourage the use of IFRS for SMEs among architectural firms. | 384 | 1.00 | 5.00 | 1.6198 | 0.70524 |
| Professional accounting bodies provide adequate guidance on IFRS implementation. | 384 | 1.00 | 3.00 | 1.7240 | 0.47589 |
| There are regular workshops and training sessions on IFRS for SMEs in Somalia. | 384 | 1.00 | 2.00 | 1.5052 | 0.50063 |
| The legal framework supports transparency and accountability in financial reporting. | 384 | 1.00 | 2.00 | 1.3333 | 0.47202 |
| Our firm has access to institutional support when facing accounting or compliance challenges | 384 | 1.00 | 2.00 | 1.6667 | 0.47202 |
| Valid N (listwise) | 384 | | | | |

Table 8 summarizes respondents' perceptions of the regulatory and institutional environment supporting IFRS for SMEs implementation in Somalia. The results reveal consistently low mean scores across all items, indicating weak or limited regulatory support for standardized financial reporting. Respondents strongly disagreed that the current legal framework supports transparency and accountability in financial reporting (M = 1.33, SD = 0.47) and that regular workshops or training sessions on IFRS for SMEs are available in Somalia (M = 1.51, SD = 0.50). Similarly, very low agreement levels were reported regarding government policies encouraging IFRS for SMEs adoption (M = 1.62, SD = 0.71), adequate guidance from professional accounting bodies (M = 1.72, SD = 0.48), and access to institutional support for accounting or compliance challenges (M = 1.67, SD = 0.47). Collectively, these findings underscore the absence of a robust institutional and regulatory framework to facilitate IFRS for SMEs implementation in Somalia's architectural sector. The results highlight a pressing need for government agencies, professional associations, and regulatory bodies to strengthen policy, training, and institutional infrastructure to promote transparency, comparability, and accountability in financial reporting. Without such support, firms' voluntary efforts to align with IFRS principles may remain inconsistent and unsustainable in the long term.

Table 9: Economic Efficiency

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|-----|---------|---------|--------|----------------|
| Our firm efficiently utilizes its financial and material resources to deliver projects. | 384 | 1.00 | 5.00 | 4.8411 | 0.43149 |
| Adoption of IFRS for SMEs will contribute to improved profitability. | 384 | 1.00 | 5.00 | 4.8438 | 0.42942 |

| | | | | | |
|---|-----|------|------|--------|---------|
| Our operational costs have decreased due to better financial management practices. | 384 | 1.00 | 5.00 | 4.7734 | 0.47740 |
| Proper accounting and reporting practices have enhanced our firm's competitiveness. | 384 | 1.00 | 5.00 | 4.8385 | 0.43355 |
| Overall, our firm has achieved greater economic sustainability over recent years | 384 | 1.00 | 5.00 | 4.6354 | 0.53337 |
| Valid N (listwise) | 384 | | | | |

Table 9 presents the descriptive statistics on respondents' views of economic efficiency within architectural enterprises in Somalia. The results show very high mean scores across all items, indicating strong agreement that firms operate efficiently and derive tangible benefits from improved accounting and financial management practices. Respondents agreed most strongly that adoption of IFRS for SMEs will contribute to improved profitability (M = 4.84, SD = 0.43) and that proper accounting and reporting practices have enhanced competitiveness (M = 4.84, SD = 0.43). Similarly, high levels of agreement were observed regarding efficient utilization of financial and material resources (M = 4.84, SD = 0.43) and reduction of operational costs through better financial management (M = 4.77, SD = 0.48). The relatively high mean for overall economic sustainability in recent years (M = 4.64, SD = 0.53) further confirms that most firms perceive continuous improvement in their financial performance. Collectively, these results suggest that architectural enterprises in Somalia are becoming more economically efficient, largely influenced by sound accounting practices and growing awareness of IFRS for SMEs principles. This trend underscores the potential of standardized financial reporting to strengthen operational performance, cost control, and long-term sustainability in emerging economies lacking formalized accounting frameworks.

Table 10: Correlation

| | | Awareness | Accounting Quality | Financial management | Regulation | Economic Efficiency |
|-----------------------------|---------------------|------------------|---------------------------|-----------------------------|-------------------|----------------------------|
| Awareness | Pearson Correlation | 1 | 0.64 | .655 | .655 | 0.585 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 |
| | N | 384 | 384 | 384 | 384 | 384 |
| Accounting Quality | Pearson Correlation | .640 | 1 | .586 | .539 | .527 |
| | Sig. (2-tailed) | .000 | | .000 | .000 | .000 |
| | N | 384 | 384 | 384 | 384 | 384 |
| Financial Management | Pearson Correlation | .655 | .586 | 1 | .656 | .626 |
| | Sig. (2-tailed) | .000 | .000 | | .000 | .000 |
| | N | 384 | 384 | 384 | 384 | 384 |
| Regulation | Pearson Correlation | .570 | .539 | .656 | 1 | .674 |
| | Sig. (2-tailed) | .000 | .000 | .000 | | .000 |
| | N | 384 | 384 | 384 | 384 | 384 |
| Economic Efficiency | Pearson Correlation | .585 | .527 | .626 | .674 | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 |
| | N | 384 | 384 | 384 | 384 | 384 |

Table 10 displays the correlation analysis showing the relationships among the study variables: awareness of IFRS for SMEs, accounting quality, financial management practices, regulation, and economic efficiency. The results reveal statistically significant and positive correlations among all independent variables (Awareness, accounting quality, financial management practices, regulation) and the dependent variable (Economic Efficiency) at the 0.01 level (2-tailed), indicating that improvements in one independent variable is likely associated with enhancements in the dependent variable. Specifically, regulation exhibited the strongest relationship with economic efficiency (r = 0.674, p < 0.001), suggesting that even modest regulatory support contributes meaningfully to firms' operational and financial performance. Similarly, financial management practices were highly correlated with

economic efficiency ($r = 0.626, p < 0.001$), emphasizing the importance of sound financial control and decision-making in achieving sustainable profitability. Moderate to strong correlations were also found between awareness of IFRS for SMEs and economic efficiency ($r = 0.585, p < 0.001$), as well as between accounting quality and economic efficiency ($r = 0.527, p < 0.001$). These results collectively suggest that heightened awareness and partial application of IFRS for SMEs principles, improved accounting quality, effective financial management, and supportive institutional frameworks all positively influence the economic efficiency of architectural enterprises in Somalia.

Regression Analysis

It was deemed necessary for the study to articulate the nature of the causal relationship that the variables under study had. This was done by carrying out regression analysis whereby the independent variable constructs were regressed against the dependent variable of Economic Efficiency on a many-to-one relationship. The following table was obtained and summarized after running the procedure with SPSS

Table: 11 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|--|-------------------|----------|-------------------|----------------------------|
| 1 | .735 ^a | .540 | .535 | .62722 |
| a. Predictors: (Constant), Objective4_Regulation, Objective2_Accounting Quality, Objective1_Awareness, Objective3_Financial Management | | | | |

Table 11 presents the model summary for the multiple regression analysis examining the effect of IFRS for SMEs awareness, accounting quality, financial management practices, and regulation on the economic efficiency of architectural enterprises in Somalia. The model yielded a multiple correlation coefficient of $R = 0.735$, indicating a strong positive relationship between the combined independent variables and economic efficiency. The R Square value of 0.540 implies that approximately 54.0 percent of the variance in economic efficiency can be explained by the four predictors included in the model. The Adjusted R Square (0.535), which accounts for sample size and the number of predictors, confirms the model’s robustness and generalizability. The standard error of estimate (0.627) is relatively low, indicating that the model’s predicted values are close to the actual observed data. Overall, these results demonstrate that the explanatory variables awareness of IFRS for SMEs, accounting quality, financial management practices, and regulatory/institutional support collectively make a substantial contribution to enhancing economic efficiency among architectural enterprises. This strong predictive capacity supports the theoretical assumption that effective financial reporting, sound management practices, and institutional frameworks grounded in IFRS for SMEs principles are key drivers of operational and economic sustainability in Somalia’s architectural sector

Table 12: Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--|---------------------------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .711 | .150 | | 4.737 | .000 |
| | Objective1_Awareness | .172 | .051 | .172 | 3.341 | .001 |
| | Objective2_Accounting Quality | .085 | .049 | .084 | 1.738 | .003 |
| | Objective3_Financial Management | .187 | .048 | .204 | 3.873 | .000 |
| | Objective4_Regulation | .378 | .046 | .397 | 8.206 | .000 |
| a. Dependent Variable: Outcome Economic Efficiency | | | | | | |

Table 12 presents the coefficients of the multiple regression analysis examining the influence of IFRS for SMEs awareness, accounting quality, financial management practices, and regulation on the economic efficiency of architectural enterprises in Somalia. The regression equation is statistically significant, as indicated by the t -values and corresponding p -values for each predictor. The constant ($B = 0.711, p < 0.001$) represents the baseline level of economic efficiency when all independent variables are held constant. Among the predictors, regulation emerged as the strongest determinant of economic

efficiency, with the highest standardized beta coefficient ($\beta = 0.397, t = 8.206, p < 0.001$), indicating that supportive regulatory and institutional frameworks substantially enhance firms' operational and financial performance. Financial management practices also had a significant positive effect ($\beta = 0.204, t = 3.873, p < 0.001$), suggesting that sound financial planning, budgeting, and control mechanisms directly improve resource utilization and profitability. Similarly, awareness of IFRS for SMEs exhibited a significant positive influence ($\beta = 0.172, t = 3.341, p = 0.001$), implying that increased understanding and informal adoption of IFRS principles promote efficient and credible financial management. Accounting quality, while showing a positive relationship ($\beta = 0.084, t = 1.738, p = 0.003$), contributed less strongly relative to the other factors, though it remains a meaningful predictor.

Overall, these results confirm that all four variables significantly and positively affect economic efficiency, with regulation exerting the greatest influence. The findings reinforce the theoretical argument that a combination of institutional support, professional awareness, and effective financial management practices rooted in IFRS for SMEs principles can substantially enhance the economic efficiency of architectural enterprises in Somalia. This underscores the need for policy interventions to strengthen regulatory frameworks and promote widespread IFRS for SMEs adoption to sustain growth and competitiveness in the sector.

Table 13: ANOVA^a

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1 | Regression | 174.782 | 4 | 43.695 | 111.068 | .000 ^b |
| | Residual | 149.102 | 379 | 0.393 | | |
| | Total | 323.884 | 383 | | | |

Table 13 presents the ANOVA (Analysis of Variance) results for the regression model assessing the combined effect of IFRS for SMEs awareness, accounting quality, financial management practices, and regulation on the economic efficiency of architectural enterprises in Somalia. The model produced a regression sum of squares of 174.782 with 4 degrees of freedom, while the residual sum of squares was 149.102 with 379 degrees of freedom, resulting in a total sum of squares of 323.884. The computed F-statistic of 111.068 with a significance value ($p = 0.000$) indicates that the overall regression model is highly significant at the 1% level. This implies that the independent variables, when considered jointly, significantly predict economic efficiency, and the likelihood that this strong relationship occurred by chance is less than 0.1%. In other words, awareness of IFRS for SMEs, accounting quality, financial management practices, and regulation collectively exert a statistically meaningful influence on the economic efficiency of architectural enterprises. The high F-value further confirms the robustness of the model, validating its explanatory power and supporting the conclusion that the integration of IFRS for SMEs-related practices and institutional support mechanisms can substantially enhance financial and operational efficiency in Somalia's architectural sector.

Table 14: Hypothesis testing

| Variables Pairs | Pearson R | Significance p | Interpretation | Decision on Null Hypothesis |
|---|-----------|----------------|--|-----------------------------|
| Awareness and Economic Efficiency | 0.585 | 0.001 | Significant Strong Positive relationship | Rejected |
| Accounting Quality and Economic Efficiency. | 0.527 | 0.003 | Significant Strong Positive relationship | Rejected |

| | | | | |
|--|-------|-------|--|----------|
| Financial Management and Economic Efficiency | 0.626 | 0.000 | Significant Strong Positive relationship | Rejected |
| Regulation and Economic Efficiency | 0.674 | 0.000 | Significant Strong Positive relationship | Rejected |

Table 14 presents the results of the hypothesis testing based on Pearson correlation coefficients between the independent variables awareness of IFRS for SMEs, accounting quality, financial management practices, and regulation and the dependent variable, economic efficiency. All four relationships were found to be statistically significant at $p < 0.01$, indicating strong positive associations. The highest correlation was observed between regulation and economic efficiency ($r = 0.674$, $p < 0.001$), suggesting that supportive regulatory frameworks and institutional mechanisms play a critical role in enhancing firms' operational and financial performance. This was followed by financial management and economic efficiency ($r = 0.626$, $p < 0.001$), which underscores the importance of sound financial control and decision-making in improving profitability and sustainability. Similarly, awareness of IFRS for SMEs ($r = 0.585$, $p = 0.001$) and accounting quality ($r = 0.527$, $p = 0.003$) both exhibited strong, significant positive relationships with economic efficiency, implying that knowledge and application of IFRS principles, along with reliable accounting practices, contribute substantially to firm performance. Consequently, the null hypotheses for all four variable pairs were rejected, confirming that each independent variable has a statistically significant and positive influence on the economic efficiency of architectural enterprises in Somalia. These results align with the theoretical expectations of IFRS-driven efficiency, demonstrating that awareness, regulatory support, and effective financial management are essential enablers of economic growth and sustainability in developing economies.

Conclusion

This study set out to assess the role of the International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) in enhancing accounting quality and economic efficiency among architectural enterprises in Somalia. Drawing on empirical data from 384 respondents, the findings reveal that although Somalia lacks formally adopted national accounting standards, there is a growing awareness and informal application of IFRS for SMEs principles among practitioners. The results demonstrate that awareness, accounting quality, financial management practices, and regulatory support collectively explain a significant proportion (54%) of the variance in economic efficiency. This confirms that even in an environment characterized by institutional and regulatory weaknesses, voluntary alignment with international accounting principles can meaningfully improve the financial performance and sustainability of small and medium-sized enterprises. The study further established that regulation is the most influential predictor of economic efficiency, followed by financial management practices, awareness, and accounting quality. The strong effect of the regulatory dimension underscores the critical role of institutional frameworks and government involvement in promoting standardized financial practices. Without coherent policy support and professional oversight, firms' efforts to implement IFRS for SMEs remain fragmented and inconsistent. Therefore, strengthening Somalia's legal and institutional infrastructure for financial reporting is essential to ensure transparency, accountability, and comparability across enterprises. These findings highlight that regulatory and institutional reform is not merely complementary but a prerequisite for realizing the full benefits of IFRS for SMEs. Moreover, the results suggest that architectural enterprises in Somalia have already embraced sound financial management practices and high accounting quality standards, which significantly contribute to their operational efficiency. Firms that engage in systematic budgeting, cost control, and financial monitoring reported superior performance and sustainability. This finding aligns with global evidence that strong financial management capability enhances firms' capacity to allocate resources efficiently, reduce costs, and improve competitiveness. The fact that most respondents possessed substantial professional experience and tertiary education further strengthens the credibility of these practices and indicates a progressive professional culture within Somalia's architectural sector.

Equally important, the study's findings demonstrate that awareness of IFRS for SMEs and its informal implementation foster a culture of reliability and comparability in financial reporting. This awareness, even in the absence of official adoption, has stimulated an appreciation for international best practices in accounting, laying the groundwork for future integration into the global financial reporting system. However, the study also exposed significant regulatory gaps, including weak

institutional support, limited professional training, and lack of government-led policy initiatives to promote IFRS for SMEs. These deficiencies hinder the full realization of the standards' potential impact on accounting quality and economic efficiency. In conclusion, this research provides strong empirical evidence that enhancing accounting quality and economic efficiency in Somalia's architectural sector requires a holistic approach that combines professional awareness, sound financial management, and institutional reform. Policymakers and professional bodies should collaborate to establish a formal national framework for IFRS for SMEs implementation, coupled with continuous professional development and capacity building. Strengthening regulatory oversight and institutional support would not only promote financial transparency and accountability but also foster economic resilience and competitiveness among architectural enterprises. Ultimately, aligning Somalia's accounting practices with international standards represents a strategic pathway toward sustainable economic development and the professionalization of its growing architectural and construction industries.

Recommendations

Based on the study's findings, it is recommended that Somalia's policymakers, regulatory bodies, and professional accounting associations take deliberate steps to establish a formalized accounting framework aligned with the IFRS for SMEs. The government, in collaboration with the Somali Institute of Certified Public Accountants and other relevant stakeholders, should develop clear national guidelines for IFRS for SMEs implementation, accompanied by capacity-building programs and continuous professional development initiatives. Regular workshops, training, and awareness campaigns should be organized to equip practitioners particularly those in architectural and construction enterprises with the technical knowledge required to apply IFRS principles effectively. Furthermore, financial institutions and donors should be encouraged to support the adoption process, recognizing that improved financial reporting standards enhance transparency, investor confidence, and access to credit for SMEs.

Contribution of the Study

This study makes a significant contribution to both academic literature and professional practice by providing empirical evidence on the relationship between IFRS for SMEs, accounting quality, and economic efficiency in a developing and post-conflict economy context. It extends the theoretical understanding of how international financial reporting standards can influence firm performance even in environments lacking formal regulatory structures. By focusing on the architectural sector, the research introduces a novel perspective linking accounting practices with the economics of architecture an area often overlooked in accounting and economic development studies. Practically, the study offers valuable insights for policymakers and practitioners seeking to strengthen Somalia's financial reporting infrastructure. It serves as a benchmark for future reforms, highlighting the transformative potential of IFRS for SMEs in enhancing transparency, accountability, and sustainable economic growth across emerging economies.

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