

Corruption and SME Inefficiency in Northern Nigeria: The Moderating Role of Islamic Work Ethics

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Abstract

This study examined the effect of corruption on the performance inefficiency of Small and Medium Enterprises (SMEs) in Northern Nigeria from the Islamic perspective. SMEs are the backbone of the economy of Nigeria but their performance in the Northern region is still below par. Corruption and operational inefficiency are among the constraints. The study employed the SmartPLS 3 for partial least squares structural equation modeling (PLS-SEM) with primary data collected from the owners and managers of SMEs in Sokoto, Kano and Kaduna States of Northern Nigeria. Total questionnaires distributed was 190 with 101 usable responses. The findings show a significant positive relationship between corruption and SME performance inefficiency ($\beta = 0.751, p < .001$), which confirms that corrupt practices such as bribery, nepotism, favoritism and wasta has a direct impact on SME productivity, profitability and sustainability. The study also shows that Islamic work ethics (IWE) significantly moderates this relationship ($\beta = -0.544, p = .002$) and reduces the negative effects of corruption on SME performance. The study bridges a significant gap in the literature by integrating Islamic perspectives on fasad (corruption) with empirical evidence from the Northern Nigerian SME context. It offers implications for policy makers, SME owners and development practitioners who are interested in promoting sustainable enterprise development in the region.

Keywords: Corruption, Inefficiency, SMEs, Northern Nigeria, Islamic Work Ethics.

1. Introduction

Small and Medium Enterprises (SMEs) are the engines of development growth of Nigerian economy. SMEs make up about 96 per cent of all businesses and add up to almost 50 per cent to the country GDP (Leadership, 2026). SMEs are a major source of livelihood to millions of people, particularly in the North of Nigeria, in terms of job creation, innovation and poverty alleviation. However, SMEs in the region continue to face several challenges. Corruption and inefficiency in operations have been identified as major impediments to sustainable development (Hamza et al., 2023; Makuachukwu et al., 2022; Yahuza, 2025).

Corruption, as broadly defined is the abuse of entrusted power for private gain (Transparency, 2022). Corruption can take different forms in the SME ecosystem. These include bribery to get business licenses and permits; nepotism in employment; and favoritism to get government contracts and resources (Changwony & Kyiu, 2024). These practices distort competition, create informal costs for SMEs, erode confidence in business institutions and kill the entrepreneurial spirit which is so important for long term economic dynamism. The country has been experiencing the poor governance environment over time with a corruption perception index (CPI) of 26 out of 100 and ranked 142 out of 182 countries in 2025 which is much below the global average of 43 (Transparency International, 2021). Corruption is the phenomenon that causes instability in governments, impedes economic development and erodes democratic institutions (United Nations, 2021). This is most keenly felt in northern Nigeria, where security concerns and infrastructure deficits threaten the already fragile business environment.

The Quran is very much against *fasad* (mischief, corruption) and condemns every sort of mischief, injustice and oppression. Allah says: “*And do not corrupt the earth with corruptions, Allah loveth not the mischief-makers*” (Qur'an, 28:77). The Prophet Muhammad (PBUH) also warned that when people who are not deserving of power are appointed, then the end of trustworthiness in the society has come (Sahih al-Bukhari, Hadith: 59; Hadith 6496). Islam has prescribed a complete code of moral and ethical behavior. It forbids corruption in any shape and advocates justice, transparency and accountability in all actions.

Despite the recognized importance of SMEs in Nigeria's development line and the clear Islamic prohibition of corruption, a significant research gap remains in understanding the relationship between corruption and SME inefficiency from an Islamic perspective, particularly within the unique socio-cultural context of Northern Nigeria. While studies have examined corruption in Nigerian governance more broadly (Agu & Eneiga, 2024; Salihu, 2020) and the role of Islamic work ethics in organizational performance (Attahiru, 2021; Badar et al., 2024), limited research has integrated these dimensions to address the specific challenges confronting SMEs in the region.

This study aims to fill the gap by (1) examining the relationship between corruption and performance inefficiency of SMEs in Northern Nigeria; (2) exploring the effectiveness of Islamic work ethics in curbing corrupt practices; and (3) providing empirical evidence for policy and practice. The study adds to the growing literature on the Islamic paradigm of ethical business practices in Muslim majority countries and offers useful insights for the stakeholders who are interested in improving SME performance in Northern Nigeria.

The paper is organized as follows: Section 2 reviews the relevant literature on corruption, SME inefficiency, and Islamic perspectives. Section 3 presents the conceptual framework and hypotheses. Section 4 details the research methodology. Section 5 presents the results of the empirical analysis. Section 6 discusses the findings, while Section 7 concludes with implications and directions for future research.

2. Literature Review

2.1 Theoretical Underpinnings

This study is based on two complementary theoretical bases; Resource-Based View (RBV) and theory of Islamic Work Ethics (IWE). The RBV argues that the firm's performance is affected by the effective use of tangible and intangible resources, including but not limited to financial and human capital, organizational culture, and relational networks. This proposition still has empirical support in the current SME research (El Nemar et al., 2025). Corruption hinders the acquisition and utilization of these resources, making it inefficient and sub-optimal (Ezeibekwe, 2025).

IWE theory, grounded in Islamic teachings, offers a normative framework that stresses honesty, fairness, transparency, and accountability in business practices (Attahiru, 2021; Badar et al., 2024). The Islamic work ethics are derived from the Qur'an and Sunnah to allow the Muslims to conduct their affairs with integrity and shun all forms of injustice and exploitation. Recent studies show that IWE enhances the relation between organizational resources and outcomes, strengthening the positive effects of good management practices and diminishing the negative effects of corruption (Alsetoohy et al., 2026; Sarasi et al., 2025).

2.2 Corruption: Concept and Manifestations

Corruption is a complex and multidimensional phenomenon that has multiple causes and effects and takes different forms based on context (Adly & Canal, 2025). Corruption is the abuse of power for private gain, and it is one of the biggest

threats to socio-economic and political development in the world (Transparency International, 2025). For a long time, corruption has posed a structural constraint on political and economic development, leading to chronic governance failures in Nigeria's public and private institutions (Agu & Eneiga, 2024; Chatham House, 2025; Peterside, 2025).

Corruption has different forms and is universal in nature in the Nigerian business environment such as misappropriation, kickbacks, over-invoicing, embezzlement and contract inflation (Agu & Eneiga, 2024). Recent research has shown that firm level exposure to bribery, extortion and informal payments affect strategic choices such as auditing and certification decisions, and in the case of SMEs, corrupt practices are normalized as business-survival strategies (Changwony & Kyiu, 2024). Corruption in the SME sector is visible in:

- **Bribery:** Extortionate payments to government officials for business permits, licenses, and regulatory approvals (Al Qudah et al., 2024)
- **Wasta/Favouritism:** Use of personal connections to secure contracts, financing, or preferential treatment
- **Nepotism:** Hiring unqualified family members or associates over qualified candidates
- **Ghost workers:** Fictitious employees on payrolls to siphon funds
- **Procurement fraud:** Inflation of prices, kickbacks in supply chains, and diversion of business resources

Salihu (2020) asserts that corrupt practices by public officers arise in the process of carrying out mandates and manifest in activities such as bribery, embezzlement, fraud, forgery, pilfering, and inflation of contracts and procurements. For SMEs, these practices create an environment of uncertainty, increase transaction costs, and erode the trust essential for business relationships and long-term planning (Amin & Motta, 2023).

2.3 SME Inefficiency: Causes and Consequences

Inefficiency is an environment where an organization does not utilize resources like time, materials or labor in an effective manner (Bedgood, 2023). The causes of operational inefficiency in business are politicization, low compensation, lack of materials, use of outdated technology, inadequate training of personnel and insufficient supervision (Walyben, 2022).

The SMEs in Northern Nigeria manifest inefficiency in various dimensions. Outdated technology, insufficient infrastructure and lack of access to modern production methods result in higher production costs, lower quality outputs and lower competitiveness, thus leading to operational inefficiency (Isa et al., 2022). Access to finance is limited, resulting in greater financial inefficiency. Evidence from firm-level surveys in developing economies shows that bureaucratic corruption directly impairs SMEs' access to credit by reducing profits, increasing perceived risk and information asymmetries between borrowers and lenders (Amin & Motta, 2023). Financial inefficiency is further worsened by informal payments for credit or for expediting loan processing (TheCable, 2026). Nepotism and favoritism in hiring practices leads to human resource inefficiency and results in SMEs being staffed by unqualified personnel and reduces productivity of the workforce. Firms connected to business groups exposed to such practices have significantly lower internal controls and certification adoption (Changwony & Kyiu, 2024). Market inefficiency occurs when corruption disrupts market mechanisms, artificially favoring well-connected firms at the expense of those that rely on merit and competition, resulting in a misallocation of resources.

In fact, institutional quality is an important determinant of the efficiency of organizations more generally and the notion applies to the private sector as much as it does to the public sector (Agu & Eneiga, 2024). These inefficiencies are compounded by the complex environment of Northern Nigeria, marked by insecurity, infrastructural deficits and weak institutional frameworks.

2.4 Islamic Perspective on Corruption and Inefficiency

Islam provides a comprehensive framework addressing corruption and inefficiency in all aspects of human life, including business and economic activities. Islam is not merely a doctrine of worship but an integrated system that governs rules, obligations, values, manners, and practices to ensure integrity and justice between human beings.

The Qur'an uses the term *fasad* to denote corruption, encompassing a wide range of negative behaviours, including bloodshed (Qur'an, 2:30), destruction of crops and livelihoods (Qur'an, 2:205), severing ties of kinship (Qur'an, 47:22), dividing people into classes and discriminating between them (Qur'an, 28:4), giving people less than full measure (Qur'an, 11:85; 26:183), arrogance borne of wealth (Qur'an, 28:77), and sexual perversion (Qur'an, 29:28–30). Classical and contemporary Islamic scholarship converges on defining *fasad* as encompassing mischief, abuse, decay, and dishonesty in human dealings, a definition squarely applicable to bribery, embezzlement, and favouritism in the modern SME environment (Arafa, 2012).

The Prohibition of Bribery and Illicit Gain: Islam categorically prohibits bribery and all forms of illicit financial gain. The Prophet Muhammad (PBUH) is reported to have cursed both the one who offers a bribe and the one who accepts it (Sunan Abi Dawud: Hadith 3580). This strong condemnation extends to all forms of corrupt practices that undermine justice and create unfair advantage.

The Principle of Justice and Fairness: Islam emphasizes justice in all dealings. Allah commands: *"And be fair: for Allah loves those who are fair (and just)"* (Qur'an, 49:9). The first Caliph of Islam, Abu Bakr As-Siddeeq, applied the principle of equality upon his appointment, declaring that the weak among the people would be treated as strong until their rights were restored to them, and inviting correction from the people should he make a mistake (Mujahid, 2012).

The Principle of Accountability: Islam emphasizes that leaders and managers are accountable for their actions. The Prophet (PBUH) taught that the most beloved of people to Allah, and the nearest to Him in status, is the just leader, while the most detested is the oppressive one (Jami' at-Tirmidhi: Hadith 1329). Sultan Muhammad Bello of the Sokoto Caliphate similarly emphasized that any person appointed to leadership should conduct himself righteously, mindful that he will give account of his leadership before Allah (Yusuf, 2013).

Islamic Work Ethics (IWE): Islamic work ethics provide guidelines for effective business conduct, emphasizing honesty, integrity, diligence, and fairness. Islamic administrative principles are applicable across organizational settings, shaping managerial practices, employment decisions, and staff development (Chandio & Chandio, 2021), and their implementation has been shown to enhance organizational performance and employee relations climates in contemporary Muslim-majority business contexts (Badar et al., 2024). In the context of SMEs, IWE encompasses principles that directly counteract corruption and inefficiency:

- **Trustworthiness (*Amanah*):** Business owners and managers are trustees of resources and must manage them responsibly. This principle discourages embezzlement, fraud, and wastage.
- **Honesty (*Sidq*):** Truthfulness in all business dealings builds trust and long-term relationships. The Prophet (PBUH) said that the truthful and trustworthy merchant will be among the prophets, the truthful, and the martyrs on the Day of Judgement (Jami' at-Tirmidhi: Hadith 1209).
- **Fairness (*Adl*):** Justice in transactions, hiring, and treatment of employees and customers. Discrimination and favouritism are condemned.
- **Accountability (*Hisab*):** Consciousness that all actions will be accounted for before Allah encourages transparency and responsible management.
- **Excellence (*Ihsan*):** Striving for quality and excellence in work, reflecting the Islamic principle of doing things in the best possible manner.
- **Brotherhood (*Ukhuwwah*):** Creating a supportive and cooperative work environment that discourages exploitation and encourages mutual respect.

Empirical evidence from Muslim-majority business contexts confirms that firms grounded in Islamic ethical principles show stronger resistance to corrupt practices and better organizational outcomes, with employee relations climate acting as a key transmission mechanism (Badar et al., 2024). These principles apply equally to the private sector, where SMEs operate and interact with government agencies, financial institutions, and other stakeholders.

2.5 The Northern Nigeria Context

Northern Nigeria's socio-cultural, economic and security dynamics make it a special case for studying corruption and SME inefficiency.

Socio-Cultural Context: The population is mostly Muslim and Islamic values are deeply embedded in the social and economic life. For instance, empirical evidence from fieldwork in Islamic micro, small and medium enterprises in Nigeria and Indonesia shows that, despite their co-existence with traditional and colonial-era norms, Qur'anic values still influence entrepreneurial behavior and trust relations in practice (Sarasi et al., 2025). The ethics of work within Islam are embedded in culture and can have a major impact on the way business is conducted. But there's a lot of variation in how this is used.

Economic Challenges: SMEs face challenges such as limited access to finance, poor infrastructure and limited market environment in Northern Nigeria. Evidence at the firm level across countries suggests that bureaucratic corruption is a major structural barrier to SME access to finance more generally in developing countries (Amin & Motta, 2021). This is in line with the financing constraints reported among Northern Nigerian SMEs (Isa et al., 2022).

Security Challenges: The region is confronted with serious security challenges among which is the Boko Haram insurgency in the North East. Dimitriadis (2024) analyzes longitudinal firm-level data from 2009 to 2014 and concludes that firms that engaged in bribery when exposed to Boko Haram violence performed better than those that did not (Dimitriadis, 2024). Insecurity undermined the ability of public officials to extract rents. This shifted bribery from a tool of extraction to a tool of survival, creating dependency on informal payments and eroding long-term trust in institutions.

Institutional Weaknesses: Corruption flourishes where there is a lack of good governance, strong regulatory enforcement and rule of law. These factors raise the costs and risks of legitimate business activity. SMEs need resilience through strategic leadership and innovation. However, institutional failures and corrupt practices often impede these (Ajik et al., 2026).

2.6 Empirical Studies on Corruption and SME Performance

Empirical literature on the effect of corruption on SME performance has generally found consistent negative effects but with important contextual nuances.

Direct negative effects: There is a huge amount of literature showing that corruption increases transaction costs, creates uncertainty and distorts the allocation of resources. Corruption directly impacts the cost of credit for SMES in all OECD countries and access to finance of small and less politically connected firms (Al Qudah et al, 2024). Bribery and unofficial payments disproportionately affect SMEs in developing countries as resources are diverted from productive activities to these (Amin & Motta, 2021).

Contextual effects: Research on business strategy responses shows that SMEs' exposure to corruption interacts with firm-level characteristics such as business-group affiliation and external auditing, shaping whether firms adopt international standards and stronger internal controls or instead normalize informal payments as a cost of doing business (Changwony & Kyiu, 2024). Similarly, evidence from conflict-affected Nigerian firms shows that in extreme insecurity, bribery can temporarily aid SMEs in accessing scarce resources, illustrating the complex survival strategies businesses employ in difficult environments even as such practices remain corrosive over the long term (Dimitriadis, 2024).

Moderator Variable: The moderating role of Islamic work ethics on organizational behavior and firm level outcomes has been reported in recent researches. Religious ethical frameworks have been associated with a more positive climate for employee relations and organizational performance (Badar et al., 2023). Islamic work ethics provide the theoretical engine for productive and non-rent seeking economic behavior at the firm and national level (Raies, 2022). The findings indicate that religion-based paradigms of ethics may be useful in the fight against corrupt procedures.

2.7 Research Gap

Despite the abundance of literature on corruption and SME performance, there are still some gaps. Though there is a distinct cultural and economic setting in Northern Nigeria, there has not been much research on corruption in SMEs in the region. Second, few empirical studies have incorporated Islamic perspectives on corruption and inefficiency in the SME sector, with most studies focusing on the public sector or on Muslim majority contexts outside of West Africa. Third, the role of Islamic work ethics as a moderating factor on the corruption-inefficiency relationship has not received enough direct empirical attention especially in Nigerian SMEs.

This study addresses these gaps by empirically examining the relationship between corruption and SME inefficiency in Northern Nigeria, anchored in an Islamic framework, and discussing the potential of Islamic work ethics to mitigate corrupt practices and enhance organizational efficiency.

3. Conceptual Framework and Hypotheses

3.1 Conceptual Framework

The conceptual framework of this study integrates Western institutional theory with Islamic normative principles. The framework posits that corruption directly contributes to SME inefficiency, while Islamic work ethics offer a normative pathway for mitigating this relationship. The framework is illustrated in Figure 1.

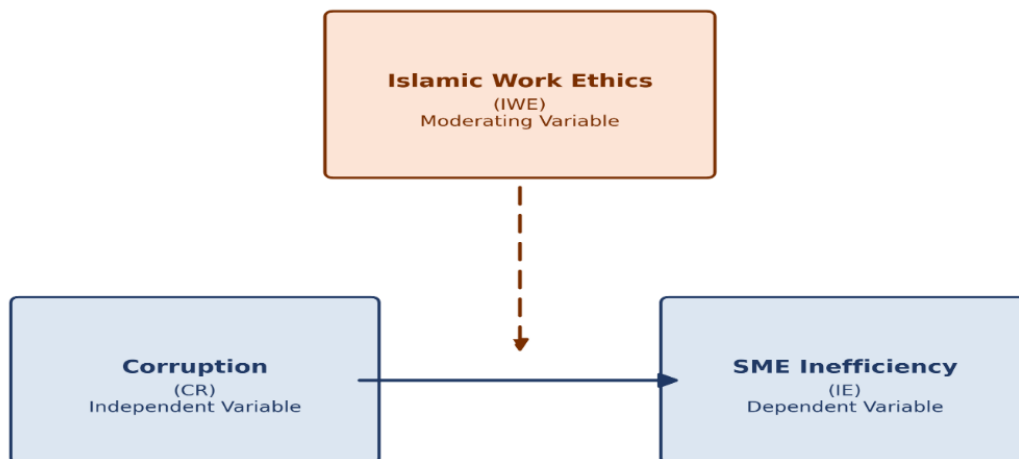


Figure 1: Conceptual Framework

Higher Corruption is associated with greater SME's inefficiency

The independent variable is Corruption (CR), defined as the abuse of business relationships and public office for private gain, including bribery, nepotism, favouritism, and fraudulent practices. The dependent variable is SME Inefficiency (IE), defined as the failure to utilize resources effectively, resulting in suboptimal performance across operational, financial, and market dimensions. The conceptual moderating variable is Islamic Work Ethics (IWE), encompassing principles of trustworthiness, honesty, fairness, accountability, excellence, and brotherhood.

3.2 Hypotheses

Based on the theoretical framework and literature review, the following hypotheses are proposed:

H1: Corruption is significantly related to SME inefficiency in Northern Nigeria.

This hypothesis is grounded in both Islamic teachings and empirical evidence. Islam prohibits corruption in all forms, recognizing its destructive effects on individuals and society. The Qur'an states: *"And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful]"* (Qur'an, 2:188). The Prophet (PBUH) also warned that corruption leads to societal decline. Empirically, studies have demonstrated that corruption increases transaction costs, creates uncertainty, and misallocates resources, leading to inefficiency and suboptimal performance (Changwony & Kyiu, 2024; Salihu, 2020).

H2: Islamic Work Ethics offer a normative framework for mitigating the relationship between corruption and SME inefficiency.

This proposition holds that the strength of the corruption–inefficiency relationship depends on the extent to which Islamic ethical principles are adopted in business operations. Organizations that adhere to IWE principles are better positioned to resist corrupt practices and maintain operational efficiency (Attahiru, 2021; Badar et al., 2024). The Prophet Muhammad (PBUH) emphasized ethical conduct in business, teaching that the truthful and trustworthy merchant will be with the prophets, the truthful, and the martyrs (Jami' at-Tirmidhi: Hadith 1209). This suggests that adherence to Islamic ethics cultivates alternative values and practices that counteract corrupt tendencies.

4. Methodology

4.1 Research Design

The present study uses a quantitative research design using survey methodology. The data is collected at one point of time in a cross-sectional study to investigate the relationship between corruption, Islamic Work Ethics and SME inefficiency. The primary data was collected through a structured questionnaire, administered to the owners and managers of SMEs in the States of Sokoto, Kano and Kaduna, Northern Nigeria.

4.2 Population and Sample

The intended target population is owners and managers of SMEs in three states in Northern Nigeria namely; Sokoto, Kano and Kaduna. The selection of these states was intended to reflect the varied economic and cultural landscapes of the region. Sokoto is a major commercial center in Northwestern Nigeria and reflects the region's traditional and Islamic heritage. Kano is the commercial hub of Northern Nigeria. Kaduna is a mix of industrial and service sector activity.

Using simple random sampling, 190 questionnaires were distributed to SME owners and managers. A total of 101 usable responses were returned and analyzed representing a response rate of 53.2%. The sample size is sufficient for PLS-SEM analysis and fulfills the minimum requirements for statistical power and model complexity (Hair et al., 2022).

4.3 Instrumentation

The questionnaire was divided into four parts

- Demographic Data: Gender, age, education, type of business, years in the business, number of employees.
- Corruption Scale: A nine item scale adapted from Salihu (2020), Changwony and Kyiu (2024) and Al Qudah et al. (2024) measuring perception of corrupt practices in the SME environment such as bribe, favouritism and fraud.
- Inefficiency Scale: Nine items scale adapted from Walyben (2022), Bedgood (2023) and Isa et al. (2022) to measure operational, financial and market inefficiencies.
- Islamic Work Ethics Scale: Adapted scale based on the Islamic principles and literature of Islamic work ethics (Attahiru, 2021; Badar et al., 2023) measuring the dimensions of trustworthiness (Amanah), honesty (Sidq), fairness (Adl), accountability (Hisab), excellence (Ihsan) and brotherhood (Ukhuwwah).

All scales were measured on 5-point Likert scale from 1 (Strongly Disagree) to 5 (Strongly Agree). The questionnaire was pilot tested on a sample of 30 SME managers for clarity, relevance and reliability. Pilot test results indicated good reliability with Cronbach's alpha values above 0.70 for all scales.

4.4 Data Collection

Data were collected using hand-delivered and collected questionnaires with appointments for pick-up to ensure a high response rate. This approach was selected to overcome the low literacy levels and low survey response rates typical of Northern Nigeria. Data were collected in April-May 2017. The respondents were assured of confidentiality and anonymity

to obtain honest responses. Distribution and collection of the questionnaires was done by four trained assistants and three field supervisors.

4.5 Data Analysis

Partial Least Squares Structural Equation Modelling (PLS-SEM) using SmartPLS 3.0 was employed for data analysis. PLS-SEM is suitable for this study for several reasons (Hair et al., 2022):

- The research model involves considerable complexity regarding the type of relationships in the hypotheses.
- The study uses latent variable scores in the subsequent analysis for predictive purposes.
- PLS-SEM is appropriate for small-to-medium sample sizes.
- PLS-SEM is robust for predictive applications.

The PLS model analysis covers two stages: (1) assessment of reliability and validity of the measurement model; and (2) evaluation of the structural model, including hypothesis testing, assessment of R^2 , and predictive relevance (Q^2) (Hair et al., 2023).

5. Results

5.1 Demographic Profile of Respondents

Table 1 presents the demographic profile of the 101 respondents included in the analysis.

Table 1: Demographic Profile of Respondents

Characteristic	Frequency	Percentage
Gender		
Male	86	85.1%
Female	15	14.9%
Marital Status		
Married	78	77.2%
Single	20	19.8%
Divorced	3	3.0%
Age		
30–39	31	30.7%
40–49	32	31.7%
50–59	38	37.6%
Educational Level		
Diploma/NCE	35	34.7%
Degree/HND	58	57.4%
Postgraduate	8	7.9%
Business Type		
Trading	42	41.6%
Manufacturing	23	22.8%
Services	36	35.6%
Years in Operation		
Less than 5	24	23.8%
5–10	38	37.6%
More than 10	39	38.6%
Number of Employees		

Characteristic	Frequency	Percentage
1–10	56	55.4%
11–49	45	44.6%

Note: n = 101.

The demographic profile indicates a sample that is largely male (85.1%) and is indicative of business ownership patterns of the region. The majority of the respondents were married (77.2%), between 40 and 59 years (69.3%) and received education at least at degree level (65.3%). The sample contains both trading (41.6%) and service (35.6%) firms, with manufacturing accounting for 22.8%. About 76.2% of the businesses were operating for five years or more which indicates relatively established businesses.

5.2 Measurement Model

The reflective measurement model was assessed for reliability and validity following established guidelines (Hair et al., 2022). Table 2 presents the measurement model results.

Table 2: Measurement Model — Reliability and Convergent Validity

Construct	Item	Loading	Cronbach's α	CR	AVE
Corruption (CR)	CR_1	0.846	0.902	0.922	0.629
	CR_2	0.800			
	CR_3	0.782			
	CR_5	0.784			
	CR_6	0.813			
	CR_7	0.758			
	CR_9	0.768			
Inefficiency (IE)	IE_3	0.851	0.951	0.960	0.776
	IE_4	0.872			
	IE_5	0.917			
	IE_6	0.942			
	IE_7	0.914			
	IE_8	0.878			
	IE_9	0.784			
Islamic Work Ethics (IWE)	IWE_1	0.826	0.912	0.932	0.654
	IWE_2	0.897			
	IWE_3	0.857			
	IWE_4	0.827			
	IWE_5	0.722			

Reliability: All standardized loadings exceeded the recommended threshold of 0.70, demonstrating satisfactory individual item reliability. Composite reliability values (CR > 0.90) and Cronbach's alpha values (> 0.90) exceeded the 0.70 benchmark, indicating strong construct reliability (Hair et al., 2022).

Convergent Validity: Average Variance Extracted (AVE) values exceeded 0.50 for all constructs (Corruption: 0.629; Inefficiency: 0.776; IWE: 0.654), satisfying the criterion for convergent validity (Hair et al., 2022).

Discriminant Validity: As shown in Tables 3 and 4, discriminant validity was established through two methods.

Table 3: Discriminant Validity (Fornell–Larcker Criterion)

Construct	Corruption	Inefficiency	IWE
Corruption	0.793		
Inefficiency	0.751	0.881	
IWE	-0.544	-0.601	0.809

Note: Diagonal elements are the square root of AVE; off-diagonal elements are construct correlations.

The square root of AVE for each construct (diagonal elements) is greater than the correlations between constructs (off-diagonal elements), satisfying the Fornell–Larcker criterion for discriminant validity.

Table 4: Cross-Loadings

Item	Inefficiency	Corruption	IWE
IE_3	0.851	0.657	-0.512
IE_4	0.872	0.648	-0.498
IE_5	0.917	0.664	-0.523
IE_6	0.942	0.695	-0.541
IE_7	0.914	0.663	-0.509
IE_8	0.878	0.638	-0.487
IE_9	0.784	0.656	-0.456
CR_1	0.566	0.846	-0.412
CR_2	0.541	0.800	-0.398
CR_3	0.559	0.782	-0.423
CR_5	0.612	0.784	-0.445
CR_6	0.689	0.813	-0.467
CR_7	0.585	0.758	-0.389
CR_9	0.591	0.768	-0.402
IWE_1	-0.489	-0.423	0.826
IWE_2	-0.467	-0.401	0.897
IWE_3	-0.501	-0.435	0.857
IWE_4	-0.478	-0.412	0.827
IWE_5	-0.445	-0.389	0.722

Note: Bold-magnitude values indicate indicator loadings on their assigned constructs.

All item loadings on their respective constructs exceed cross-loadings on other constructs, confirming satisfactory discriminant validity (Hair et al., 2022).

5.3 Structural Model

The structural model was assessed using bootstrapping with 5,000 resamples to test the hypothesized relationship. Table 5 presents the results of hypothesis testing.

Table 5: Hypothesis Testing Results

Hypothesis	Path	β	SE	t-value	p-value	Decision
H1	Corruption $\rightarrow$ Inefficiency	0.751	0.036	20.715	0.000	Supported
H2	Corruption*IWE $\rightarrow$ Inefficiency	-0.544	0.176	3.097	0.002	Supported

The results demonstrate that corruption has a significant positive relationship with SME inefficiency ($\beta = 0.751$, $t = 20.715$, $p < .001$). The path coefficient indicates a strong effect size, suggesting that corruption explains a substantial proportion of the variance in SME inefficiency. The R^2 value of 0.563 (Table 6) indicates that corruption explains 56.3% of the variance in SME inefficiency, representing substantial explanatory power according to conventional benchmarks (Hair et al., 2022).

Furthermore, the moderation analysis reveals that Islamic Work Ethics significantly moderate the relationship between corruption and SME inefficiency ($\beta = -0.544$, $t = 3.097$, $p = .002$). The negative coefficient indicates that the presence of strong Islamic Work Ethics reduces the positive relationship between corruption and inefficiency, suggesting that IWE serves as a protective factor against the detrimental effects of corruption on SME performance.

Table 6: Coefficient of Determination (R^2)

Construct	R^2	R^2 Adjusted
Inefficiency	0.563	0.559

The predictive relevance of the model was assessed using Stone–Geisser's Q^2 through blindfolding. The Q^2 value of 0.423 (Table 7) is greater than zero, confirming that the model has predictive relevance (Hair et al., 2023).

Table 7: Predictive Relevance (Q^2)

Construct	SSO	SSE	$Q^2 (= 1 - SSE/SSO)$
Inefficiency	770.000	444.355	0.423

6. Discussion

6.1 The Relationship between Corruption and SME Inefficiency

The Findings of this study indicate strong empirical evidence for the proposition that corruption is a major contributor to SME inefficiency in Northern Nigeria ($\beta = 0.751$, $p < .001$). This finding is in line with recent studies on corruption and SME strategy in Nigeria and other similar developing economies (Al Qudah et al., 2024; Changwony & Kyiu, 2024; Salihu, 2020), extending the scope of analysis to the Northern Nigerian SME sector, demonstrating that corrupt practices also diminish private-sector performance. Several mechanisms have been proposed to explain the high correlation between corruption and SME inefficiency.

Direct Financial Costs: Corruption creates direct financial costs for SMEs through bribery, facilitation payments, and unauthorised fees. Such costs shift resources away from productive investment, lower profitability and limit firm growth, consistent with cross-country findings that bureaucratic corruption restricts SMEs' access to funding (Amin & Motta, 2021).

Operational Disruptions: Corruption produces uncertainty and instability in the conduct of business. Bribing for permits, licenses and regulatory approvals may bring short relief but increases dependency and exposure to abuse. Conflict-affected Northern Nigerian firms illustrate that bribery can help them survive acute insecurity but the uncertainty associated with corrupt transactions can impede long-term planning and efficiency of operations (Dimitriadis, 2024).

Human Resource Deficiencies: Hiring relatives and friends without regard to their competence is an act that is against the Islamic principles and detrimental to the performance of the organization. This is because such practices prevent the productivity of the work force and effectiveness of the organization, since it becomes impossible to hire qualified persons (Changwony & Kyiu, 2024).

Market distortions: Corruption creates an uneven playing field, giving an advantage to well-connected firms over those that compete on the basis of merit and competitiveness. Thus, resources are used inefficiently and the efficiency of the economy is reduced.

Trust Erosion: Corruption erodes trust between business partners, between business and government, and within communities. It undermines the social capital needed for business partnerships and market exchanges. The results are consistent with the Islamic view that corruption is one of the causes of widespread harm and injustice that are condemned in the Qur'ān. *“And when he goes he tries to do mischief in the land, to destroy crops and animals. And Allah does not like*

corruption” (Qur'an 2:205). The Prophet Muhammad (PBUH) also said that the honest and trustworthy trader is among those whom Allah praises and indirectly warned that dishonest dealings would lead to the degeneration of the society (Jami' at-Tirmidhi: Hadith 1209).

6.2 Islamic Work Ethics as an Antidote to Corruption

In addition to the direct relationship between corruption and inefficiency, the results also provide statistical support to Islamic work ethics (IWE) as a mitigating framework. The conceptual framework given in section 3 assumes that IWE may reduce the negative effects of corruption on SME performance. The moderation analysis (H2) confirms this assumption empirically ($\beta = -0.544$, $t = 3.097$, $p = .002$). This finding is aligned with prior literature (Attahiru, 2021; Badar et al., 2023; Raies, 2022), and teachings of Islam and changes the role of IWE in this regard from pure conceptual proposition to empirically verified one.

The comprehensive framework of Islamic work ethics (IWE) presents a direct opposition to corrupt practices:

Amanah (Trustworthiness): IWE stresses that business owners and managers are trustees of resources and should manage them responsibly. This principle prevents waste, fraud and theft. The Prophet (PBUH) said to the believers, *“Give back the trust to the trust-holder and do not betray those who betray you.”* (Sunan Abu Dawud: Hadith 3535). There is an obvious expectation of integrity in teaching that precludes corrupt practices.

Honesty (Sidq): Honesty in all business transactions builds trust and lasting relationships. *“O you who have believed, fear Allah and be with those who are true”* (Qur'an, 9:119) is the instruction given to the believers by the Qur'an. This is the antithesis of fraud and misrepresentation.

Adl (Fairness): A core Islamic principle that calls for fairness in commercial dealings, employment, and the handling of workers and customers. Allah says: *“And be just. God loves those who are just”* (Qur'an, 49:9). Such a principle is against all discrimination and favoritism.

Accountability (Hisab): - The consciousness that every deed will be accounted for in front of Allah encourages transparency and responsible management. The principle is to do the right thing when no one is looking.

Excellence (Ihsan): - The pursuit of excellence in work is in line with the Islamic principle of doing things in the best possible way. The Prophet (PBUH) said, *“Allah loves that a man should perfect that which he works at”* (Musnad Abi Ya'la: Hadith 4386). This principle removes the inefficiency's carelessness and negligence.

Ukhuwwah (Brotherhood): - Islam promotes a healthy working environment that is supportive and cooperative, free of exploitation and based on mutual respect. Prophet (PBUH) said *“none of you will [really] believe until he loves for his brother what he loves for himself”* (Sahih al-Bukhari: Hadith 13). This principle develops the social capital necessary for transparent and cooperative business relations.

The implementation of these principles into the context of SMEs may significantly decrease their vulnerability to corruption, as well as increase the efficiency of their operations. The principles of Islamic administration are widely applicable in organizations and have an impact on managerial practices, employment practices and training and development (Chandio & Chandio, 2021). They are applied to form an organizational culture that resists corruption and ensures efficient use of resources.

6.3 Implications for SME Performance in Northern Nigeria

The findings of this study have significant implications for SME owners, managers, policymakers, and development practitioners in Northern Nigeria.

For SME owners and managers: - The research shows the significance of ethical business conduct for operational efficiency and sustainable performance. “Islamic work ethics can be a competitive advantage, build confidence with customers, employees and business partners and reduce the possibility of corrupt practices. The ethical culture of an SME is an intangible, inimitable resource that enhances resilience and long-run competitiveness, in line with resource-based reasoning (El Nemar et al., 2025). SMEs that nurture strong ethical cultures are better placed to overcome business challenges and achieve long term success.

For Policymakers: - The findings highlight the need for reforms to reduce opportunities for corruption and create a more transparent and predictable business environment. This includes the simplification of business registration and licensing processes, digitisation of government services, strengthening of anti-corruption bodies, and enhancement of transparency in public procurement processes where SMEs often engage (Agu et al., 2024). Nigeria's Corruption Perceptions Index score continues to be consistently low though with incremental gains (Transparency International, 2025). Targeted policy interventions tackling the bureaucracy SMEs face - such as permits, licensing, tax administration and access to credit - are likely to yield disproportionate efficiency gains over broader anti-corruption campaigns, as these directly affect the day-to-day operations of SMEs.

For Development Practitioners and Financial Institutions: - Using the known link between corruption and poor access to finance (Amin & Motta, 2021), development agencies and financial institutions serving Northern Nigerian SMEs should focus on transparent rules-based lending criteria and lesser discretion in loan processing which mitigates opportunities for informal payments and favouritism. Capacity-building programmes that combine technical business skills training with modules on Islamic business ethics may be especially effective among the region's Muslim-majority SME population, building on an already resonant normative framework rather than importing an alien compliance vocabulary.

For researchers: - The study finds IWE to be a statistically significant moderator of the corruption–inefficiency relationship across this 3-state sample and suggests the utility of replicating and extending this framework to other Northern Nigerian states and to other Muslim-majority regions facing similar governance challenges.

7. Conclusion

This study examined the relationship between corruption and SME performance inefficiency in Northern Nigeria, situating the analysis within an Islamic ethical framework anchored in the Qur'anic concept of *fasad*. Using primary survey data from 101 SME owners and managers in Sokoto, Kano, and Kaduna States, and applying PLS-SEM analysis, the study found a strong, statistically significant, positive relationship between corruption and SME inefficiency ($\beta = 0.751$, $p < .001$), with corruption explaining 56.3% of the variance in inefficiency outcomes, and found that Islamic Work Ethics significantly moderate this relationship ($\beta = -0.544$, $p = .002$). These findings confirm, with robust empirical evidence from an underexamined regional context, what Islamic teaching has long asserted: that *fasad* — whether expressed as bribery, nepotism, favouritism, or fraud — corrodes the productive capacity of an economy and the wellbeing of the communities that depend on it.

The study makes three primary contributions. It is empirically one of the first PLS-SEM based analyzes on the effect of corruption on SME inefficiency in Northern Nigeria, adding to the growing body of literature that has more often focused on the public sector or national-level analysis (Agu et al., 2024; Changwony & Kyiu, 2024). Theoretically, it combines the Resource-Based View and Islamic Work Ethics theory demonstrating that these two perspectives are not conflicting glasses to interpret the performance of SMEs in Muslim-majority developing economies but they are complementary. It operationalizes the Qur'anic and Prophetic teachings on trustworthiness (*amanah*), honesty (*sidq*), fairness (*adl*), accountability (*hisab*), excellence (*ihsan*) and brotherhood (*ukhuwwah*) into a framework that can be immediately utilized by SME owners, financial institutions and policymakers.

This study has its limitations. The cross-sectional design describes relationships at one point in time and cannot establish the causal direction with certainty; longitudinal designs would strengthen causal inference. The sample size, although adequate for PLS-SEM, was taken from three states (Sokoto, Kano and Kaduna) and 101 respondents, which limits the generalizability of the study to Northern Nigeria generally or to SMEs in other parts of the country. Islamic Work Ethics was statistically tested as a moderator of the corruption-inefficiency relationship and found to be significant. However, this is an initial test in this three-state context and replication across other Northern Nigerian states and regions would increase confidence in the result. Future research should also compare designs across Muslim-majority and religiously dominated regions of Nigeria, and test specific policy interventions (e.g., digitized licensing, transparent SME lending criteria) as testable moderators of the corruption–inefficiency relationship.

Ultimately, the evidence presented here suggests that more than regulatory reform is needed to address corruption in Northern Nigerian SMEs. The establishment of an ethical culture in consonance with the region's own religious and moral heritage is required. The Qur'an reminds believers that those who cause corruption in the land are not loved by Allah (Quran, 28:77) - a principle that, when translated into everyday business conduct, provides Northern Nigeria's SME sector both a moral compass and a practical path toward greater efficiency, resilience, and long-term prosperity.

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