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ENTREPRENEURIAL FIRMS ANDMICRO FINANCE FUNDING IN SOUTHWESTERN NIGERIA

OYEDOKUN AKINTUNDE JONATHAN

Department of Management and Accounting, Ladoke Akintola University of Technology, Ogbomoso, Nigeria

ABSTRACT

The study examined the relationship between small and medium scale entrepreneurial firms performance in relation to the micro finance funding at their disposal. The focus was on micro finance institution and entrepreneurial firms in southwestern Nigeria. A total of 168 registered small and medium and scale entrepreneurial firms across the six state in south west Nigeria constitute the sample population. However 153 registered small and medium and scale entrepreneurial firms were used for the analysis following the data screening and evaluation. A purposive random sampling technique was adopted for the study. The data collected was analyzed using Pearson product moment correlation.The findings revealed that a significant and positive relationship exists between loans accessed from micro finance banks (MFBs) and the performance of small and medium scale entrepreneurial firms. The study concluded that the significant contribution of microfinance funding narrows the financial gap for SMEs businesses

KEYWORDS: Entrepreneurial Firms, Micro Finance Institution, Relationship, Small and Medium Scale

INTRODUCTION

The development of entrepreneurial skills has been perceived as an essential ingredient for the sustenance of any economy. The dynamic role of entrepreneurs in developing countries as engines through which growth and development objectives are achieved has long been recognized. Entrepreneurs are in the forefront of output expansion, employment generation, income redistribution, promotion of indigenous technology and production of primary goods to strengthen industrial linkages. Thus, the performance of entrepreneurs has been of much interest to all countries.

Nigeria has long recognized the importance and valuable contributions of entrepreneurship as a major source of poverty alleviation, wealth creation, employment generation, (Oma-Williams, 2003; Okpala, 2012). In Nigeria, entrepreneurial firms account for about 70% of employment (Adebusuyi, 1997) and well over 50% of Gross Domestic Product (Odeyemi, 2003). According to recent studies, Aganga cited in Adeloye (2012), Nigeria has an estimated population of seventeen million Medium scale entrepreneurial firms, representing over 80% of the total number of firms in Nigeria and employs over 31 million Nigerians or about 75% of the total workforce. However, medium scale entrepreneurial firms in Nigeria have been facing challenges of financing or refinancing their businesses since their birth as start-ups. Entrepreneurial firms find it difficult to obtain conventional loans from commercial banks to exploit new business opportunities (Abass, and Adama, 2013; Yusuf and Dansu, 2013). This constitutes a great setback to their development. Therefore, adequate finance has been viewed as a critical element for the stimulation and development of medium scale entrepreneurial firms. Formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services which are often served by the informal financial sector (Central Bank of Nigeria [CBN], 2005). One of the responses to the challenges of the lack of financing options for medium scale entrepreneurial firms is the introduction and development of microfinance (Wang, 2013).

Microfinance has evolved as an economic development approach intended to benefit low income men and women, thus regarded as an effective tool for economic development (Ojo, 2009). Similar view by Yunus (1999) affirmed microfinance as a potential solution to alleviation of poverty in which standard of living is one of the indicators. In Nigeria, microfinance banking came into existence in 2005 with the launching of the Microfinance Policy by the CBN, to replace the Community Banks. The policy was influenced by the globally acclaimed impact of microfinance in helping the economically active poor to exit the poverty threshold and thus leading to significant poverty reduction (CBN, 2005). This study aligned with the enormous contribution of microfinance to the development major world economies. This paper thereby examines the relationship between microfinance banks in southwestern Nigeria and the performance of entrepreneurial firms and subsequently analyzes the effect of microfinance funding on the performances of entrepreneurial firms.

REVIEW OF LITERATURE

The Concept of Microfinance

Microfinance is the provision of financial services adapted to the needs of low income people especially the provision of small loans, acceptance of small savings deposits, and simple payments services needed by micro and small-entrepreneurs and other poor people (USAID, 2000). Nyor, *et. al.* (2013) noted that microfinance is about providing financial services to the active poor who are traditionally not served by the conventional financial institutions. The concept of microfinance was perceived as the provision of financial and non-financial services by MFBs/MFIs to low income groups without tangible collateral but whose activities are linked to income-generating ventures (Ledgewood 2000, Christen and Rosenberg 2000). Furthermore, Ledge wood (2000) viewed microfinance as an economic development approach intended to benefit low income women and men. It means that the purpose of microfinance is to reach the low income entreprenuers with financial services that will enable them creates wealth without any discrepancy as to sex of such person (Idowu and Salami, 2011). Gert Van Maanen (2004) cited in Babajide (2011) describes microfinance as banking the unbankables, bringing credit, savings and other essential financial services within the reach of people who are poor to be served by regular banks, due to lack of sufficient collateral. Therefore, microfinance is the practice of offering small and short term loans to entrepreneurs who otherwise would not have access to capital to begin small business or other income generating activities. Microfinance idea became popular in the development discourse of the early 1980s (Iyoha and Igbatayo 2008). In general, microfinance has five features that distinguish it from credit supplied by the conventional financial institutions. First, the loan size is small; however, this general feature differs from one country to another and depends upon the differences in the levels of the country’s socio-economic development. Secondly, the primary customers of these loans are the people who have little access to conventional banking facilities. Thirdly, the purpose of these loans is to create income-generating activities. Fourthly, tangible collateral is not necessarily required for taking this kind of loan. Finally, this is another aspect of micro credit programme that distinguishes itself from conventional banking. But the microfinance ventures have integrated loaning and savings mobilization functions, in order words, regular savings are a pre-condition for granting loans (Iyoha & Igbatayo, 2008).

Microfinance, with regard to this study, is the practice of offering financial and non-financial services, to entrepreneurs who hitherto cannot access the conventional financial institutions, at a fee that is affordable and economic to the users of such services. This will enable them to start or build up their own enterprises. The Microfinance Policy defined the framework for the delivery of these financial services on sustainable basis to the Micro, Small and Medium Enterprises (MSMEs) through Microfinance Banks (CBN, 2005).

Microfinance Bank, according to the Central Bank of Nigeria (CBN, 2009 & 2012), is a company licensed to carry out the business of providing microfinance services such as savings, loans, insurance, money transfer and other financial services that are needed by the economically poor, micro, small and medium enterprises. Based on their minimum paid up capital, Microfinance banks are categorized in to Unit, State and National. Unit Microfinance Bank is authorized to operate in one location and it has a minimum paid up capital of ₦20,000,000.00 (Twenty million Naira). A State Microfinance bank is authorized to operate in one State or the Federal Capital Territory (F.C.T) and has a minimum paid up capital of ₦100,000,000.00 (One hundred million Naira). A National Microfinance bank is authorized to operate in more than one State including FCT and has a minimum paid up capital of ₦2,000,000,000 (Two billion Naira).

It has been observed that microfinance and MFBs are intended to fill a definite gap in the finance market and the financial system respectively, to assist the financing requirements of some neglected groups who may be unable to obtain finance from the formal financial system. These neglected groups that constitute the target users of such microfinance are mainly in the informal sector of the economy and are predominantly engaged in small and medium scale farming, commercial/trading and industrial activities.

Through microfinance, entrepreneurs in most countries were able to have access to variety of financial and non-financial services. These financial services include savings, loans/credit, payment facilities, money transfer and insurance. The non-financial services mainly entail training in MSMEs investment and business skills which mainly addresses capital investment decisions, general business management and risk management. The accessibility has resulted in employment generation, poverty reduction and consequently economic growth and development (Taiwo, 2012).

Micro Finance Banks in Nigeria

Different societies have different ways of addressing the capital needs of the economically active poor people (Taiwo, 2012). This form of financing operates under different names like esusu among the Yorubas, Etoto among the Igbos and Adashe among the Hausas (Mejaha and Nwachukwu, 2008). The traditional form of financing provides access to credit for the rural and urban, low income earners (CBN, 2005). Therefore, the concept of microfinance is not new. What is new is the emphasis on sustainability which connotes profitability and enduring services through coverage of full cost of operations, which entails adequate interest rates spread, relentless focus on efficiency and aggressive enforcement of repayment. The informal system of financing has limited outreach mainly due to paucity of loanable funds. To supplement the traditional flow of finance to the poor, the Non-Governmental Organizations (NGOs) are also engaged in the micro/rural credit initiatives. The NGOs initiatives are based on membership and are registered under the Trusteeship Actas charity and social programmes on poverty alleviation. The programmes are financed from grants, fees, interest on loans and contributions from members of the respective NGOs.

To further compliment the traditional methods and efforts of NGOs in supply of finance to the poor, Government has, over the years, initiated a number of publicly-financed micro/rural credit programmes and policies targeted at entrepreneurs (CBN, 2005). The programmes comprise rural banking, sectoral allocation of credits, concessionary interest rate, Agricultural Credit guarantee scheme. Other programmes include establishment of National Directorate of Employment (NDE), the Peoples Bank, the Community Banks, the Nigerian Agricultural Cooperative and Rural Development Bank Limited and National Poverty Eradication Programme. The policies and programmes, according to CBN (2005) adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and non-farm activities such as trading, tailoring, weaving, blacksmithing, and agro-processing and transportation.

Small and Medium Scale Entrepreneurial Firms

A review of the literature on SMEs shows that the definition of SMEs significantly varies from country to country. There are divergent views on the definition or classification of SMEs (Fatai, 2012). The definition of Small and Medium Scale Enterprises depends mainly on the level of development of the country. In most developed economies like the USA, UK and Canada, the definition criterion adopted a mixture of annual turnover and employment levels (Ekpenyong, 1992). Thus, there is no universally or even nationally acceptable standard definition except that the scale of business needs to be defined for a specific purpose, its degree of development and the economic structures that are present (Akingunola, 2011; Gushibet, 2012). However, the three parameters that are generally applied by most countries, singly or in combination are: capital investments on plant and machinery; number of workers employed; and volume of production or turnover of business (Aremu and Adeyemi, 2011; Bowale and Akinlo, 2012; Ogechukwu, 2011).

In Nigeria, there is no clear-cut definition that distinguishes a purely small scale enterprise from a medium scale enterprise. The National Economic Reconstruction Fund (NERFUND) put the ceiling for Small Scale Industries at ₦10 million but made no reference either to its annual turnover or the number of employees. Section 37b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with: an annual turnover of not more than ₦2 million; and Net asset value of not more than ₦1 million. Adelaja (2003), noted that Small and Medium Industries Enterprises Investment Scheme (SMIEIS) defines Small and Medium Scale Enterprises as any enterprises with a maximum asset base of ₦200 million (excluding land and working capital) and with a number of staff employed not less than 10 or more than 300. Similarly, Ajose (2010) viewed Small and Medium Scale Enterprise as an enterprise that has an asset base (excluding land) of between ₦5 million and ₦500 million, and labour force of between ten (10) and three hundred (300) in its employment.

Small and Medium Scale Enterprises Performance

Lebas and Euske (2002) described performance as doing today what will lead to measured value outcomes tomorrow. A firm’s performance is an important dependent variable in business research (Rauch, Unger and Rosenbusch 2007). The performance of a firm can be viewed from several different perspectives, and various aspects can jointly be considered to define firm performance. Assessing a firm’s performance and its measurement is difficult, because performance refers to several organizational outcomes, which include both subjective and objective elements. Rauf (2007) asserts that most managers are likely to act on their subjective opinions with regard to a competitor’s performance. With regard to objective measures, Guest, Michie, Conway and Sheehan (2003) believe that there are clear attractions in objective measures. Consequently, Rauf (2007) believes that it will be helpful to select a blend of some key organisational outcomes when measuring a firm's performance. Recent studies (Khan 2010; Rauf 2007; Sang 2005) have used financial, non-financial and operational metrics to measure firm performance. The financial measures include profit, sales and market share. The non-financial measures comprise productivity, quality, efficiency, and attitudinal and behavioral measures, such as commitment, intention to quit and satisfaction. The operational measures include production flexibility, product cost, product quality, number of customers and product delivery (Khan 2010). In effect, Organizational Performance should best be measured based on a holistic approach which incorporates the financial and non-financial measures as well as time element.

Furthermore, Johnson and Kaplan cited in Wu (2009) found out that before 1980, financial data was used in enterprises as the main performance measure. However, they established after late 1980s that scholars were aware that financial data, alone, does not capture comprehensive performance information and, hence, does not completely capture or predict future performance (Wu, 2009). Thus, Kaplan and Norton (1992) as cited in Wu (2009) developed a balanced and multi-dimension concept (the Balanced Scorecard) which incorporated financial and non-financial measures. The Balanced Scorecard is one of the studies that measured a firm's performance based on stakeholder theory which takes into consideration employees and their representatives, customers, suppliers, governments, industry bodies and local communities (Hubbard 2006) in determining the perceived SME performance.

Performance can be measured in terms of its output especially when the population consist of manufacturing firms only(Adebayo and Kareem, 2013., Luper, 2012., Obokoh, 2008). However, Christopher (2012) and Olutunla and Obamuyi (2008) observed that performance can be measured in terms of increase in branches, capital, number of employees and profit. Zulkiffli and Perera (2011) noted that regular indicators used in measuring business performance are profit, return on investment (ROI), turnover or number of customers, design quality and product improvement. Porter (1985) brought forth a generic strategy which explained that for a business to maximise its performance, it should either strive to be a low-cost producer in its industry or should differentiate its line of products/services from those of other businesses. In effect, this is to enhance the efficiency and effectiveness, and also, strengthen the competitiveness and market share of the firm. Therefore, this leads to maximization of business performance.

METHODOLOGY

Population of the Study

The population of the study consists of the registered 168 SMEs in southwestern Nigeria. Each of the six state accounted for 28 registered Small and medium scale entrepreneurial firms. The firms were purposively selected across the state's geo-political zones. This is to ensure that a politicalzone is not over represented or under-represented.

Sample Size and Sampling Technique

The population consists of 168 Small and Medium Entrepreneurial firms. Hence, census sampling technique was used. Only the owner-managers were selected to provide responses to the study. Following data screening and evaluation 153 SMEs met the set criteria.

Technique of Data Analysis

Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. The data collected was analyzed using inferential statistics.Pearson correlation analysis was used to determine the degree of relationship between independent MFBs funding and performance of SMEs.

Analysis and Result

The Pearson correlation analysis was used to determine the strength and significance of association between the independent variables and dependent variable. All the Pearson correlation coefficients computed for each of the independent variables are significant since each of the computed significant (P) value is 0.01 which is lower than 0.05, which is the criterion level of significance for this study.

$H0_1$: MFBs funding has no significant impact on the performance of SMEs in Oyo Area of Oyo State.

Table 1: Pearson Correlation Statistics on the Impact of MFBS Funding on Performance of SMES

		Smes_performances	Microfinance_funding
SMEs_Performances	Pearson Correlation	1	.699**
	Sig. (2-tailed)		.000
	N	153	153
Microfinance_Funding	Pearson Correlation	.699**	1
	Sig. (2-tailed)	.000	
	N	153	153
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Field Survey, 2015.

The Table 1 showed the result obtained from the application of Pearson Product Moment Correlation [PPMC] on the impact of microfinance funding on performance of SMEs. From the Table, it showed that significant relationship exist between the two variables (i.e., microfinance and performance of SMEs). The computed significant (P) value of 0.01 is less than the 0.05, which is the criterion level of significance (5%), while the computed correlation coefficient of 0.699 is higher than the critical r (table value) of 0.117. The correlation coefficient of 0.699 shows a strong positive relationship between the microfinance funding and performance of SMEs. This signifies that when there is access to MFBs loans by SMEs owner-managers and judiciously used, this would enhance business operations and performance in terms of sales growth, revenue, profitability, ROI/assets and market share of the SMEs. Therefore, a positive change in microfinance funding of SMEs would enhance SMEs performance by 69.9%. Thus, the null hypothesis which states that “MFBs funding has no significant impact on the performance of SMEs in Oyo Area of Oyo State” was rejected while the alternate hypothesis was accepted.

Table 2: Multiple Regression Statistics Table

Variables /Description	Coefficients	T – Value	P – Value	
MFBs Funding	0.133	3.595	0.000	
R				0.699
R^2				0.491
Adjusted R^2				0.478
F – Value				153.695
P – Value (Probability of F - Statistics)				0.000

Source: Field Survey, 2015.

From Table 2, *R* is the correlation coefficient measuring the strength and direction of the linear relationship. The R value is 0.699 which implies a strong positive. The R square value is the coefficient of determination (expressed as a percentage) and shows variability in dependent variable explained by the variability in independent variables. The R square value of 0.491 implies that 49.1% of the variations in the dependent variable (SMEs performance) are explained by the variations in micro finance funding which appears to be a strong variable for influencing SMEs performance in the study area. The Adjusted R square is used to estimate the expected shrinkage in R square, in this case is 0.47 which is very close to R square value of 0.491. This shows that there is minimal shrinkage.

The computed F-value and P-value in Table 4. 5 above show the overall significance of the model, that is, the regression equation. In this analysis, the model is significant since the computed F value of 153.695 is large and the computed significant (P) value of 0.01 is less than 0.05 (the alpha) which is the criterion or the significance level of this study (5%). Therefore, the researcher rejected the null hypotheses while the alternate hypotheses were accepted.

CONCLUSIONS

Following the findings, the under listed conclusion were derived:

- A significant and positive relationship exists between loans accessed from micro finance banks (MFBs) and the performance of small and medium scale entrepreneurial firms.
- Access to MFBs loans by SMEs owner-managers encourage and motivate them to generate meaningful and innovative business ideas which led to the growth and sustenance of SMEs business.
- Microfinance funding contributes significantly, narrows the financial gap for SMEs businesses.
- Micro Finance Banks (MFBs) enhance the performance of SMEs’ businesses by offering of non-financial activities like professional advice.

RECOMMENDATIONS

Based on the findings and conclusion, the following recommendations were made:

- Micro Finance Banks (MFBs) loans to SMEs should not only be given to SMEs owner-managers but more sound expertise advices from the banks should be put in place to support SMEs owner-managers accessing bank loans.
- Though the present stringent loan screening conditions are good in reducing incidences of default, it is, however, recommended that this should be reviewed and made less stringent to make MFBs loans more convenient and affordable for SMEs owners.
- Based on the stringent conditions of accessing loans, SMEs owner-managers are advised to form themselves into formidable groups with union identification for easy accesses to loans, as this will assist to guarantee them as a group of registered union rather than individual.
- MFBs should formalize the process of expertise partnering with SMEs owners that accessed loans judging by the success recorded through this means.

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