CREDIT FINANCING: ITS EFFECTS ON THE PERFORMANCE OF SMALL BUSINESSES, A STUDY OF SELECTED SMES IN IKORODU LGA

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ABSTRACT

The performance and success of any business enterprise begins with thorough understanding of the organization’s strategic goals and objectives as well as adequate availability of funds. Accessing finance in a midst of paucity of cash becomes an important task of small business managers. This study investigates the effect of credit financing on performance of small scale enterprises using some selected small businesses of automotive, barbing, computer services, beauty, fashion and electrical services around LGA. Extant literature both existing and current relevant to the topic were reviewed to justify the variables. Survey method through 5-point Likert scale structured questionnaire was used to elicit relevant information from respondents of two hundred (200) using Taro Yamane formula of determining sample size. The study adopted simple random sampling method and a response rate of 70% was obtained from total population. Findings revealed that; credit financing has a significant effect on the performance of small scale enterprises. This is because credit financing is one of the sources for providing the required funds for small businesses because is one of the pillar used in promoting and sustaining the sector in Nigeria. Mortgage banks has vital role to play in enhancing the performance of small business enterprises by providing needed funds with little or no collateral to enable the sector thrive. This in turn in the long run will contribute positively to gross domestic product (GDP) of the country. The study concluded that the existence of effective banking sector is essential for small and medium-scale enterprises (SMEs). It was recommended that the Nigerian government should pay more considerable attention to the growth and development of the SME sub-sector. This will go a long way in enhancing the performance of the sector and thus ensuring the industrial development of our country.

ARTICLE INFO

Keywords:
Credit financing, small business enterprise, growth, development, performance

1. INTRODUCTION

Finance is one of the major areas enterprises usually give attention to as an essential part of an organization. From this point of view, Sunil (2012) believes that setting objectives regarding the use, acquisition, and maintenance of capital and monetary resources which is the financial management objective is a very important component in successful management of businesses irrespective of size and type. This is why some experts refer to financial management as the science of money management – with its primary usage being in the world of financing business activities. In fact, availability of or accessing finance even becomes an important resource when the case of small and medium scale enterprises is considered. This is because even though they need money to finance their activities, the source of getting these funds is extremely limited, quite unlike the large scale enterprises that get their monetary needs from various sources, many of which are from reliable sources especially equity and debt sources (Haruna, Sulaiman & Tanko, 2018). The banking industry plays a unique role in the financing of small and medium-scale enterprises in most countries either developed or developing. The existence of effective banking sector is essential for SMEs because it creates the necessary environmental growth through its roles and intermediating fund from the surplus limits to the deficits units. The SMEs are considered to be one of the principal driving forces in economic development (Haruna, Sulaiman & Tanko, 2018).

They play very important roles in the process of industrialization and sustainable economic growth. They make up the largest proportion of business all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the Gross Domestic Product (GDP) of many countries. The Nigerian concepts of SMEs are somewhat divergent, but the Central Bank of Nigeria agreed with the Small and Medium Industries and Equity Investment Scheme (SMIEIS) in its definition of an SME, as any enterprise with a
maximum asset base less than $200 million (equivalent of about $1.43 million) excluding land and working capital; and with the number of staff employed not less than ten (10). According to Ohachosim, Onwuchekwa and Ifeanyi (2012), “In the United States of America, SMEs employ 50% of her workforce, and generate more than half of the nation’s GDP.” SMEs sub-sector came into the mainframe of policy formulation in Nigeria owing to its obvious vital contributions since 1960s till date. Like in the developed countries, SMEs have enabled entrepreneurship activities through which employment have been generated and poverty reduction and sustainable livelihood achieved. As such, various Nigerian governments worked and are still working towards enhancing the development of this sub-sector through establishment of several micro-lending institutions such as the Nigeria Industrial Development Bank (NIDB); World Bank Assisted SME Loan Projects, People’s Bank, Microfinance Banking, to mention just a few. Nwakoby and Okoye (2014) specifically stated that evidence from previous studies show that SMEs financing primarily depend on bank loans; including financial challenges of SMEs in Nigeria (Ikenn et al., 2012), problems associated with financing SMEs from the capital market (Nwakoby, 2014), the role of financial institutions in financing SMEs in Nigeria (Haruna et al, 2018). The majority of commercial bank loans offered to SMEs are often limited to periods far too short to pay off any fairly large investment. In Nigeria, small scale industries have not been encouraged enough by the government due to some constraints; such as lack of clear policy on the part of the government to strengthen their operations, lack of capital, lack of facilities in the form of power, water supply, good road networks, and a host of others. In fact, Okafor (2012) and Ohachosim et al (2012) identified lack of access to bank credit facilities as one of the common causes of small business failure in Nigeria. In support of the foregoing submission, Adebiyi, Banjo and Regin (2017) posited that the major challenge facing small and medium enterprises operators is lack of finance.

Lack of credit financing has been identified as the most serious ailment of establishing and running small and medium enterprises. Many operators face this challenge and are often constrained to rely on personal and family funds to carry out their business. Where there is need to expand and huge sums of money is required, these SMEs lack the collateral security with which they can approach commercial and microfinance banks for assistance. Thus, given the enormous role which SMEs could play in enhancing socio-economic development of a country and the centrality of the position of banking sector in the viability of an economy, the objective of study therefore are:

i. to ascertain if credit financing have any significant effect on the performance of small scale enterprises.

ii. to know if government policy has any significant influence on the growth of small scale enterprises.

2. CONCEPTUAL FRAMEWORK

2.1 Concept of Credit Financing

Credit financing refers to the provision of financial assistance to small business sector by financial institutions in the form of credit (Adebiyi, Banjo & Regin, 2017). It also refers to the money being sourced in financial institutions by small business owners or entrepreneurs in order to finance their activities (Haruna, Sulaiman & Isa, 2018). Credit financing is made available to the enterprises in the form of credit scheme known as Small Scale and Medium Industries Credit Scheme (SSIC), Small Scale Enterprises Loan Scheme (SMES). In 1999, the Bankers’ Committee established the Small and Medium Industries Equity Investment Scheme (SMIEIS) which came into full operation in 2001. Through the Scheme, banks were mandated to set aside 10 percent of their profit tax for the purpose of providing equity capital for the small and medium-scale enterprises (SMEs).

Credit financing granted by banks for the growth and development of small and medium-scale enterprises (SMEs) in Nigeria, according to Adebiyi, Banjo and Regin (2017), include:

- short-term overdraft facilities, medium loans and advances and long-term loans. With these forms of credit financing to small and medium scale enterprises (SMEs), Ango (2011) inferred that there can be:
  - Provision of direct financial assistance through government-owned financial institutions.
  - Provision of subsidized or discounted loans to small and medium-scale enterprises through special schemes arrangement between government and commercial banks.
  - Provision of soft loans to small and medium-scale enterprises disbursed by government-owned financial institutions such as the Bank of Industry (BOI).
  - Issuance of directive on mandatory credits to SMEs through the Central Bank of Nigeria (CBN) guidelines to commercial banks.

In credit financing, the terms and conditions for granting the facilities for each credit type are spelt out to the small and business enterprise owners or managers/entrepreneurs by the financial institution. The concerned small business would have to provide adequate and qualitative accounting information about their past and current operations as well as better collateral.

2.2 Small and Medium-Scale Enterprises (SMEs)

The concept of small and medium-scale enterprises (SMEs) has been defined in various ways, however, there is now a rallying opinion which comes to conceptualize SMEs in terms of asset values and number of employees. As such, Nwakoby
(2014), citing Oteh (2010) reiterated that in the United States, small businesses that are defined by the number of employees refer to those with fewer than 100 employees, while medium-sized business often refers to those with fewer than 500 employees. In the European Union (EU), companies with fewer than 10 employees are regarded as micro enterprises, while those fewer than 50 employees are small enterprises, and those with fewer than 250 are medium enterprises. In Nigeria, the Central Bank of Nigeria classified SMEs as those whose total investment does not exceed N2.5million (excluding land and working capital) or whose maximum turnover is N2.5million annually and N5million investment and N25million turnover respectively (Nwakoby, 2014).

2.3 Organizational Performance

Organizational performance has been defined as how efficiently and effectively a small business or an organization is able to achieve its set or predetermined objectives over a period of time. Garengo, Biazzo and Bititci, 2005) as cited in Eniola (2014) viewed performance as the extent to which a small business owner carries out his or her managerial functions effectively and efficiently in order to achieve the objectives of the organization. As such, the performance of small and medium scale enterprises has close relationship or association with the performance of the country.

This is why the performance, growth and development of small and medium scale enterprises (SMEs) is considered as a major driver and index for Nigeria’s level of industrialization, modernization, urbanization, creation of employment opportunities, income per capita and quality of life for the citizens. The performance of small and medium scale enterprises (SMEs) globally has been well documented especially in terms of economic growth and employment creation (Birch, 1989; Storey, 1994), which makes governments all over the world to continually promote and support the SME growth as part of their overall national development plan (Abdullah & bin Dakar, 2000). The acknowledgement of outstanding contributions of small and medium scale enterprises (SMEs) to economic growth and development of Nigeria have also been well reported by various researchers and scholars like Ariyo (2005); Taiwo, Ayodeji and Yusuf (2012); Mitchell and Raid (2000) as well as Nandan (2010) who submitted that the small and medium scale enterprises (SMEs) sub-sector makes up about 97% of businesses in the country and provides on average 50% of the country’s employment and its industrial output. They are also of the conviction that small and medium scale enterprises (SMEs) have the ability to start small and grow quickly and as well survive through rapid response adjustment during boom and recession times. As such, Udechukwu (2003) and Anyanwu (2003) posited that the Nigerian government and development experts have realized the fact that small and medium scale enterprises (SMEs) possess the needed catalyst to turn the economy around for good through improved performance.

2.4 Effect of Credit Financing on the Performance of SMEs in Nigeria

Adapting a conceptual framework that explained the effects of credit financing on the performance of Small and Medium-scale Enterprises (SMEs) in Nigeria is one created by Kibet, Achesa and Omwono (2015) as follows:

![Diagram of Credit Financing and SME Performance]

This model shows the relationship between the role played by financial institutions in the growth and development of small and medium-scale enterprises in a given economy in terms of granting credit facilities with which they start up, grow and develop. When the credit financing is being assessed, the bank stipulates the terms and conditions under which the whole arrangement will be done, stating the grace periods within which the facility is to be repaid, the initial minimum amounts which the business must maintain with the bank before disbursement as well as the collaterals that have to be presented to the bank which serve as guarantee and equal in value to the credit facility amount being sourced. Once all these requirements are completed and the credit facility disbursed to the small business in question, if properly utilized, they will yield returns on rate of assets, equity, investment and sales.

2.5 Roles of Banks in Enhancing the Performance of SMEs in Nigeria

There is no doubt that the small and medium scale enterprises (SMEs) perform important roles in socio-economic development of a given economy including Nigeria. However, for their performances to be enhanced or improved, they need adequate funding in terms of short, medium and long-term loans. As said earlier, funds are always in short supply to the small businesses due to their nature. It thus became necessary that small and medium scale enterprises (SMEs) should be assisted largely by public initiatives involving participation of the banking industry (Srinivas, 2005). In view of this, Nigerian Government has made and is still making concerted efforts to assist the small and medium scale enterprises (SMEs) in their credit financing challenges (Anyanwu, 2003; Terungwa, 2012). Specifically, Olorunshola (2003) highlighted that the government has been making active efforts in the growth and development of the small and medium scale enterprises (SMEs) in Nigeria in the following areas:

Funding and establishing industrial areas and estates (to reduce their overhead/logistic costs). Providing local credit financing through its agencies: The Central Bank of Nigeria, Federal Ministry of Industries (Small-Scale Industry Credit Scheme SSICS), Nigeria Industrial Development Bank (NIDB), and Nigeria Bank for Commerce and Industry (NBIC). Facilitating and guaranteeing external finance through the World Bank, African Development Bank and other international institutions willing to and capable of assisting small and medium scale enterprises (SMEs). Establishment of the National Directorate of Employment (NDE) which also initiates the setting up of New SMEs. Setting up of the erstwhile National Economic Reconstruction Fund (NERFUND) which is a source of medium to long-term local and foreign loans for small and medium scale enterprises (SMEs) in the rural areas.

3. THEORETICAL FRAMEWORK

3.1 Creation Theory

Adebiyi, Banjo and Regin (2017) stated that, creation theory believes that the nature of opportunities in small business sector does not exist independent of entrepreneurs but rather depends on the individual entrepreneur’s level of evolutionary thinking. Creation theory also posits that the nature of entrepreneurs or small business owners may or may not differ from non-entrepreneurs and that the decision making context of small business is highly uncertain. Thus, it holds that opportunities may not necessarily emerge out of pre-existing industries or markets (Dosi, 1988); and as such entrepreneurs will not be searching to discover opportunities that already exist. In creation theory, small business owners do not search; they act, and observe how consumers and markets or the industry are responding to their actions; such actions are essential source of these opportunities which they build like mountains. The theory however is deficient in the sense that it allows entrepreneurs to be redundant with no creativity spirit. Innovation seems to be mother of modernization in which firms seek to develop new methods of doing things; creating new products to meet new taste ad preferences as well as the ever changing consumers needs. Obviously, this is not pleasant to a typical entrepreneur who should be a generator of good ideas to transform to flourish its businesses.

4. RESEARCH METHODOLOGY

Credit finance is pivotal to the success of SMEs in Nigeria. Many decaying businesses was mitigated by inadequate or unavailability of funds. The study makes use of convenience non probability sampling method. However, the population of the study is 200 spread across Ikorodu LGA of Lagos metropolis. Using Taro Yamane formula to determine the sample size of One Hundred and Ninety-One (191). The study adopted a test re-test reliability was use to administer same instrument on two different occasions to test the consistency of the outcome.

5. RESULT AND DISCUSSION

$H_0$: Credit financing does not have any significant relationship with the growth of small scale business.
Table 1. Correlation between Credit Financing and Growth of Small Scale Business

<table>
<thead>
<tr>
<th>Credit Financing</th>
<th>Pearson Correlation</th>
<th>Growth of Small Scale Business</th>
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<tbody>
<tr>
<td></td>
<td>1</td>
<td>.523**</td>
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<tr>
<td>Sig. (2-Tailed)</td>
<td></td>
<td>.000</td>
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<td>N</td>
<td>133</td>
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</table>

a. ** Correlation Is Significant At The 0.05 Level (2-Tailed).

Table 2. Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R squared</th>
<th>Adjusted R square</th>
<th>Std. Error of the Estimate</th>
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</thead>
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<tr>
<td>1</td>
<td>0.523</td>
<td>0.274</td>
<td>0.260</td>
<td>0.014</td>
</tr>
</tbody>
</table>

Constant predictor: credit financing

Correlation is used to verify and qualify the strength and direction of the relationship between the variable in a scatter plot. The correlation of 0.523 showed that there is a positive relationship between the independent variable (Credit financing) and the dependent variable (Growth of small business), the relationship is strong and therefore the relationship is considered very significant. Therefore, credit financing has a significant relationship with the growth of small scale business.

H₀: Government policy does not have any significant influence on the growth of small scale business.

Table 3. Correlations between Government policy and growth of small scale business

<table>
<thead>
<tr>
<th>Government policy</th>
<th>Pearson Correlation</th>
<th>Growth of small scale business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>.181**</td>
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<tr>
<td>Sig. (2-Tailed)</td>
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Table 4. Model Summary

<table>
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<tr>
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<th>R squared</th>
<th>Adjusted R square</th>
<th>Std. Error of the Estimate</th>
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<tbody>
<tr>
<td>1</td>
<td>.181</td>
<td>.003</td>
<td>.031</td>
<td>.014</td>
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</table>

Constant predictors: government policy

Table 5. ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>Df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.323</td>
<td>6</td>
<td>0.001</td>
<td>0.89</td>
<td>0.000</td>
</tr>
</tbody>
</table>

a. Constant predictors: government policy
b. Dependent variable: growth of SME

The correlation of 0.181 showed that there is a positive relationship between the independent variable (Government policy) and the dependent variable (Growth of small scale business). Just like the previous hypothesis the relationship is strong and therefore the relationship is very significant. Therefore, Government policy has a significant effect on the growth of small scale business.
6. CONCLUSION AND RECOMMENDATIONS

Finance is one of the major areas enterprises usually give attention to as an essential part of an organization. Setting objectives regarding the use, acquisition, and maintenance of capital and monetary resources which is the financial management objective is a very important component in successful management of businesses irrespective of size and type. Financial management is important at all levels of human existence because every entity needs to look after its finances. This is why some experts refer to financial management as the science of money management – with its primary usage being in the world of financing business activities. Hence, successful financial management begins with a solid understanding of the organization’s strategic goals and objectives as well as its day-to-day business practices. In fact, availability of or accessing finance even becomes an important resource when the case of small and medium scale enterprises is considered. This is because even though they need money to finance their activities, the source of getting these funds is extremely limited, quite unlike the large scale enterprises that get their monetary needs from various sources, many of which are from reliable sources especially equity and debt sources.

The existence of effective banking sector is essential for small and medium-scale enterprises (SMEs) because it creates the necessary environmental growth through its roles and intermediating fund from the surplus limits to the deficits units. The small and medium scale enterprises (SMEs) are considered to be one of the principal driving forces in economic development. They play very important roles in the process of industrialization and sustainable economic growth. They make up the largest proportion of business all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the Gross Domestic Product (GDP) of many countries. However, there is no doubt, that the banking industry plays a unique role in the financing of small and medium-scale enterprises in most countries either developed or developing.

In view of the foregoing, the study recommends that:

The Nigerian Government should pay more considerable attention to the growth and development of the SME sub-sector. This will go a long way in enhancing the performance of the small scale businesses and thus ensuring the industrial development of our country. Through the Central Bank of Nigeria, there should be effective implementation of the policy that mandated Banks to give credit financing assistance to the small businesses in Nigeria. Government should also try to provide sufficient and adequate infrastructural facilities such as regular electricity supply, good road network, potable water, affordable housing, and training institutions, and so on to ensure economic advancement. These will reduce cost of doing business and encourage more people to consider entrepreneurship activities. SME owners should keep abreast of technological changes and adopt promotional strategies to stimulate demand. Small Business owners should ensure financial discipline as well as good planning and control. They should employ qualified accounting personnel in order to keep proper records and provide good financial accounting information that are germane to assessing credit financing in financial institutions.

7. REFERENCES


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