

# Access to Financial Institutions Financing as an Instrument of Growing Small Businesses in Nigeria: An Empirical Study

**Babandi Ibrahim Gumel**

Doctor of Business Administration Student  
At  
California Southern University

**Abstract-** The study investigated how financial institution financing played a role in the growth of small businesses in Nigeria. Researchers found family and personal savings as the main source of funding small businesses in Nigeria which makes it difficult for owners to secure long-term funding from financial institutions. Lack of long-term funding from a financial institution is one of the challenges that negate the growth of small businesses in Nigeria. The study revealed there is a relationship between financial institutions financing and growth of small business in Nigeria, and knowledge of how to secure the loan by managers is critical in securing long-term funding for small business growth. The study used Chi Square and found small business owners should employ experts who can process long-term loan and manage the loan for the growth of the business.

**Index Terms** – Small Business Financing, Small Business Funding, Small Business Success Strategies, and Small Business Success in Nigeria.

## INTRODUCTION

Small business across the world employ the largest segment of countries workforce. Unemployment remains one of the gauges of measuring the growth and development of an economy. Thus, small businesses impacted hugely on the economy of the globe (Thomas, Adekunle, Olarenwaju, & Folarin, 2015). Like in developed economies, small businesses play a critical role in growing the economy of developing economies like that of Nigeria. The critical question facing the Nigerian economy is the recent plunge in the prices of oil in the international market which halted the economic growth, created unemployment, with an unprecedented level of inflation raging the economy. There are many calls for foreign direct investment in the Nigerian economy, and many factors bordering on security challenges that are facing the economy in the last six years and corruption is holding global firms to invest in the Nigerian economy. Government remains the large employer of skilled labor due to low growth of large companies in the economy. Entrepreneurship remains the key that drives the growth of developed economies like U.S., with companies like Amazon starting from a garage and becoming the largest online shopping platform in the world (Simpson, 2016). The call for foreign direct investment into the Nigerian

economy is for companies like Amazon to come and invest, and such companies started from small to a global firm. Small business is defined differently by many countries and scholars. Most of the definition of small business revolves around the number of employees they employed, while others define it along the line of start-up capital. The United States and Britain define small business according to the number of employees and profit they made (Gbandi & Amisshah, 2014). Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defined Small business according to number of employees and cost of establishing the business. SMEDAN defined Small business enterprises as enterprises with total assets (excluding land and building) of 5 million Naira (USD 10,000 forex based on parallel market exchange rate) not exceeding 50 million Naira (USD 100,000), and employ 10 – 49 persons. While medium enterprises have total assets of between 50 million Naira (USD 100,000) and 500 million Naira (\$1,000,000) and employ workforce between 50 – 199 employees (Ogunyomi & Bruning, 2015).

SMEs mostly sources their financing from personal savings and soft loans from family members (Dugguh, 2015). The Nigerian Government has been initiating programs like People's Bank of Nigeria and National Economic Reconstruction Fund (NERFUND) aimed at subsidizing the cost of capital and increasing access to small businesses in the Nigerian economy (Dugguh, 2015). However, it is suggested that most of such initiatives not alter the situation of inadequate access to finance on the part of small businesses in the Nigerian economy (Dugguh, 2015). There exists mounting evidence that suggested small business across the world suffer from access to finance crisis (Carbo-Valvere, Rodrigues-Fenandez, & Udell, 2016). Trade credit remains a viable source of financing despite other sources of debt to small business. In U.S., SMEs that were financed with trade credit are about 31.3% of debt financing which is a little lower than 37.2% of bank loans (Carbo-Valvere et al., 2016). Trade credit in Nigeria can be harnessed to improve access to finance for SMEs, but the difficulty of repayment like other loans make risk higher (Udry, 1994).

Despite the availability of financial institutions across the length and breadth of Nigeria, it has been challenging for small businesses to secure a loan for growth which will impact positively in growing the economy through expansions that

will trigger new employment windows. The paper aims at studying the relationship between small business growth and access to financing. The study is critical to trigger the growth of small businesses in the Nigerian economy to provide employment and revenue to the government.

#### STATEMENT OF THE PROBLEM.

Small businesses in Nigeria are said to be the catalyst for economic growth through the provision of employment, wealth creation, and innovation (SMEDAN, 2013). The rate of mortality of SMEs in Nigeria is staggering where most of them do not operate beyond their first five years. It was suggested that 80% of SMEs in the Nigerian economy does not operate beyond first five years (Obiwuru, Okwu, Akpa, & Nwankwere, 2012). SMEs in Nigeria provided 82% of the workforce of the economy, meaning 82% of Nigerian workers work for SMEs (SMEDAN, 2013). Six key areas were identified as the major challenges facing the SMEs in Nigeria as follows: low demand of products, poor infrastructure, lower profit, the widespread effect of corruption, lack of skills among managers, and inadequate access to finances (Opara, 2011). In a coordinated report between SMEDAN and National Bureau of Statistics Nigeria, use of obsolete equipment, multiple taxations, lack of access to the market, poor infrastructure, inadequate access to finance, inconsistent policies by government, and business development process are the challenges facing the SMEs in Nigerian economy (SMEDAN, 2013). Sourcing of financing continued to be the biggest problem facing the growth of SMEs in Nigeria (Ozioma-eleodinmuo, 2015). Most of SMEs are financed via informal sectors such as personal savings and family and cooperative loans (Terungwa, 2012). Research suggested that personal savings and credit suppliers are the most visible sources of financing SMEs in West Africa (Boateng & Abdulrahman, 2013). Thus, access to institutional debt financing remains the key challenge that is holding the growth of SMEs in Nigeria.

The growth of SMEs in any economy including Nigeriaremains one of the factors that will accelerate the country's development (Dugguh, 2015). If SMEs thrive, Nigerian economy might grow by an increased rate of employment to citizens. Employment bolsters economic growth, SMEs propel Innovation which in turn resulted in wealth creation and eventually earn foreign exchange to stabilize the Nigerian Forex market (Dugguh, 2015). The study will focus on managers and owners of SMEs to determine the relationship between business growth and access to institutional financing as against past studies that focus on the financial institution's constraints. The managers and owners of SMEs indicated how institutional financing help small businesses to grow, and whether knowledge of securing loans help small businesses to secure long-term funding? Thus, the study was to determine whether institutional financing is related to the growth of small business in Nigeria, and further indicated whether knowledge of institutional loan processing facilitated the accusation of loan-term funding by SMEs. The research will be helpful to owners and managers of SMEs to understand the impact of

institutional financing in the growth of small businesses. It might also help owners of small businesses to understand the importance of knowledge of loan processing by their managers. The study will ensure improved SMEs growth which will spur Nigerian economic growth through the provision of new employment, generation of tax, and wealth creation.

#### LITERATURE REVIEW

##### *Characteristics of Small Businesses*

The United States and the United Kingdom defined small business based on the number of employees and returns on investment (Gbandi & Amisah, 2014). The diversity of nations resulted in multiple definitions for small business among nations. Small businesses are often defined based on the workforce, the amount of capital invested, and the management structure (Lucky & Olusegun, 2012). Small business definitions categorized SMEs in three forms, micro, small, and medium enterprises (Lucky & Olusegun, 2012). The small and medium scale enterprises development agency of Nigeria (SMEDAN) was initiated by the government of Nigeria to support the initiative of citizens on setting small businesses and their growth of in the economy (SMEDAN, 2013). According to SMEDAN, the small business consists of businesses that were initiated with 5 million Naira (US\$10,000 as per parallel market exchange rate) and not exceeding 50 million Naira (US\$100,000) employing 10 – 49 persons (Ogunyomi & Bruning, 2015). SMEDAN has defined medium scale enterprises in Nigeria as enterprises with employees from 50 to 199, and capital is ranging from 50 to 100 million Naira (US\$100,000 to US\$1,000,000) (Ogunyomi & Bruning, 2015). Nigerians regulatory body of monetary policies, the Central Bank of Nigeria (CBN) defined small businesses with capital ranging from 1.0 million Naira to 10.0 million Naira (US\$2,000 to US\$20,000) and employed fewer than 50 individuals (Juliana, 2013). The National Industrial Development Bank emphasized that small business is enterprises that its total cost does not exceed 750,000 Naira (US\$1,500), while National Economic reconstruction fund defines SMEs as enterprises with an investment of equal or less than 10 million Naira (Juliana, 2013). Other institutions that attempted defining small businesses in Nigeria include Small and Medium Industries Equity Investment Scheme (SMIEIS) and define SMEs as those businesses with the total cost of between 1.5 million Naira and 200 million Naira, and having 10 - 300 individuals as a workforce (Lucky & Olusegun, 2012). The enterprise's promotion decree of 1989 categorized SMEs as businesses that provide the owner with employment in retail and mechanic businesses (Dugguh, 2015). The Nigerian industrial policy considers businesses with a total capital of between 100,000 and 2.0 million Naira as small businesses, and the Center for Management Development in Nigeria consider enterprises with total capital excluding land not exceeding 50,000 Naira and employing up to 50 persons as a small business (Dugguh, 2015).I adopted the definition of small businesses by SMEDAN because it focusses on two fundamental aspects of this study: capital and

employees. SMEDAN (2013) stated small businesses are firms with capital of between 5 million Naira and 50 million Naira employing 1 -49 persons. Thus, owners and managers of companies with capital of between 5 – 50 million Naira that employed 1 – 49 persons responded to the questionnaire of this study.

Research suggested that governments play a critical role in developing entrepreneurialism in an economy, because it drives economic growth, creates job, and increase the competitiveness of businesses (Thurik & Wenekers, 2004). The development of SMEs in Nigerian economy can be traced back to the pre-independence era which is characterized by economic turbulence immediately after the Nigerian independence from England in 1960 which witnessed citizens hit by poverty (Remi, Adegoke, & Opoola, 2010). The advent of entrepreneurship in Nigeria was also pre-independence, where citizens traded their excess farm produce by barter exchange system, and then, the agricultural sectors provide the country with 75% of its foreign exchange earnings (Oyelola, Ajiboshin, Raimi, Raheem, & Igwe, 2013). The discovery of oil in Nigeria become a neglect of the Agricultural sectors with country turning to oil as its source of income (Adeyemi & Abiodun, 2014). The country witnessed some development initiatives, but the dominance of government in economic activities, economic and political instability and delayed democratization failed the initiatives that are aimed to spur entrepreneurship in the economy (Adeyemi & Abiodun, 2014). Oyelola et al. (2013), suggested that lack of government interest in developing small businesses result in less development and success of SMEs. One of the critical functions of small businesses in an economy is the role in employing a significant segment of the workforce. Small businesses are the largest contributor of employments to the rural areas, where large firms are difficult to be found, and provide employment in all cadre and sector of labor, and provide employment to homemakers, old age people, students, skilled and unskilled persons (Malchow-Moller, Schjerning, & Sorensen, 2011). Failure of the small business results in loss of jobs and reduce revenue generated by local, state, and federal governments which may lead to failure of the government to develop the critical sectors of an economy (Malchow-Moller et al., 2011). Small businesses help economies to utilize savings that are mobilized domestically; such savings are effectively distributed equitably to help the growth of the economy (Juliana, 2013). Another important function of SMEs is the role played in mobilizing loans from the informal sector where idle money is channeled into useful economic activity (Juliana, 2013). Idle funds from friends, family members, local money lenders, cooperative for savings and credit societies, and personal funds are injected into economic activity that generates wealth through gainful employment (Juliana, 2013). For this study, a successful business is the one that makes a profit and employs people with wages that will add value to their survival.

#### *Major challenges of Small Businesses*

The critical challenge for small businesses regarding ownership structure particularly sole proprietors includes the

lack of separation between the business funds and the funds that belong to the owner/s which is a factor that affects securing a loan from financial institutions (Ogbo & Nwachukwu, 2012). In most cases, partnership in small businesses do not work and often end up being managed by one of the partners (Ogbo & Nwachukwu, 2012). In a situation where owners of small businesses consider personal transactions within the funds of the firm, they eventually end up managing the business in their personal favors rather than the development of the businesses (Ogbo & Nwachukwu, 2012). In a situation where owners interfered with the funds of business, it makes it difficult to secure external funding which make growth and development also difficult and leads to eventual failure of the businesses (Ogbo & Nwachukwu, 2012). It is important to note that failure of small businesses to secure external funding results in their failure to survive beyond five years in business.

Strategic planning in business is an indicator of a right way to success. A study suggested that formalized planning and extensive documentation does not benefit small businesses (Robinson Jrn & Pearce II, 1983). A study of 500 small firms in U. S. indicated that 50% of the firms that responded are successful without a written plan, and only 17.5% were successful with a completed business plan (Parks, Olson, & Bokor, 2015). Overdependence on imported raw materials or products has been the characteristics of small businesses in Nigeria (Du & Banwo, 2015). Over-reliance on imported raw materials and spare parts by small businesses play a crucial role in their low mortality rate (Du & Banwo, 2015). Otherspecial features of small businesses are their incapacity to take a risk in new ventures which are related to their shortcomings of lack of capital and expertise and are mostly initiated as family businesses and manage by the family members with no expert employee (Gunasekaran, Rai, & Griffin, 2011).

One fundamental characteristic of small businesses is their role as the engine that stimulates innovation in an economy, creates jobs, and propels economic growth (Gale & Brown, 2013). The impact of small business in encouraging innovation in both developed and developing countries is glaringly evident, and innovation spur job creation through new jobs and the result of innovation ends up in a business growth and the country's economic growth (Gale & Brown, 2013). Therefore, policy makers should face the challenge of inducing programs that will propel small businesses to introduce innovation in their business to enable harnessing of its role in creating new jobs, the growth of the business, and eventually the economic growth of the country. In Nigeria, the SMEDAN has the responsibility of stimulating innovation in small businesses (SMEDAN, 2013). Innovation will further create value by injecting new ideas into the system and finding new possibilities for the business. The survival of small businesses depends on its capacity to make innovation especially in the 21st-century business environment where competition continues to dictate survival (Bello & Ivanov, 2014). According to Peltier, Stoica, and Naidu (2012), small businesses mustrespond to innovation to enable them to compete in the 21st-century business environment. It was suggested that small businesses respond to competition

through innovation (Palmer & Griswold, 2011). Research indicated that, innovation in both families and non-family small business is a factor in business success, and that knowledge of innovation remains a key resource to sustainable competitive advantage in small firms (Price, Stoica, & Boncella, 2013). Three factors accelerate innovation in business, and they include the technology level of the enterprise, the effort of the enterprise in research and development, and systems of incentives (Manjon, Momo, & Redoli, 2016). It was suggested by Fadahunsi (2012) businesses that have greater capability and resources in technological advances grow more than those firms that do not have. Gunasekaran et al. (2011) found small businesses can easily adapt to changes more than big firms because of their size is an advantage for flexibility. Therefore small businesses can improve their marketing, management, and organizational strategies to adopt new trends that will retain their competitive edge. Small businesses have to strategize their plan with a focus on innovation to compete in the business environment. Otherwise, failure is eminent due to the growing competition in the 21st-century business environment.

The major difference between small business owners and entrepreneurs is their goal, while small business owners strive to make an income that will sustain a family with little desire to grow large, an entrepreneur always works toward growth and profitability with the desire to grow large through innovation (Ionita, 2012). Small business owners usually strategize to provide an existing product or service to an existing market where competition is imminent, while entrepreneurs work toward providing new goods and service with new ideas into a market or create a new un-served market (Hurst & Pugsley, 2011). Most small business start-ups have no monetary benefits motive; small businesses are usually for the owner to be the boss, have a flexible schedule, or have a controlled working hour (Hurst & Pugsley, 2011). Considerations are made regarding training of new skills necessary for managers of small businesses to make a decision that will assist in making success (Hurst & Pugsley, 2011).

The critical success factors of small business include those factors that relate to entrepreneurship (owner), factors relating to the business, and factors relating to the environment in which a business operates (Lampadarios, 2016). Among the critical success factors relating to the environment, access to finance is key to the development of small businesses (Lampadarios, 2016). Dugguh (2015), suggested that competition, cost, ability to manage change, relationship with customers, growth, innovation, and challenges with accessing financing are the critical issues that are posing a threat to the survival of small businesses in Nigeria. According to SMEDAN (2013), the major challenges facing small businesses include the followings: poor infrastructure, access to finance, inconsistencies in government policies, poor business development services, access to the market, multiple taxations, and obsolete technology. Gumel (2013) categorized the critical challenges of small businesses into entrepreneurial, enterprise, and external business environmental factors challenges, but stressed the external business factors challenges are more

severe in the Nigerian context. The external business factors challenges are mostly due to the inability of Nigerian Government to provide the enabling environment for small businesses to operate freely without crime and with access to infrastructure and finance (Gumel, 2017). A part from inadequate external institutional financing to small businesses, Gumel found less access to financing to small businesses as one of the major factors negating the success of small businesses in Nigeria. Therefore, small business financing remains a major pillar of the development of the small business sector of the Nigerian economy.

#### *Small Business Finance*

The capital to invest in small businesses is key to their growth, sustenance, and survival. In developing countries like Nigeria, small businesses suffer from the challenges of sourcing financing which ultimately affects their growth and development. Research conducted in Lagos Nigeria on 100 micro, small, and medium enterprises suggested that lack of funding is the barrier between SMEs and capital markets (Akinola & Iordoo, 2013). Research indicated that lack of financing deters small businesses to grow and become public limited companies. Ozioma-Eleodinmuo (2013), added that, indicated that sourcing of financing by SMEs in Nigeria negates their growth. Since Nigerian independence in 1960, the Nigerian government has been putting in place initiatives aimed at supporting the development of SMEs in the economy most of them focusing on supporting financing. One of the visible initiative by the Nigerian government and its partners was the National Economic Reconstruction Fund's (NERFUND) efforts of supporting SMEs development participating commercial banks with loans for onward distribution to SMEs at lower interest rates. (Dugguh, 2015). The NERFUND's initiative to SMEs was supported by the Nigerian government, the CBN, and African Development Bank (ADB) (Dugguh, 2015).

Another key concern about SMEs financing is undercapitalization. Undercapitalization of small businesses in Nigeria is attributed to tendencies of owners to depend on personal and family savings to kick start the businesses (Opara, 2011). Therefore, owners and managers of SMEs must look beyond their personal and family savings to realize their dreams of a new start-up small business to get the adequate capital that will make the business success. Inadequate records and reliable collateral by SMEs is one of the main reasons why financial institutions are adamant to provide financing to them (Opara, 2011). The debt financing options available to SMEs in Nigeria include Loans from commercial banks, loans from Microfinance banks, and loans from cooperative societies (Gbandi & Amisshah, 2014). A quantitative study conducted in two North-Central States of Nassarawa and Benue, Nigeria suggested that SMEs are mostly financed by informal sources rather than formal financial institutions (Terungwa, 2012). Research that covers West Africa suggested that personal savings and credit supplies are the most visible sources of financing for SMEs (Boateng & Abdulrahman, 2013). Evidence from researchers suggested that lack of funding SMEs by financial institutions is key to

the rate of failure of their businesses in emerging economies like Nigeria (Obokoh & Asaolu, 2012). Research by Franca (2013), involving 450 participants to determine how microcredit institutions influence the growth of SMEs in Nigeria suggested that there is a significant relationship between SMEs growth and microcredit institutions (Franca, 2013). It is also evident that SMEs avoid loan from microfinance institutions due to high interest rates which make it difficult for the SMEs to make a profit (Kanayo, Jumare, & Nancy, 2013). The financial institutions in Nigeria consider adequate and reliable collateral, an up-to-date financial record, healthy business, expert managers, and an excellent relationship with the business before they offer loans to SMEs (Zaraini & Zaima, 2013). In Nigeria, financial institutions are not ready to take the risk associated with giving loans to SMEs (Oliyide, 2012). The challenge facing Nigerian SME's related to accessing financing from financial institutions is a key factor that affected their performances which are the reason why they do not adequately contribute to the economic growth and development of the country (Oliyide, 2012). The benefit of debt financing in business includes: business take advantage of debt financing to get tax benefits, businesses avoid financial distress, and businesses use debt ratios to run away from optimal target ratio (Modigliani & Miller, 1958). The importance of debt financing is as it relates to its benefits towards the growth of small business. The purpose of this study was to investigate the relationship between financial institutions funding and growth of small businesses in Nigeria. The study further found whether owners and managers knowledge of processing long-term loan helped small business to secure financial institutions loan.

### EMPIRICAL STUDIES

The review suggested that low financing and lack of access to finance by SMEs particularly from financial institutions are major causes of failure of SMEs in Nigeria. It is also evident some of the challenges relating to accessing finance from financial institutions by SMEs is related to knowledge and skills of small business managers. The failure of owners and managers of small businesses to fulfill conditions set by financial institutions and lack of preparedness of both owners of SMEs and financial institutions to take risk relating to debt financing played a role in the inability of small businesses to access financial institutions loans. It was also highlighted that high rate of interest rates scares away owners of SMEs to seek to finance from formal institutions. The study aims to focus on the relationship between access to financial institutions financing and growth of SMEs in Nigeria. The factors relating to access to finance include the availability of the institutions and readiness of owners of SMEs to access finance from them and the growth of the firm. Factors in the review that are highlighted include the need to study further reasons why SMEs failed when trying to access finance from formal financial institutions.

### CONCEPTUAL FRAMEWORK

The study was based on two frameworks of financing challenges of small businesses in Nigeria. The study aimed to focus on success factors of securing financing by small businesses. The small businesses access financial institutions financing for growth. Secondly, owners and managers should have the knowledge of securing financial institutions loans to be able to process institutional financing. The study will test the relationship between the basic frameworks identified. The two hypotheses were developed and analyzed from the framework and determine if access to financial institution financing is a tool for the growth of small businesses in Nigeria.

### HYPOTHESIS

To study the relationship between financial institutions financing and small business growth in Nigeria, the following hypothesis was tested:

H1: There is a significant relationship between financial institutions financing and growth of small businesses.

H2: There is a significant relationship between knowledge of how to secure financial institutions loans and growth of small businesses.

The method of testing the hypothesis is the contingency table analysis using the Chi-Square. The method determined the relationship between expected frequencies with the observed data.

### METHODOLOGY

The method adopted was the use of survey method using the structured questionnaire as a survey instrument. The scope of the study was selected as Dutse City being the hub of business activities of Jigawa State, Nigeria. Fifty small businesses have been chosen in the areas of retail and wholesale, services, and light manufacturing. A probabilistic random sampling technique was used and selected the respondents from the managers and owners of the selected small businesses. Chi-square was used, tested and analyzed the data collected through a MegaStat statistical software package.

### DATA ANALYSIS

Data was collected through structured questionnaires. 50 of the 50 copies of the questionnaires distributed was returned representing 100% response rate. Statistical percentage was used to analyze section A, while Chi-square ( $X^2$ ) was deployed as tool for analysis of section B using the MegaStat Statistical software package for social sciences.

#### *Hypothesis Testing:*

The questionnaire was structured in the form of short answers meant to rate the acceptability of simple statements about the hypothesis. The degree of acceptance of statements of the respondents was used to test the hypothesis. The expected outcome of response was determined on the same basis on the number of required response from each question. The observed response was used to test the hypothesis with expected response using Chi-square as a statistical tool. The

essence of the hypothesis test is to determine the significance or relevance of unknown statistical parameter set using a statement. The following steps were taken to test the hypothesis:

- List statistics was determined,
- The significance level was specified, and
- Data was used to make required analysis and decisions.

*Hypothesis Number One:*

H0: There is no significant relationship between Financial Institutions financing and growth of Small Businesses.

H1: There is a significant relationship between Financial Institutions financing and the growth of Small Businesses.

*Chi-Square Test:*

*Table 1: Financial Institutions Financing is Significant to the Growth of Small Businesses*

	Expected	Observed	Residual
Disagree	25.0	10.0	-15.0
Strongly Agree	25.0	40.0	15.0
Total	50		
		Financial Institutions Financing is Significant to the Growth of Small Businesses	
Chi-Square		18.000 <sup>a</sup>	
Df		1	
Asymp. Sig.		.000	
a. 0 cells (.0%) have expected frequencies less than 5. And 25.0 is the minimum cell frequency expected.			

*Table 2: Lack of Access to Financial Institutions Funding Negate the Growth of Small Businesses*

	Expected No.	Observed No.	Residual
Strongly Disagree	12.5	2	-10.5
Undecided Disagree	12.5	1	-11.5
	12.5	22	9.5
Strongly Agree	12.5	25.0	12.5
Total	50	50	
		Lack of Financial Institutions	

	Funding Negates the Growth of Small Business
Chi-Square	39.120 <sup>a</sup>
Df	3
Asymp. Sig.	.000
a. 0 cells (.0%) have expected frequencies less than 5. And 12.5 is the minimum cell frequency expected.	

*Decision Rule:*

Based on the level of significance which is less than .05 as shown in the tables above, it indicates that there is nonconformity between the expected frequencies and the observed frequencies. Therefore, the null hypothesis stating there is no significant relationship between financial institutions financing and the growth of Small Businesses is rejected, while the alternate hypothesis stating that there is a significant relationship between financial institutions financing and the growth of Small Businesses is accepted.

*Hypothesis Number Two:*

H0: There is no relevance between knowledge of securing Financial Institutions loans and achievement of goals of small businesses.

H1: There is relevance between knowledge of securing financial institutions loans and achievement of goals of small businesses.

*Table 3: Knowledge of how to Secure Financial Institutions loans help small businesses to achieve their Goals and Funding Objectives.*

	Expected	Observed	Residual
Strongly Agree	25.0	25.0	.0
Disagree	25.0	25.0	.0
Total	50		
		Knowledge of how to Secure Financial Institutions loans help small businesses to achieve their Goals and Funding Objectives.	
Chi-Square		.000 <sup>a</sup>	
Df		1	
Asymp. Sig.		1.000	
a. 0 cells (.0%) have expected frequencies less than 5. And 25.0 is the minimum cell frequency expected.			

*Table 4: Employing Experts with Knowledge of how to Secure Financial Institutions Loans Will Guarantee the Expansion Financing of Small Businesses.*

Disagree	Expected No. 12.5	Observed No. 1	Residual -11.5
Undecided	12.5	6	-6.5
Agree	12.5	30	17.5
Strongly Agree	12.5	13	.5
Total	50	50	
		Employing Experts with Knowledge of how to Secure Financial Institutions Loans Will Guarantee the Expansion Financing of Small Businesses.	
Chi-Square Df	38.480 <sup>a</sup>		
Asymp. Sig.	.000		
a. 0 cells (.0%) expected frequencies less than 5. And 12.5 is the minimum cell frequency expected.			

*Decision Rule:*

The asymptotic significance which is less than 0.05 level significance resulted in observed frequencies not in conformity with the expected frequencies. Therefore, the null hypothesis which stated that there is no relevance between knowledge of securing financial institutions loans and achievement of goals of small businesses is rejected while the alternate hypothesis that there is relevance between knowledge of securing financial institutions loans and achievement of goals of small businesses is accepted.

**FINDINGS**

The paper found financial institution financing is a tool for the growth of the small business sector of the Nigerian economy, and the owners and managers knowledge of how to secure financial institutions loans is relevance to securing the loan by small businesses. It was also discovered that, owners of the small business that employed managers who are expert in the process of securing financial institutions loan achieve their financing goals more than those that do not have experts managing their loan management processes.

**DISCUSSIONS**

As highlighted by some researchers, small businesses in Nigeria are mostly financed through personal savings and loans from informal sources such as families, friends, and cooperative associations. It was discovered that the mortality rate of small businesses in Nigeria is high to the extent that 80% are out of businesses within the first five years (Adebisi & Gbegi, 2013). The findings of this study aligned with lack of financing from formal financial institutions resulted in the failure of most small businesses in Nigeria (Obokoh & Asaolu, 2012). The analysis of data shows a positive

relationship between access to financial institutions loans by small businesses and their growth. The study also confirmed with the research of Akinola and Iordoo (2013) which found lack of funding is the barrier of small businesses to capital markets in Nigeria. Similarly, lack of small business funding in Nigeria negates their opportunity to grow and become public liability firms. If small businesses can access financing from formal financial institutions in Nigeria, the tendency that they will grow and be quoted as public companies are high if such financing is strategically applied to innovative businesses.

Gbandi and Amissah (2014) also found the failure of small businesses in Nigeria is largely attributed to their inability to secure long-term debt that will grow the business, which aligned with the findings of this study. Another study found that, among the external factors that hinder small business (Bah & Fang, 2015). It was also discovered undercapitalization of Nigerian small businesses is attributed to the owners' tendencies to the use of family and personal savings than sourcing institutional funding, which conform with the findings of the study (Opara, 2011).

Small business owners and managers are discouraged to apply for a loan from a financial institution because of administrative frustrations involved in the loan application procedures (Cole & Sokolyk, 2016). According to Cole and Sokolyk (2016), one-third of the discouraged firms would have secured the loan if they applied because of the potentiality of the business. The findings of Cole and Sokolyk conformed with the conclusions of the study that owners of small businesses that employed experts with knowledge of how to secure financial institutions loan help small businesses to secure long-term institutional funding that grows their business. Similarly, it aligned with the finding growth of SMEs in Nigeria is positively related to their ability to secure microcredit institutional funding (Franca, 2013). A study by Oliyide (2012) discovered financial institutions in Nigeria does not associate with risk involving SMEs loans, while Opara (2011) stated that SMEs inadequate collateral and bad records are the reasons why financial institutions avoided SMEs loan applications. High interest rate is one of the factors that prevent SMEs from applying for financial institutions loans (Franca, 2013). Notwithstanding risk, unreliable collateral, and poor records that discourage financial institutions to grant loans to SMEs, Terungwa (2012) found SMEs with proper risk management strategies secure loans from financial institutions. Therefore, the findings of this paper that employing experts with knowledge of how to secure financial institutions loans will help small businesses to secure institutional loans aligned with the findings of Terungwa that proper risk management strategies secure loans financial institutions loans for SMEs. Data collected is mostly from educated managers and owners of small businesses. Therefore, small business managers provided information on employees that help them secure financial institutions loan. Thus, SMEs should employ managers that are educated, experienced, and have skills on how to securean institutional financial loan to secure funding that will sustain their operations beyond five years.

The findings of this paper will enable small business owners and managers to understand the importance of financial institutions funding in growing the business to achieve its goals and objective. The paper also indicated the importance of employing experts with knowledge of how to secure loans in small business to enable them to secure long-term funding and grow the business to become public liability companies. Researchers will find this paper useful in determining areas to expand their research on the problems small businesses are facing regarding access to financial institution financing.

### RECOMMENDATIONS

The following are recommendations for deduced from the findings of the study:

1. Small business owners should not limit their financing to family and personal savings. They should source additional funding to grow their business from financial institutions.
2. Small business owners should employ persons that will keep proper records to enable lenders to assess their potentiality when they apply for institutional financing.
3. Small business owners should employ experts with knowledge of securing long-term loans, and loan management to help secure loans and manage the loan successfully.
4. Small business development agencies should train managers on loan application procedures and enlighten them the benefits of institutional loans to their businesses.
5. The government should find away to bring down the high interest rate of small business loans to facilitate their growth to enable employing more citizens of Nigeria by the sector.

The followings are recommendations for future research.

1. A study of why small businesses are avoiding financial institutions loans should be carried out by SMEDAN to enable them to understand different reasons as it applies to different demographics of the Nigerian economy.
2. The study should be carried by the financial institutions' regulatory authority particularly on the Loan packages that can easily be assessed by small businesses and those that can be repaid easily to boost the growth of the sector.
3. A study should be made by SMEDAN researchers on how best to assist small businesses to access institutional financing.

### CONCLUSION

Small businesses in Nigeria are faced with numerous challenges ranging from entrepreneurial, enterprise, and external factors challenges. Among the many challenges identified by researchers, most of them are external factor

challenges. The growth of small businesses will provide the Nigerian economy with the necessary impetus that will reduce the level of unemployment in the country. The growth can be achieved if small businesses can access long-term financing to innovate and be relevant in the 21<sup>st</sup>-century competitive business environment. The study found financial institutions financing is one of the long-term sources of financing that grows small businesses in Nigeria and Experts employed by owners played a role in securing the loan for small businesses

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