Gusau Journal of Economics and Development Studies (GUJEDS), Vol 4 (1), December, 2023
ISSN: 3027-1126 (Online); 2786-9695 (Online)
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DOI: https://doi.org/10.57233/gujeds.v4i1.13

ACCESS TO FINANCE AND ITS IMPACT ON SMALL AND MEDIUM ENTERPRISE (SMES) PERFORMANCE IN KANO STATE

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ABSTRACT

The poor performance of Nigerian SMEs when compared with other developing countries of the world calls for this study to be investigated. The study investigates effect of access to finance on the performance of small and medium enterprise (SMEs) in Kano State. The sample of 390 out of the population of 21,615 registered SMEs operating in Kano State was obtained using Dilman (2014) sample size formular. The analysis was carried out using Structural Equation Modelling (SEM) with PLS version 3.0. The results show that access to finance has positive and significant effect on SMEs performance in Kano State. The c=study concluded that access to finance can play a vital role in improving the performance of SMEs. Therefore, the study recommends that SMEDAN, CBN, MFIs and NIRSAL should work together by providing adequate financial resources that can assist SMEs to boost their performance. Finally, limitations and suggestion for future research were provided and discussed.

Keywords: Access to finance, SMEs performance

1. Introduction

The performance of Small and Medium Enterprise (SMEs) have largely received global concern by many academic researchers and industry practitioners. This is because SMEs are seen as contributing to a nation's growth and development (OECD, 2017). In developing countries, SMEs are important not only because they create

employment but also because they employ unskilled workers, who are overly abundant in these countries. Beside, over 90% of the entire SMEs in the developing countries are in agricultural and non-agricultural sectors, contributing significantly to their GDP (Ugochukwu, Nathaniel & Emeka, 2018).

Given these importance of SMEs, Nigerian government created different programs and agencies aimed at providing financial and non-financial support to SMEs in the country. Some of these programs and agencies include: Small Scale Industries Credit Scheme (SSICS) in 1971; National Economic Reconstruction Fund (NERFUND) in 1990; Small and Medium Scale Enterprises Loan Scheme (SMSELS) in 1997; Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) 2003; Microfinance Institutions (MFIs) 2005; Small and Medium Industries Equity Investment Scheme (SMIEIS) in 2006 and Agric-Business Small and Medium Enterprise Investment Scheme (AGSMEIS) in 2017.

Despite the creation of the above programs and government agencies, SMEs in Nigeria perform poorly. According to SMEDAN (2017) SMEs in Nigeria contribute only 8.89% to GDP while 39.5% employment creation in Nigeria. This is contribution is very poor when compare to contribution of SMEs in South Africa which reported 60% of employment and contribute to 57% of South African GDP (South African Ministry of Trade and Industry, 2017).

However, SMEDAN (2021) reported that poor access to finance is one of the major constraint of poor SMEs performance in Nigeria (SMEDAN, 2021). Evidence from the literature also confirmed that lack of access to finance affect the performance of SMEs (Mbuva & Wachira, 2019; Onyiego, Namusonge & Waiganjo, 2017). Therefore, very few studies investigated the effect of access to finance on SMEs performance in Nigeria (Saidi, Uchenna & Ayodele, 2019). To address this gap, this study investigates the effect of access to finance on SMEs performance Kano State of Nigeria. The practical importance of this is that it helps the relevant stakeholders to assess the impact various forms of finance already available and be innovative in their choice and creation of other sources of SMESs financing.

2. Literature Review and Theoretical Framework

2.1 SMEs Performance

SMEs performance is considered to be the outcomes of many activities which constitutes; efficiency, effectiveness, productivity and growth (Mandy, 2009). It is the ability of SMEs to achieve certain results or outputs in its day-to-day business activities (Lonnqqvist, 2004). According to Mandy (2009), SMEs performance is considered to be the outcomes of many activities which constitutes; efficiency, effectiveness, productivity and growth. Therefore, Don (2006) described SMEs performance as the outcomes of a firm's series of actions or activities. Hence, SMEs performance in this study is defined as the ability of the SMEs to achieve its goals and objectives.

2.2 Access to Finance

According to Kelley, Singer and Herrington (2012), access to financial resources refers to the availability of financial capital and other financial services to SMEs. Similarly, Bouri, Breij, Diop, Kempner, Klinger and Stevenson (2011) define access to finance as the availability of financial resources (internal, debt, and equity) for SMEs. It also refers to financial services provided by financial institutions (SMEDAN, 2012). The difference between SMEs' demand for financial resources and the supply of those resources is referred to as access to financing (Mazanai & Fatoki, 2012). In a broader sense, access to finance can be defined as the absence of financial and non-financial barriers to financial resources and services. In other words, it is the extent to which financial resources and services are available to users at a reasonable cost of capital (Ganbold, 2008).

2.3 Access to Finance and SMEs Performance

Previous studies have established that access to finance has direct effect on SMEs performance. For instance, Song, Yu and Lu (2018) provide evidence of positive and significant influence between access to finance and firm performance. In a similar study of Harash, Al-timimi and Alsaad (2014), SMEs access to finance has a positive connection on the survival and performance of a firm. Asad, Sharif and Alekam (2016), reported that access to finance for SMEs was positively and significantly associated with enterprise growth.

H_{01}: Access to finance has no significant effect on SMEs performance in Kano State

2.4 Conceptual and Theoretical Framework

The conceptual framework of this study has two (2) variables (access to finance and SMEs performance). Specifically, access to finance is the independent variable, while SMEs performance is the dependent variable. Thus, the conceptual framework of the study is presented below;

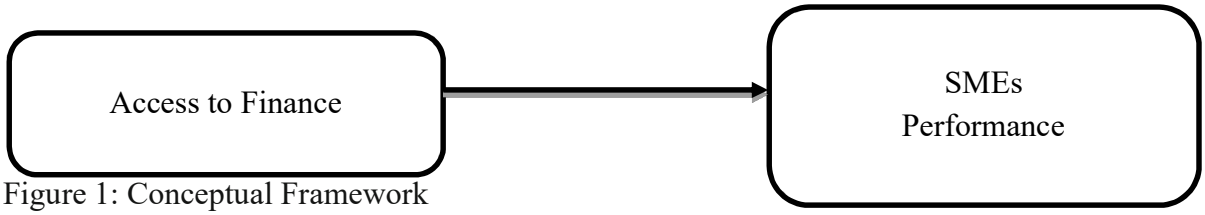


Figure 1: Conceptual Framework

The study employed Resource Based View (RVB) Theory to explain the relationship between access to finance and SMEs performance The resource-based view theory postulated that different sets of resources (tangible and intangible) that are valuable resources, rareness, inimitable and non-substitutable (VRIN) will yield competitive advantage to a firm (Barney, 1991). This study argued that access to finance is a firm's specific VRIN resources that can assist SMEs to achieve competitive advantage and superior performance.

3. Methodology

The study employed survey research design which is cross sectional in nature in which data were collected at one point in time.. The population of this study consist of 21,615 registered SMEs operating in Kano State (SMEDAN, 2021). The businesses selected cover all sectors. A sample of 390 SMEs operating in Kano State was selected using purposive sampling technique. Primary sources of data was used in the study in which questionnaire was used as instrument of data collection. However, the questionnaires employ five-point Likert scales ranging from 5=strongly agree to 1=strongly disagree to collect data for each variables of the study. All instruments are adapted from extant studies. SMEs performance was measured using six (6) items adapted from the work of Suliyanto & Rahab (2012). Similarly, access

to finance was measured by seven (7) item adopted by Martin, Cullen, Johnson and Parboteeah (2007). Finally, the study employed partial least square (PLS) path modeling with the aid of SmartPLS 3.0 to test the theoretical model. The reasons for choosing PLS path modeling were as follows: First, PLS path modeling has received widespread application in management and entrepreneurship disciplines. Second, PLS path modelling can account for measurement error and can deal well with non-normal data because it bootstraps the study sample (Chin, 1998). Thus, the present study used a two-step process, that is:

(1) Assessment of Measurement Model; and

(2) Assessment of Structural Model, for evaluating and reporting PLS-SEM results (Hair, Tomas, Ringle & Sarstedt, 2017; Henseler, Ringle & Sinkovics, 2009).

4. Data Analysis

4.1 Measurement Model Results

The measurement model was assessed based on items reliabilities, internal consistency reliabilities, convergent validity and discriminant validity for all the variables (Hair et al., 2017).

Individual Item Reliability: The individual item reliability should be assessed by looking into the outer loadings of each of the measures (items) of each construct (Hair et al., 2017; Duarte and Raposo, 2010; Hulland, 1999). Researchers have provided a rule of thumb for retaining the items whereby they have advised to retain items between 0.40 and 0.70 (Hair et al., 2017). The outer loadings for each of the latent variable of the present study were sufficiently up to 0.5 or more (refer figure 2 and Table I) therefore, the present successfully met individual item reliability criterion.

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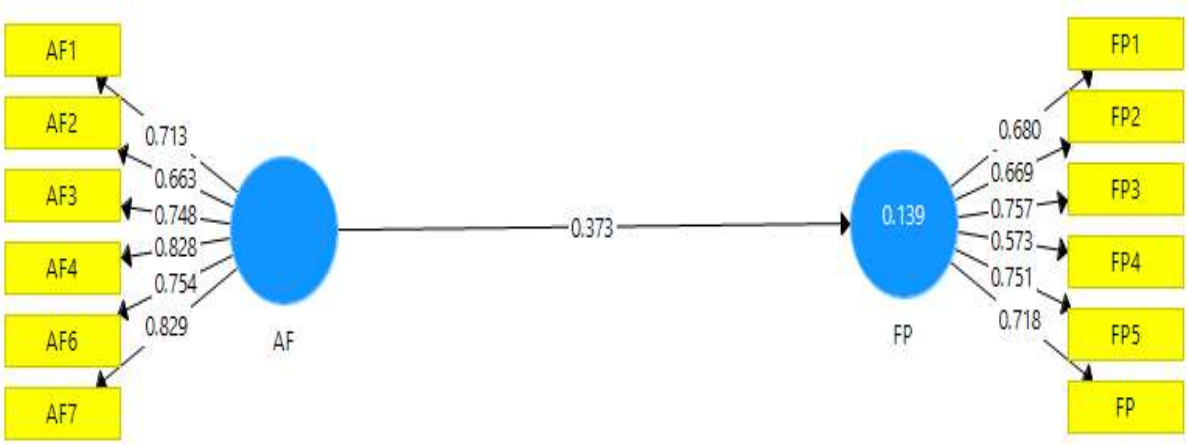


Figure 2: *Measurement Model*

Internal Consistency Reliability: Bagozzi and Yi (1988) and Hair et al. (2017) provided a rule of thumb for interpreting composite reliability coefficient suggesting a threshold of 0.7 or above. Table 1 displays the composite reliability coefficients for each of the variables of this study. The composite reliability coefficient, as indicated in Table 1, for each of the variables ranged from 0.847 to 0.890; this suggesting the adequate internal consistency reliability of the measures (Hair et al., 2017; Bagozzi & Yi, 1988).

Convergent validity: The assessment of convergent validity with average variance extracted (AVE) is recommended by Fornell and Larcker (1981). However, according to Chin (1998) the AVE should be at least 0.50 or more to indicate the convergent validity of a particular variable. The AVE scores provided in Table 1 indicated that all the constructs of the present study have achieved the minimum of 0.50 AVE; thus, it is concluded that the study demonstrated adequate convergent validity (Chin, 1998).

Table 1: *Internal Consistency Reliability and Convergent Validity*

Variables	Item	Loading	CR	AVE
Access to Finance	AF1	0.713	**0.890**	**0.575**
	AF2	0.663		
	AF3	0.748		
	AF4	0.828		
	AF6	0.754		
	AF7	0.829		
SMEs Performance	FP1	0.680	**0.847**	**0.518**
	FP2	0.669		
	FP3	0.757		
	FP4	0.573		
	FP5	0.751		
	FP6	0.718		

Note: CR = Composite Reliability and AVE= Average Variance Extracted

Discriminant Validity: The discriminant validity was assessed following Fornell and Larcker (1981) criterion. As a rule of thumb, Fornell and Larcker suggested to use AVE with 0.5 value or higher. Furthermore, for ascertaining discriminant validity they have suggested that the square root of the AVE should be higher than the correlations among the variables. Table 2 indicates that the square root of AVE was higher than the correlations among the variables. Therefore, it could be concluded that all the measures used in the present study have adequate level of discriminant validity.

Table 2*: Discriminant Validity (*Fornell and Larcker Criterion*)*

Constructs	AF	FP
AF	**0.758**	
FP	0.373	**0.694**

Note: The bolded diagonal values correspond to the square root of AVE of the variables

4.2 Structural Model

The present study used standard bootstrapping procedure with 5000 bootstraps samples and 214 cases to provide full estimates of the structural model. determine the significance of the path coefficients following Hair et al. (2017) and Henseler et al. (2009). Table 3 and Figure 3

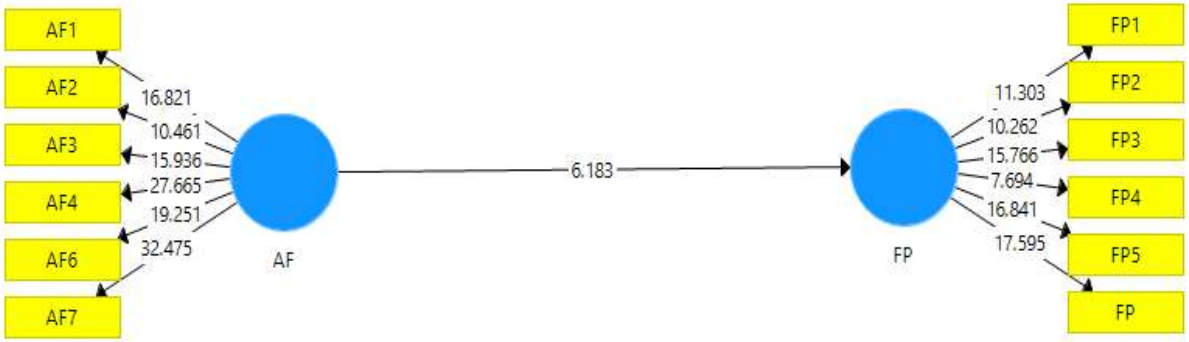


Figure 3: *Bootstrapping*

Table 3: Path Coefficients (Mean, STDEV, T-Values and P-Value)

Hypothesis	Beta	Standard Deviation	T Statistics	P Values	Decision
AF -> FP	0.389	0.060	6.183	0.000	Rejected

The result in table 3 shows a significant positive relationship between access to finance and SMEs performance (B=0.389, P=0.000<0.05). In other words, access to finance has significant positive effect on SMEs performance in Kano State. Therefore, the result provide evidence of rejecting the null hypothesis which state that access to finance has no significant effect on SMEs performance in Kano State

Assessment of Variance Explained in the Endogenous Variable: PLS-SEM structural model assessment recommends another important criterion; that is the R2 value assessment also called coefficient of determination (Hair et al., 2017; Henseler et al., 2009). According to various scholars, the R^2 value represents the proportion of variation in the dependent variable(s) that could be explained by one or more predictor variable (Hair et al., 2017; Elliott & Woodward, 2007). According to Hair et al.

(2010), the acceptable level of R^2 value is subject to the context where a particular research is conducted. However, according to Falk and Miller (1992), R^2 value of 0.10 is acceptable. Accordingly, Chin (1998) suggested that in PLS-SEM, the R^2 value of 0.60 can be considered as substantial, 0.33 as moderate and 0.19 as weak.

Table 4: *Coefficient of Determination (2) for direct and Moderation Relationships*

Variable	R-Square (R^2)
SMEs Performance	0.139 (13.9%)

As shown in Table 4, the R^2 value obtained for the present study was 0.30. This suggests that access to finance explain 13.9% of the variance in the SMEs performance. As per Chin's (1998) recommendation the obtained R^2 value is weak.

Assessment of Effect Size (f^2): The effect size values represent different levels of impact, which were 0.02, 0.15, and 0.35 that represented small, medium, and large effects of the exogenous latent variables respectively (Cohen, 1988).

Table 5: Effect Size (f^2)

R/ship	F-Squared	Effect size
AF	0.161	Small

Table 5 showed that the exogenous construct AF explained the endogenous variables SP with the effect sizes of 0.161. These showed that the effect sizes, according to Cohen (1988), had been small.

Implication of findings

Theoretically, the study contributes to the body of empirical literature on how access to finance relate to SMEs performance. Even though some few previous empirical studies have investigated the relationship between access to finance and SMEs performance in developed countries, little attention has been made on the effect access to finance on SMEs performance in developing countries. This study was address this theoretical gap by extending our understanding on how access to finance affect SMEs performance in developing countries like Nigeria.

Practically, the finding of the study will assist the management and owners of SMEs, policy makers such as CBN, SMEDAN and NIRSAL MFB in designing the policies and programs

on that will assist SMEs to achieve higher performance in the country.

5. Conclusion and Recommendations

Based on the findings of the study, it is concluded that access to finance positively and significantly affects the level of SMEs performance in Kano State. The study recommends that CBN, SMEDAN and NIRSAL MFB should work together by providing adequate financial resources that can assist SMEs to boost their performance.

5.1 Limitation and Suggestion for future Research

Beside the robust results provided in the present study, it is essentially important to interpret those findings in-line with the limitations of the study. First, a cross-sectional design was adopted for the present study due to which, casual inferences from the population were not possible. Thus, the future researchers may consider a longitudinal design to test the theoretical body of the constructs over a longer period of time for responsive confirmation of the postulated relationships of the present study. Second, the present study it is quite difficult to offer generalizability of the results for the present study as the sample of the study was considered only SMEs operating in Kano State of Nigeria. It would be appropriate for future study to cover other State of the country for better generalization of the findings. Lastly, in the present study, the research model explained 15.9% of the variance. This suggested that other factors may notably elaborate and explore variance toward SMEs performance. Therefore, future researchers may possibly consider other factors that could improve SMEs performance.

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