



Effect of Financial Factors on the Performance of Small Medium Enterprises in Abuja Nigeria

Driciru Margaret

Department of Business Administration, Faculty of Management Science, Nile University of Nigeria, Abuja, Nigeria

Email address:

piamargaret@yahoo.com

To cite this article:

Driciru Margaret. Effect of Financial Factors on the Performance of Small Medium Enterprises in Abuja Nigeria. *International Journal of Economic Behavior and Organization*. Vol. 9, No. 4, 2021, pp. 121-129. doi: 10.11648/j.ijebo.20210904.11

Received: September 1, 2021; **Accepted:** September 23, 2021; **Published:** October 16, 2021

Abstract: Finance in any organization plays an important role to the up-liftment of the organization. Accordingly, SMEs sector has been attracting enough attention based on its potentials in the economic transformation of the country. The study therefore investigates financial factors on the performance of SMEs in Abuja, Nigeria. Statistically, for every five new SMEs, there is a record of three failed SMEs within the first year of existence because of inadequate of accessible finance, collateral and insufficient finances to acquire technological capability for business performance and growth. The research design employed was survey and the population of the SMEs in Abuja was 2690. Using the Taro Yamane formula of 1967, the population was reduced to 348, which formed the sample size of the study. The tools of analysis employed was descriptive statistics and the OLS method of regression was used to analyse the data giving to the respondents. With this, findings revealed that financial factors (proxy: access to finance, insufficient financing and collateral) has no positive significant effect on the performance (efficiency) of SMEs in Abuja, Nigeria. Based on this finding, the study therefore recommends that SMEs in Abuja should put together healthy practice of financial management, which include usage and planning of financial facts in SMEs operations. Furthermore, Government of Nigeria should do more to complete remove the gap in financing encountered by SMEs by being directly involved such as interventions from the government, which include credit guarantee schemes, support financing through public banks among others.

Keywords: Access to Finance, Insufficient Financing, Collateral and Efficiency

1. Introduction

All over the world, the importance of finance cannot be downplayed as a critical element for financial performance of small and medium-sized enterprises. Limit to finances hinder growth and development of these firms [13] Typically, smaller enterprises face higher transactions costs than larger enterprises in obtaining credit [19]. Furthermore, lack of access to credit or finance is almost universally indicated as a key problem for SMEs. Credit constraints operate in variety of ways in Nigeria and Abuja in particular where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives which is not enough to enable SMEs undertake their business activities optimally. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various financial challenges that face SMEs. They include the high cost of credit, high bank

charges and fees, insufficient financing, collateral etc. The scenario witnessed in Nigeria particularly during the climaxing period of the year 2020 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the little investors, which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives such as no collateral and soft credit with low interest rates while making profits. Financial factor/constraint remains a major challenge facing SMEs in Abuja [24].

However, the potentials of SMEs may be untapped and the objectives of SMEs owners may be unrealistic when the issue of financing is not addressed. Though, SMEs are observed to be using back-up financing such as borrowing from friends

and family members, among others. The need and urgency for financial institutions to support SMEs in Abuja and Nigeria as a whole is of utmost importance because SMEs has proven in other develop world to drive their economies. For example, empirical evidences suggest that the foundation of the prosperity of the industrialized nations of the world was laid by SMEs. The industrial revolution in Britain in the 19th century did not start with large-scale enterprises, but with inventions in small-scale enterprises that boosted productivity in the textile industry. Also, the fashion industry in Italy was founded on its cottage industries and China, which is presently regarded today as the workshop of the world is anchored on low-tech manufacturing activities. With small and medium scale enterprises, these nations were able to tackle the problem of unemployment, reduce poverty, increase productivity and achieve overall economic prosperity. [22]

The major problem is that statistically, for every five new SMEs in Abuja, there is a record of three failed SMEs within the first year of operation due to lack of accessible credit, collateral and insufficient financing to acquire technological capability for business survival and growth. The irony of it is that the same problems that lead to failure of these SMEs are the solutions that the financial institutions was intended to provide, but without much success. Also, SMEs businesses in Abuja, Nigerian economy are faced with financial constrain which impact negatively on their performance or development and limit their potential to drive the national economy. SMEs in Abuja as a whole lack audited financial statements and adequate collateral requirement by the banks before credit is given out.

The main objective of this study was to examine the effect of financial factors on the performance of small and medium enterprise in Abuja, Nigeria. Other specific objectives include: To evaluate the effect of financial factors (access to credit, insufficient financing and collateral) on the performance of small and medium enterprise in Abuja, Nigeria.

In line with the objective of the study the following hypothesis is stated in a null form, they are:

H₀₁: Financial Factors (access to credit, insufficient financing and collateral) has no significant effect on the performance of small and medium enterprise in Abuja, Nigeria.

Previous studies such as [1]; establishes financial factors that affect access to credit among SMEs in Machakos town sub-county. Also, [21] studied the impact of financing on SMEs, Profitability with Moderating Role of Islamic Finance. The study used the quantitative approach that was accomplished by survey questionnaires. Finally, [17] determined factors that affect financial performance of small and medium enterprises (SMEs) in Kenya. A descriptive research design was adopted for this study. The target population of the study included the 4,560 SMEs in Nairobi County. However, none of these studies used Abuja in Nigeria as their case studies and also none used access to finance, insufficient financing and collateral as proxies for

financial factors and efficiency to proxy performance. Thus, it is on this note that this research fills the gap by examining the effect of financial factors on performance of SMEs with reference to Abuja in Nigeria.

1.1. Concept of Financial Factors

Ango, T [2] sees financial factor as those efforts to include provision of direct financial assistance through government owned financial institutions which include the Nigerian Agricultural Cooperative and Rural Development Bank, the Federal Mortgage Bank of Nigeria etc. Provision of packages of subsidized or discounted loan portfolio through special schemes arranged between government and commercial banks. For instance, in 2001 the Medium Industries Investment Scheme was established. This scheme requires banks to set aside 10% of their profit before tax for equity investments in SME's Provision of capital to SME's through soft loans advanced by government owned financial institutions such as the Nigeria Industrial Development Bank established in 1964, the Nigerian Bank for Commerce and Industry established in 1973, the Peoples Bank established in 1986, the National Economic Reconstruction Fund established in 1989.

1.2. Access to Finance

Access to finance is a key constraint to small businesses growth, and without it many small businesses struggle and fail to grow [26]. The phenomenon of small businesses financing difficulties exists in many countries in the world, even in the developed countries with relatively sound financial systems, yet access to financial services is vital in developing a vibrant small businesses sector in any economy [12]. The World Bank is increasingly looking to develop more innovative forms of small businesses financing [26]. Access to finance is essential for improving SMEs competitiveness, as SMEs have to invest in new technologies, skills and innovation. Access to finance issues cannot be resolved by implementing financing schemes or programs in a vacuum. There are institutional issues covering a spectrum from the macro level to the micro, which are accompanied by capacity deficiencies [4].

1.3. Insufficient Financing

Insufficient financing is as much a problem as lack of finance as Yankaya a consultant for an NGO Techno-Serve observes [7]. He notes that the proliferation of MFI has not substantially improved financing options for growth-oriented enterprises. Group lending and regular weekly interest payments are necessary cures to enable small-scale entrepreneurs without collateral to access credit but the same attributes tie down growth-oriented clients. As a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. The profit Margin are usually little to support growth. [11] notes that businesses like grain millers and tailors are unable to compete with large manufactures of ready-made goods

because they have to wait until a customer provides them with raw material or money to buy it. Some may be unable to get started until a customer pays the deposit, which will be used to buy the raw material. Financial institutions credit processing has become more complex, and the institutions have become more cautious because of the financial crises, making it difficult for SMEs to understand the procedures and decisions when it comes to the loan processing [10].

1.4. Collateral

Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment [9]. The security assets should be used to recover the principal in case of default. Small Business in particular provides security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans [8]. Security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most banks, in order to finance small business and to accept loan proposals, the collateral must be 100% or more, equal to the amount of credit extension or finance product [14].

1.5. Concept of Small and Medium Enterprises

The definition of small and medium enterprises (SMEs) varies from country to country, region to region and from agencies to agencies in today's global world. The Nigerian concepts of SMEs are somewhat divergent but the Central Bank of Nigeria agrees with the Small and Medium Industries and Equity Investment Scheme (SMIEIS) in their definition of an SME as any enterprise with a maximum asset base less than N200 million (equivalent of about \$1.43 million) excluding land and working capital, and with the number of staff employed not less than 10 (otherwise will be a cottage or microenterprise) and not more than 300 [23].

For an organization to qualify as one of the Small and Medium Scale Enterprises (SMEs) is to be regarded as an enterprise. An enterprise is 'any entity engaged in an economic activity, irrespective of its legal form.' Small and Medium Enterprises (SMEs) are classes of Micro, Small and Medium-sized Enterprises which utilize less than 250 persons and which have either a yearly turnover not surpassing 50 million Euros or an annual balance sheet total not greater than 43 million Euros [n.d]. In Nigeria, the Central Bank of Nigeria in its monetary policies circular No. 22 of 1988 well-defined SMEs as enterprises which have a yearly turnover not surpassing Five Hundred Thousand Naira (N500,000). [n.d] asserts that Small and Medium Enterprises (SMEs) are non-subsidiary, independent firms/organizations which utilize smaller number of employees, and this number changes crosswise over nations. Small and Medium Enterprises (SMEs) are organizations which can best be portrayed through their capital, degree and cost of undertakings, yearly turnover, financial capabilities and number of workers amongst other things.

1.6. Concept of Performance

The term performance is a controversial issue in finance largely because of its multidimensional meanings [15]. It can be defined as outcome-based financial indicators that are assumed to reflect the fulfilment of the economic goals of the firm. The performance level of most of these SMEs has been most unsatisfactory, as the problems of delay in delivery of services and high cost of service delivery has become a norm rather than an exception. In some other cases where the cost and time are within acceptable limits, the issue of customer satisfaction has often not been met simply due to the delivery of sub-standard outputs [18].

Performance is the accomplishment of a given task measured against pre-set known standards of accuracy, completeness, cost, and speed. According to [n.d], to assess accurately how well a business is performing, one needs to develop some quantifiable measures by identifying those aspects of the business process that need improvement and that are working well. The idea of performance is hinged on the position or premise that it is a combination of productive assets made up of human, physical, and capital resources, for the major reason of fulfilling a dream, vision or accomplishing a shared purpose [3, 6].

Performance, according to [25], is an achievement of the target in the form that must be known and communicated to all parties within the organization, and are associated with vision assigned to an organization. Narrowly, business performance reflects the achievement of the objectives of an organization that is reflected in the financial indicators. Financial indicator-based performance measure is referred to as an indicator of financial performance and it has become the main model in research in the field of strategies [25].

1.7. Empirical Review

Amos, K. Y et al [1] establishes financial factors that affect access to credit among SMEs in Machakos town sub-county. The study employed descriptive study design. Stratified sampling technique was applied. Data was gathered using questionnaires with the help of a research assistant. The questionnaires were administered using the drop and pick method. The data was analysed by use of SPSS. The study found out that cost of credit such as process and insurances fees are key determinant to access to credit among small and medium enterprises in Kenya.

Saqib, M et al [21] studied the impact of financing on Small and Medium Enterprises (SMEs) Profitability with Moderating Role of Islamic Finance. The study used the quantitative approach that was accomplished by survey questionnaires. Two hundred SMEs and seventy bank branches were selected in Faisalabad region in Pakistan, to get response on questionnaires about their financing patterns and effects of Islamic financing as moderator in their fixed assets, set up and current assets financing. The study showed that fixed assets, set up and current asset financing have positive relation with the growth of SMEs and Islamic modes of financing was not behaved as moderator in Faisalabad city in Pakistan.

Nakhaima, F. K [17] determine factors that affect financial performance of small and medium enterprises (SMEs) in Kenya. A descriptive research design was adopted for this study. The target population of the study included the 4,560 SMEs in Nairobi County. Data available from the Ministry of Trade and Ministry of Industrialization, (2013) revealed that there were 2500 SMEs in Manufacturing, 1500 SMEs Trading and 560 SMEs in the service industry. Stratified sampling technique was used to determine a sample size of 100 from the total population. For this study, data was collected using structured questionnaires based on the research questions. Descriptive statistics included frequencies distribution, and percentages and mean, while inferential statistical analysis used included correlations, and regression. The findings of the study indicated that majority (81.6 %) of the respondents agreed that corporate governance affects financial performance. Equally, the study findings revealed a positive relationship between corporate governance and financial performance, ($r = 0.491$) $p < 0.05$.

1.8. Theoretical Framework

Finance Led-growth Theory

The theoretical framework found adequate for this study is the finance growth theory put forth by [5]. They posited a theory of financial growth for small and medium scale businesses in situations of evolving increase of credit needs and instability in the availability of credit options in the course of business growth. They further posited that businesses stand on an age/size/information scale where the younger/ smaller/more opaque businesses stand at the extreme left of the continuum implying that such businesses basically rely on informally sourced and persona finance for start-ups, angel finance or trade credit. Since the study is on performance of SMEs, the need for finance is key to help SMEs anywhere in the world to perform better, hence the need for this theory to underline the study.

Also, it is broadly accepted that the optimal capital structure of small businesses differs, of which their sources of funding differs considerably at various stages of the business live and growth cycle [5]. Scholars have established that certain small businesses characteristics largely influence the kind of funds accessible to finance operations of such businesses. Funding options from Angel investors typifies a form of micro-financing where a corporate firm or an individual raises some amount as capital for an entrepreneur as seed capital or for business expansion with less rigid repayment conditions, with a very low expected rate of return on investment, however high enough to offset risk.

2. Methodology

The study adopted the survey research design and this was because the information or data needed for the study required the use of structured questionnaire (open ended) that was administered to the respondents who are the owners or Managing Directors (MDs) of the SMEs in Abuja, Nigeria. The population of this study comprised of all the registered

owners of SMEs in Abuja Nigeria, which according to SMEDAN and NBS (2013) collaborative survey is 2690. These population are the owners or MDs of these various SMEs and the population giving the six-area council in Abuja is as follows:

Table 1. Selected SMEs in Abuja, Nigeria.

Abuja	SMALL	MEDIUM	TOTAL
Abaji	193	46	239
Kwali	287	22	309
Kuje	218	17	235
AMAC	797	62	859
Bwari	295	22	317
Gwagwalada	716	15	731
TOTAL	2506	184	2690

Source: SMEDAN & NBS Survey (2017),

Thus, the population of SMEs in this study was 2690 in Abuja Nigeria and using the Taro Yamane formula of 1967, the population was broken-down to:

$$n = N / 1 + N(e)^2$$

Where N is the population size

e is the margin error (assume 5%)

l= constant

e=0.05

$n = 2690 / 1 + 2690(0.05)^2$

$n = 2690 / 1 + 2690(0.0025)$

$n = 2690 / 1 + 6.725$

$n = 2690 / 7.725$

$n = 348$

Therefore, the sample size of the study was 348 of the SMEs in Abuja Nigeria. Furthermore, the study used a purposive allocation technique in selecting the 348 from 2690 SMEs in Abuja Nigeria. The researcher considered a purposive allocation method by using proportional method in selecting sample in each of the six-area council of Abuja and these are:

Table 2. Proportion of Small and Medium Enterprises in Abuja, Nigeria.

ABUJA	Population	Proportion	Sample
Abaji	239	$239 \times 348/2690$	31
Kwali	309	$309 \times 348/2690$	40
Kuje	235	$235 \times 348/2690$	30
AMAC	859	$859 \times 348/2690$	111
Bwari	317	$317 \times 348/2690$	41
Gwagwalada	731	$731 \times 348/2690$	95
TOTAL	2690	-	348

Source: Researchers Computation (2021).

From table 2, the sample size for each of the six-area councils in Abuja was to apportion copies of questionnaires each as it appears on the proportion index. For example, AMAC has the highest number of registered SMEs population in Abuja of 859 and after the proportion applied, it received a total of 111 copies of questionnaires that was administered to the SMEs operators in Abuja. The same was applied to other five-area councils in Abuja, Nigeria.

Furthermore, the method of data collection was questionnaire administered to the respondents. The reason for using primary sources of data is that, it is crucial in presenting a study of this nature and other research data that is based on original data produced by the respondents that are actually involved in the subject area of research. It was designed in a five (5) point Likert type scale questionnaire to collect data from the respondents. The question provides information on the effect of financial factors on the performance of SMEs in Abuja, Nigeria. However, copies of the questionnaire were administered to the respondents using simple random sampling method.

Finally, the study used the Ordinary Least Square (OLS) simple regression method to determine the effect of the independent variable on the dependent variable. The ordinary least squares method is one of the most popular and widely used methods for regression analysis. The SPSS software of 23.0 was used for this study. The statistical test of parameter estimates was conducted using their standard error, t-test, F-test, AR, and R^2 . The economic criteria shall show whether the coefficients of the variable conform to the economic a priori expectation, while the statistical criteria test was used to assess the significance of the overall regression.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu \quad (1)$$

Where y = dependent variable, α = intercept, β_1 is coefficient and x is the independent variable.

However, the above mathematical model is further expressed as follows:

$$PSMEs = \alpha + \beta_1 ATF + \mu \quad (2)$$

$$PSMEs = \alpha + \beta_2 INF + \mu \quad (3)$$

$$PSMEs = \alpha + \beta_3 COL + \mu \quad (4)$$

Where: PSMEs = Performance of SMEs (measured as efficiency)

ATF = Access to Finance

INF = Insufficient Financing

COL = Collateral

β = Coefficient

α = Intercept

μ = Error terms.

3. Data Analysis and Results

3.1. Financial Factors and Performance of SMEs in Abuja

Table 3 indicates that 25.42% of the respondents strongly disagree that SMEs owners or MDs in Abuja frequently improve profitability as a result of having access to finance their business. 22.29% of the respondents disagreed that SMEs owners or MDs in Abuja frequently improve profitability as a result of having access to finance their business, and 3.42% of the respondents were undecided. 22.00% of the respondents strongly agreed that SMEs owners or MDs in Abuja frequently improve profitability as a result of having access to finance their business and 26.85% of the respondents agreed that SMEs owners or MDs in Abuja frequently improve profitability as a result of having access to finance their business.

Table 3. Access to Finance.

Items	5 (SDA)	4 (DA)	3 (UN)	2 (SA)	1 (A)
Small and medium enterprises owners or MDs in Abuja frequently improve profitability as a result of having access to finance their business.	88 (25.42)	78 (22.29)	12 (3.42)	77 (22.00)	93 (26.85)
Access to finance helps small and medium scale enterprises owners or MDs in Abuja to improve productivity	99 (28.29)	110 (31.71)	23 (6.57)	55 (16.00)	61 (17.43)
Small and medium scale enterprises owners or MDs in Abuja prevents liquidity problems as a result of access to finance	109 (31.14)	121 (34.14)	11 (3.14)	49 (14.00)	58 (16.57)

Source: Survey, 2021.

Also, in same table, it indicates that 28.29% of the respondents strongly disagreed that access to finance helps SMEs owners or MDs in Abuja to improve productivity. 31.71% of the respondents disagreed to the statement in Abuja, Nigeria while 6.57% of the respondents were undecided. 16.00% of the respondents strongly agreed that access to finance helps SMEs owners or MDs in Abuja to improve productivity and 17.43% of the respondents agreed that access to finance helps SMEs owners or MDs in Abuja to improve productivity.

Finally, table 3 indicates that 31.44% of the respondents strongly disagreed that SMEs owners or MDs in Abuja prevents liquidity problems as a result of access to finance. 34.14% of the respondents disagreed that SMEs owners or MDs in Abuja prevents liquidity problems as a result of access to finance and 3.14% of the respondents were undecided. 14.00% of the respondents strongly agreed that

SMEs owners or MDs in Abuja prevents liquidity problems as a result of access to finance and 16.57% of the respondents agreed that SMEs owners or MDs in Abuja prevents liquidity problems as a result of access to finance.

It is recorded that 35.34% of the respondents strongly disagreed that SMEs owners or MDs in Abuja Nigeria always experience lack of complete funds for their businesses, 34.48% of the respondents disagreed to the said statement while 9.19% of the respondents were undecided. 12.35% of the respondents strongly agreed that SMEs owners or MDs in Abuja Nigeria always experience lack of complete funds for their businesses and 8.62% of the respondents agreed that SMEs owners or MDs in Abuja Nigeria always experience lack of complete funds for their businesses.

The table shows that 8.90% of the respondents strongly disagreed that insufficient funding has cost SMEs operators in

Abuja Nigeria closure of their businesses, while 12.35% of the respondents disagreed that insufficient funding has cost SMEs operators in Abuja Nigeria closure of their businesses. 35.63% of the respondents strongly agreed that insufficient funding has

cost SMEs operators in Abuja Nigeria closure of their businesses and 31.89% of the respondents agreed that insufficient funding has cost SMEs operators in Abuja Nigeria closure of their businesses. Finally, 11.20% were undecided.

Table 4. *Insufficient Financing.*

Assessment of Insufficient Financing.

Items	5	4	3	2	1
SMEs owners or MDs in Abuja Nigeria always experience lack of complete funds for their businesses.	123 (35.34)	120 (34.48)	32 (9.19)	43 (12.35)	30 (8.62)
Insufficient funding has cost SMEs operators in Abuja Nigeria closure of their businesses	31 (8.90)	43 (12.35)	39 (11.20)	124 (35.63)	111 (31.89)
Insufficient financing by SMEs in Abuja, Nigeria has cost them access to finance to fund their business.	120 (34.48)	130 (37.35)	42 (12.07)	33 (9.48)	23 (6.61)

Source: Survey, 2021.

Table 4 shows that 34.48% of the respondents strongly disagreed that insufficient financing by SMEs in Abuja, Nigeria has cost them access to finance to fund their business, 37.35% of the respondents disagreed that insufficient financing by SMEs in Abuja, Nigeria has cost them access to finance to fund their business and 12.07% of

the respondents were undecided. 9.48% of the respondents strongly agreed that insufficient financing by SMEs in Abuja, Nigeria has cost them access to finance to fund their business and 6.61% of the respondents agreed that insufficient financing by SMEs in Abuja, Nigeria has cost them access to finance to fund their business.

Table 5. *Collateral.*

Assessment of Collateral.

Items	5	4	3	2	1
Small and medium enterprises in Abuja always present high valuable as collateral so as to access funds	111 (31.89)	129 (37.06)	33 (9.48)	35 (10.06)	40 (11.49)
There is no margin of consideration in giving finances to SMEs owners in Abuja Nigeria	112 (32.18)	107 (30.74)	49 (14.08)	56 (16.09)	24 (6.90)
The type of security requested by financial institutions before granting of credit to SMEs operators in Abuja is outrageous	101 (29.02)	130 (37.35)	46 (13.22)	32 (9.19)	39 (11.20)

Source: Survey, 2021.

It is recorded that 31.89% of the respondents strongly disagreed that SMEs in Abuja always present high valuable as collateral so as to access funds, 37.06% of the respondents disagreed that SMEs in Abuja always present high valuable as collateral so as to access funds and 9.48% of the respondents were undecided. 10.06% of the respondents strongly agreed that SMEs in Abuja always present high valuable as collateral so as to access funds and 11.98% of the respondents agreed that SMEs in Abuja always present high valuable as collateral so as to access funds.

The table showed that 32.18% of the respondents strongly disagreed that there is no margin of consideration in giving finances to SMEs owners in Abuja Nigeria, 30.74% of the respondents disagreed that there is no margin of consideration in giving finances to SMEs owners in Abuja Nigeria, and 14.08% of the respondents were undecided. 16.09% of the respondents strongly agreed that there is no margin of consideration in giving finances to SMEs owners in Abuja Nigeria, and 6.09% of the respondents agreed that there is no margin of consideration in giving finances to SMEs owners in Abuja Nigeria.

Table 5 shows that 29.02% of the respondents strongly disagreed that the type of security requested by financial institutions before granting of credit to SMEs operators in

Abuja is outrageous, 37.35% of the respondents disagreed that the type of security requested by financial institutions before granting of credit to SMEs operators in Abuja is outrageous and 13.22% of the respondents were undecided. 9.19% of the respondents strongly agreed that the type of security requested by financial institutions before granting of credit to SMEs operators in Abuja is outrageous and 11.20% of the respondents agreed that the type of security requested by financial institutions before granting of credit to SMEs operators in Abuja is outrageous.

3.2. Performance

It was recorded that 222.70% of the respondents strongly disagreed that SMEs in Abuja Nigeria usually have increase in output as a result of financing, 36.78% of the respondents disagreed that SMEs in Abuja Nigeria usually have increase in output as a result of financing while 14.08% of the respondents were undecided. 19.25% of the respondents strongly agreed that SMEs in Abuja Nigeria usually have increase in output as a result of financing and 7.18% of the respondents agreed that SMEs in Abuja Nigeria usually have increase in output as a result of financing.

The table furthered showed that 31.32% of the respondents strongly disagreed that SMEs in Abuja Nigeria frequently

utilized its finances to obtained desire result, 33.04% of the respondents disagreed that SMEs in Abuja Nigeria frequently utilized its finances to obtained desire result and 16.95% of the respondents were undecided. 16.95% of the respondents

strongly agreed that SMEs in Abuja Nigeria frequently utilized its finances to obtained desire result and 1.70% of the respondents agreed that SMEs in Abuja Nigeria frequently utilized its finances to obtained desire result.

Table 6. Measured by Efficiency.

Items	5	4	3	2	1
Small and medium enterprises in Abuja Nigeria usually have increase in output as a result of financing	79 (22.70)	128 (36.78)	49 (14.08)	67 (19.25)	25 (7.18)
Small and medium enterprises in Abuja Nigeria frequently utilized its finances to obtained desire result	109 (31.32)	115 (33.04)	59 (16.95)	59 (16.95)	6 (1.72)
Small and medium enterprises in Abuja frequently increase the level of their input based on credit availability	96 (27.58)	100 (28.73)	56 (16.09)	31 (8.90)	65 (18.67)

Source: Survey, 2021.

The table also showed that 27.58% of the respondents strongly disagreed that SMEs in Abuja frequently increase the level of their input based on credit availability, 28.73% of the respondents agreed that SMEs frequently increase the level of their input and 16.09% of the respondents were undecided. 8.90% of the respondents strongly agreed that SMEs in Abuja frequently increase the level of their input based on credit availability, and 18.67% of the respondents agreed that SMEs in Abuja frequently increase the level of their input based on credit availability.

3.3. Descriptive Statistics Table

The table revealed the result of the descriptive statistics which indicated the mean, range and standard deviation as well as variance. The mean value of performance of SMEs in Abuja Nigeria (PSMEs) is 3.47, access to finance (ATF) is 2.18, the mean value of insufficient financing (INF) is 3.00, and the mean value of collateral (COL) is 2.88. The table recorded standard deviation of the variables as listed also.

Table 7. Descriptive Statistics of the variables.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
PSMEs	348	1.00	5.00	3.4766	1.42433
ATF	348	1.00	5.00	2.1810	1.45066
INF	348	1.00	5.00	3.0052	1.52364
COL	348	1.00	5.00	2.8874	1.33029
Valid N (listwise)	348				

Source: SPSS, 20 Version, 2021.

3.4. Test of Hypotheses

Table 8. Regression Result.

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.865 ^a	.831	.912	.42080		
a. Predictors: (Constant), ATF, INF, COL						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	789.870	2	349.935	1976.255	.000 ^b
1	Residual	65.464	381	.177		
	Total	855.334	383			
a. Dependent Variable: PSMEs						
b. Predictors: (Constant), ATF, INF, COL						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
	(Constant)	-.312	.059		-5.326	.000
1	ATF	-.532	.045	.532	-11.918	.000
	INF	-.402	.063	.471	-12.786	.000
	COL	.437	.034	.438	-9.820	.000
a. Dependent Variable: PSMEs						

Source: econometric output, 2021

Decision rule: 5%

The regression result shows that the model is fit for the study since the f-statistics is significant at 5% level of significance. The result also shows that access to finance has a negative and insignificant effect on the performance of SMEs in Abuja, Nigeria as indicated by the t-statistics which is -11.918 indicating that .91 which is 91% is higher than the 5% confidence interval also, insufficient financing has a negative and insignificant effect on the performance of SMEs in Abuja, Nigeria. The t-statistics is -12.786 that is .78 which is 78% is higher than 5% or $> 5\%$. Finally, collateral has a negative and insignificant effect on the performance of SMEs in Abuja, Nigeria. Also, the t-statistics is -9.820 that is .82 which is 82% is higher than 5% or $> 5\%$. These effects are insignificant since the P-values are more than 5%. Thus, the study accepts the null hypotheses and concluded that financial factors has a negative and insignificant effect on the performance of SMEs in Abuja, Nigeria. Furthermore, the $R^2 = 0.83$ indicates that only 83% of variation on financial factors can be used to explain by the performance of SMEs in Abuja, Nigeria while 17% can be explained by other factors not noted in the regression model which is referred to as error term.

4. Discussion of Findings

From the regression table, the results of the analysis indicated that there is negative and insignificant effect of financial factors affecting the performance of SMEs in Abuja. This means that financial factors (access to finance, insufficient financing and collateral) negatively and insignificantly affect the performance of SMEs in Abuja, Nigeria. From this finding, we say that the study is in agreement with the findings of [16] who examined the factors that influence manufacturing small, medium and micro-sized enterprises' (SMMEs) borrowing from banks and found a negative relationship among the variables. However, this study is not in agreement with the study of [1] who established a positive and significant effect between financial factors and access to credit among SMEs in Machakos town sub-county. The theoretical framework that supports this study is the theory of finance led-growth theory as put forth by [5]. They posited a theory of financial growth for SMEs businesses in situations of evolving increase of credit needs and instability in the availability of credit options in the course of business growth. They further posited that businesses stand on an age/size/information scale where the younger/ smaller/more opaque businesses stand at the extreme left of the continuum implying that such businesses basically rely on informally sourced and persona finance for start-ups, angel finance or trade credit.

5. Conclusion

Based on the findings of this study, the study concludes that financial factors such as access to finance, insufficient financing and collateral has a negative and insignificant effect

on the performance of SMEs in Abuja, Nigeria. Furthermore, the first null hypotheses revealed that access to finance has a negative effect on the performance of SMEs in Abuja, Nigeria. Though access to finance plays a major role in the performance of SMEs it continues to be a major problem that SMEs in Abuja face in their operations. The study concludes that owners or MDs of SMEs in Abuja should be sensitized about funding programmes and financial schemes provided by the government and private sector and that public and private sectors put in place funding programmes and financial schemes to assist SMEs in Abuja Nigeria.

The second null hypotheses revealed that insufficient financing has a negative and insignificant effect on the performance of SMEs in Abuja, Nigeria. This implies that SMEs in Abuja, rely on personal funds for their businesses and this will not take their businesses to the next level or far, and individual guarantors are not readily available too.

Focusing on Abuja SMEs, which tend to be dependent on bank loans, the third null hypotheses examined the effectiveness of collateral in improving the performance of SMEs in Abuja, such as increase in production, profitability and the probability of falling into financial distress. The examination was based on a unique OLS data set of 348 Abuja SMEs covering the years 2000-2019. It was found that riskier SMEs were more likely to pledge collateral, and their profitability tended to increase and their riskiness tended to decline one year later. Most of the estimation results shows that owners or MDs of SMEs in Abuja increase their efforts or refrain from asset substitution once they have pledged collateral, and as a result end up without improvements in their performance.

6. Recommendations

Based on this conclusion, the study therefore recommends that SMEs in Abuja should incorporate good financial management practices such as preparation and usage of financial information in their operations. Also, Government of Nigeria should do more to be directly involved to help eliminate the financing gap faced by SMEs through direct government interventions through public banks, credit guarantee schemes and other forms of subsidized financing.

References

- [1] Amos, K. Y., Ombati, R., & Wamitu, S. N., (2019) Financial factors affecting access to credit among small and medium enterprises in Machakos Town Sub-county, Kenya. *International Journal of Economics, Commerce and Management*. 7 (6).
- [2] Ango, T. (2011). financial assistance from financial institutions. A key to driving growth of small businesses in Africa.
- [3] Barney, J. B., (2002) Corporate social responsibility and firm performance: Investor preferences and corporate strategies. *The academy of management review* 32 (3).

- [4] Basil, P. J., (2005) Entrepreneurship and development, Cause or consequence? *Advances in Austrian Economics*.
- [5] Berger, A. N., & Udell, G. F., (1998) The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle: Board of Governors of the Federal Reserve System Washington, DC 20551 U.S.A.
- [6] Carton, R. B., & Hofer, C. W., (2006) Measuring organizational performance: Metrics for entrepreneurship and strategic management research.
- [7] Daily Nation (June, 20th 2006; November, 24th 2006; December, 13th 2006). Small and Micro Enterprises.
- [8] Garrett, J. F. (2009). Bank and their customers. New York: Dobbs Ferry: Oceana Publications.
- [9] Gitman, L. J. (2003). The principles of managerial finance. 7th ed. New York, New York: Pearson Education Inc.
- [10] Haron, H., Said, S. B., Jayaraman, K. & Ismail, I. (2013). Factors Influencing Small Medium Enterprises (SMES) in Obtaining Loan, *International Journal of Business and Social Science*, 4 (15), 182-195.
- [11] Harper, L. E. (1984). Evolution and Revolution as Organizational Growth. *Harvard Business Review*. 4 (2), 98-114.
- [12] International Finance Corporation (2016) Women's entrepreneurship facility: Establishment of a financial intermediary fund. Gender CCSA.
- [13] Levy, B., (2015) Obstacles to developing indigenous Small and Medium Enterprises: An empirical assessment, *The World Bank Economic Review* 7 (11), 65 – 83.
- [14] Mulleri, W. G., & Bokea, I. O., (2008). determinants of access to bank credit by micro and small enterprises in Kenya. Growing Inclusive Markets Conference.
- [15] Mihaela B. T. (2012). Capital Structure and Firm Performance. *Economy Trans-disciplinarity Cognition*, 15 (2).
- [16] Mutoko, W. R. & Kapunda, S. M. (2017). Factors influencing small, medium and micro sized enterprises' borrowing from banks: The case of the Botswana manufacturing sector', *Acta Commerci*, 17 (1).
- [17] Nakhaima, F. K., (2016) Factors that affect financial performance of small and medium enterprises in Kenya. A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirements for the Degree of Masters of Business Administration (MBA).
- [18] Oforegbunam, T. E., & Okorafor, G. F. (2010). Effects of human capital development on the performance of Small and Medium Scaled Enterprises in the South-eastern region of Nigeria. *Journal of Sustainable Development in Africa*, 12 (8).
- [19] Saito, K., & Villanueva. H., (2000) Transactions costs of credit to the small – scale sector in the Philippines, *Economic Development and Cultural Change*, (229), 3.
- [20] Sanusi, J., (2003) Revamping small and medium industries. Keynote address by the Governor of the Central Bank of Nigeria, Chief (Dr.) Joseph Sanusi at the national summit organised by the Manufacturers Association of Nigeria (MAN), Ikeja, Lagos.
- [21] Saqib, M., Azhar, A. & Rao, A. A., (2017) Impact of financing on Small and Medium Enterprises (SMEs) Profitability with moderating role of Islamic Finance. *Information Management and Business Review*, 9 (2) 25-32.
- [22] SMEDAN & NBS, (2013) Survey report on Micro, Small and Medium Enterprises (MSMEs) in Nigeria. 2010 National MSME collaborative survey, between National Bureau of Statistics (NBS) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).
- [23] Udechukwu, F. N., (2003). Survey of small and medium scale industries and their potentials in Nigeria. In SMIEIS seminar by the CBN.
- [24] Wanjohi, A., & Mugure, A., (2008) Factors affecting the growth of MSEs in rural areas of Kenya: A case of ICT firms in Kiserian township, Kajiado District of Kenya.
- [25] Whitmore, J. (1997) Coaching for Performance, Nicholas Brealey Publishing, London.
- [26] World Bank, (2015) Accessing finance a key constraint to small businesses growth, and development in emerging economies.