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ACCESS TO CREDIT AND GROWTH OF SMALL AND MEDIUM HOSPITALITY ENTERPRISES IN NIGERIA

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Abstract

Small and Medium Enterprises (SME's) are generally acknowledge as catalysts for economic growth and development, sustaining global economic recovery, generating employment and reducing poverty in many economies. The small and medium enterprises accounts for 90% of the private businesses and contributes 50% to employment and Gross Domestic product in many African Countries. Studies have shown that SME's employ 70% of the nations industrial labour and contributes 10% to 15% to the total industrial output while utilizing about 30% of its installed capacity. The dismal performance can be attributed largely to poor access to credit. On the basis of this, the study investigates whether access to finance influences the growth of small and medium hospitality enterprises in Nigeria. Data was collected through the administration of questionnaires to SMHE's in Hotels, Fast Foods and Travel Agencies. Data was analysed using descriptive and inferential statistics ANOVA for hypothesis testing and regression analysis to test the relationship between access to finance and growth of SMHE's in Nigeria. The study concludes that access to finance is critical to the growth of small and medium hospitality enterprises.

Keywords: *Small and Medium Enterprises, Hospitality, Access to Finance, Growth and Survival.*

Background to the Study

Small and Medium enterprises (SME's) are generally recognized as having huge potentials for economic growth and development, sustaining global economic recovery, generating employment and reducing poverty in many economies (Aremu and Adeyemi, 2011; Abo and Quartey, 2010). Studies have shown that SME's in the United Kingdom constitute 99.6% of all private sector businesses and contributes 54.3% to private sector employments and 48.8% to private turnover (European Commission, 2012). The small and medium enterprises accounts for 90% of the private businesses and contributes 50% to employment and Gross Domestic Product in many Africa countries (Abo and Quartey, 2010).

In Nigeria 70% of the industrial sector employment is contributed by SME's and that SME's contributes 50% to the gross Domestic product (GDP) (Rebecca and Benjamen, 2009). The relatively high percentage is however, a paradox as 60% of Nigerian still lives below the poverty level (Ihua, 2009).

Although SME's are acknowledged as a veritable engine of economic development, the growth and development of SME's in Nigeria have been slow and some cases hampered due to a number of challenges confronting the sector. Some of the challenges include lack of access to finance, low productivity, slow pace of developing tourist sites, high hotel charges and lack of managerial capabilities (Akpabio, 2007). Other constraints hindering the growth of the sector include limited capacity for research and development, human resources management, dearth of skilled personnel, incessant power outages, problem of under capitalization and difficulty with access to bank credits deplorable infrastructural facilities and many more accounts for the poor performance of the sector (Onugu, 2005). However, the most disturbing among the challenges is lack of access to finance (Akingunola) Access to funding is very important for continued growth and survival (Beck and Demirguc-Kunt, 2006). In Africa and in Nigeria in particular most SME's are being funded by the informal sector which consists of borrowing from friends, relatives and cooperatives, as against the real support and formal finance assistance. The objective of this paper is to investigate the influence of access to credit and growth of small and medium hospitality enterprises.

Literature Review

Access to finance simply means the degree to which financial services are available to all at a fair price (IBRD, World Bank, 2008). Access to finance is very important for continued growth and survival (Beck – Dermirguc-Kunt, 2006). However, various studies and empirical evidences on finance consistently pointed out that inadequacy in access to finance are key obstacles to SME's growth (Kadiri, 2012).

According to Cook and Nixon (2000) who argued that notwithstanding the role of SME's in the development process in many developing countries, SME's development is always constrained by limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found about 90% of small enterprise survey indicated that credit was a major constraint to new investment (Parker et al., 1995).

Akingunola (2011) pointed out that access to finance at a relatively lower cost is one of the most critical problems hindering SME's growth in Nigeria. In Nigeria, the level of financing for SME's and entrepreneurship is one of the lowest around the world (Onugu, 2005). The World Bank Report (2010) noted that Nigeria financial sector is highly capitalized and vibrant, her contribution to entrepreneurship and SMHE's sector is only 1.6% of the total loans and advances to private sector as at 2009 (CBN, 2009) Erika and Inegbenebor (2009) lend credence to this position with arguments that one of the reason advanced for the inability of SME's to meet the expectation of government to increase employment, increase production of goods and services, create more opportunities for entrepreneurs and increase the local components of the large companies is attributed to lack of access to credit.

Aremu and Adeyemi (2011) rightly observed that most of the small and medium enterprises in Africa relied to a large degree on own savings not only to grow but also to innovate, contrary to real services support and formal financial assistance without which their growth may be stunted. Aremu (2004) affirmed that various studies conducted pointed out 50% percent of small and medium enterprises surveyed did not receive external finance while 77 percent indicated lack of access to financial resources. An empirical study conducted by Onugu (2005) indicated that SME's do not survive the first five years of existence and smaller percentage ceased to operate between sixth and tenth year, while 5% to 10% survive, thrive and grow to maturity. This poor performance of the sector is not unconnected with inadequate access to fund to finance their businesses.

Godfriend and Song (2000) investigated the mode of financing small scale manufacturing firms in and concluded that a larger proportion of small scale enterprises utilized informal loans as against formal loans. On a similar note, a research study conducted by Neren (2006) on entrepreneurship access to capital in sub-Saharan Africa indicate clearly that lower middle income and wealthier consumers utilized to a great extent, the main stream of informal financial sector and which contributes positively to employment and economic growth.

Evidence have shown that both in developed and developing countries, small firms have less access to external finance and which impact on their operation and growth (Galindo and Schantiarelli, 2003).

A research study by Abereijo and Fayomi (2005) revealed that SME's do not make use of formal means of financing unlike the large scale enterprises. Most SME's are often discouraged in sourcing from funds from banks and other financial institutions due to rigid financial policies and banks practices (Otunla and Obamiyi, 2008). Abereijo and Fayomi (2005) contend that the practice in Nigeria is not different from what obtains in many developing countries where commercial banks often prefer to lend to government and institutions who are into trading in foreign exchange financing and selling of bonds, etc. This attitude of the commercial banks further heightened the challenges of access to finance SME's.

According to Longnecker, Pettu, Heisele and Francis (2012) Commercial banks constitute the primary providers of debt capital to firms, nevertheless, they are not wiling to provide the required financing for SME's due a number of reason advanced which include; SME's are considered by creditors and investors as high risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rate, information asymmetry arising from SME's lack of accounting records, inadequate financial statements or business plan which makes it difficult for creditors and investors to access credit worthiness of potential SME's proposal and; high administrative/transaction cost of lending small amounts which do not make SME's financing a profitable venture. In summary, evidence in the literature has also shown that lack of access to funding is not unconnected with the rigid financial policies and bank practices (Moses, 2010).

The hospitality industry is crucial to the development of many nations of the world. Raghubalan and Raghubalan (2011) defined hospitality as the cordial and generous reception and entertainment of guest or stranger either socially, or commercially. Hospitality basically refers to a friendly and generous behaviour towards visitors and guests intended to make them feel welcomed: foods, drinks and other entertainment given to a customer or organization (Gambo and Jakanda, 2013). The hospitality industry is a major service sector in the world (Ceserani and Kinton, 2007). The industry can be broadly divided into two parts. The entertainment areas like clubs and bars and accommodation takes the form of public houses, resorts, inn, compound hotels, hostel serviced apartments and motel. The clubs and bars category include restaurants, fast foods firms and night clubs. Security the industry also includes tourism support commercial activities like airline, cabin staff and travel agents http://www.economiywatch.com/world. The study specifically focused on hotels enterprises, fast food restaurants and travel services because they are all part of the hospitality industry.

Statement of the Problem

Finance is very critical to every business for survival and growth (Caseer, 2004). Financial resources contribute significantly to the development of small and medium enterprises in both developed and developing countries (Aliyu and Bello, 2013). However, the problem of lack of access to finance has hindered the contribution of small and medium hospitality enterprises to economic growth and development in Nigeria.

Akingunola (2011) previous studies have shown that SME's employs 70 percent of the nation's industrial labour force, and contributes 10 percent to 15 percent of the total industrial output, while utilizing about 30 percent of its install capacity. This dismal performance of the sector can be attributed largely to poor access to credit (Kadiri, 2008).

Akingunola (2011), concurred with this position arguments that access to finance at a relatively lower cost is one of the most critical problems hampering SME's growth in Nigeria. The World Bank Reports (2010) noted that Nigeria's financial sector is highly capitalized and vibrant, her contribution to entrepreneurship and SME's sector is only 1.6 percent of the loans and advances to private sector as at 2009 (CBN, 2009).

A research conducted by Abereijo and Fayomi, (2005) revealed that SME's do not make use of formal means of financing unlike the large scale enterprises, because most SME's are often discouraged in sourcing from funds from banks and other financial institutions due to rigid financial policies and bank practices. Aremu (2004) resonate with observations when he posited that various studies conducted pointed out that 50 percent of SME's surveyed did not receive external financing while 77 percent indicated lack of access to financial resources.

Objectives of the Study

To investigate whether access to finance influences the growth of small and medium hospitality enterprises (SMHE's)

Research Hypothesis

H_0: Access to finance has not significant influence on growth of small and medium hospitality enterprises.

H_1: Access to finance has significant influence on growth of small and medium hospitality enterprises (SMHE's).

Research Methodology

The study used 302 small and medium hospitality enterprises in hotels, fast food restaurants and travel services which are located in Lagos and Kano representing the South and North geographical areas of the country as the target population. The study used stratified random sampling to select subjects from each stratum and a sample size was determined. A sample of 120 small and medium enterprises was selected at random from which data was collected. Structured questionnaire was used for data collection. According to Kothari (2004) a questionnaire as a document that comprises of a number of questions printed or typed in a definite order in a form. Cooper and Schindler (2008) also clarified that a question is basically the collection of questions that focuses on opinion attitudes, beliefs and other relevant information.

The study relied on questionnaire for the purpose data collection. A total of three hundred and sixty (360) questionnaires were distributed randomly to hotels, fast foods restaurants and travel agencies. Two hundred and fifty-two (252) duly completed questionnaires which represent 70% of the total number of questionnaires distributed were collected and used for analysis of data.

Data was analysed using descriptive statistics and inferential statistics analysis of variance ANOVA for hypotheses testing and regression analysis to test whether or not there exist relationship between growth of small and medium hospitality enterprises and access to finance.

Results and Discussion

Table 4.1 and figure 4.1 presents the findings which indicate that 84% of the respondents had access to finance the growth of the business meaning that access to finance resulted to increase in productive assets and steady growth. 16% of the respondents did not state whether access to finance stimulate the growth of the business.

Table 1: Access to Finance Business Growth

Question	Responses	Frequency	Percent
Do you have access to finance the growth of your business?	Yes	212	84
	No	40	16
Total		252	100

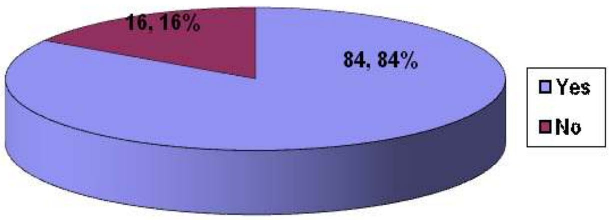

Figure 1 Access to Finance Business Growth.

The findings of this study relates to postulations by Myers (1984) and Myer and Majuluf (1984) that firms resort to internal funds first, then debt and lastly equity to meet their financial needs. The findings are not consistent with the contentions by Beck (2004) Dermirguc-Kunt (2005) and Makcimovic (2007) that SME's find accessing financing more difficult than large firms. The findings did not corroborate literature by Herrigton et al., (2008) that access to finance challenges is the main reason for low entrepreneurial growth and survival in South Africa.

The findings also did not agreed with the views expressed by Akingunola (2011) that access to finance at relatively lower cost is one of the most critical problems hindering SME's growth in Nigeria.

The findings contradict a study done by Oliverra and Fortunate (2005) using utilized balanced panel data in Portuguese manufacturing firms over the period of 1991 – 2001 which found the growth of Portuguese manufacturing firms is constrained by finance. The findings also contradict a conclusion by Geodhuys and Sleuwaegan (2009) that examined the growth performance of a large set of firms in ten (10) manufacturing sectors of 11 sub-Saharan African countries including Nigeria. The findings revealed that the growth of entrepreneurship and SME's are hindered due to access to finance. The conclusion is that access to finance is essential to the growth of small and medium hospitality enterprises without which their growth may be hampered.

Model Summary for Access to Finance

This was done to determine whether the independent variable access to finance can be used in explaining the change in the dependent variable growth of small and medium hospitality enterprises.

Table 2: Model Summary for Access to Finance

Model	R	Rsquares	Adjusted r2	Std Error of the Estimate
1	.630	.397	.288	2.46222

(a) Predictor (Constant) Access to Finance

Table 2 indicates that there is a strong positive correlation between growth of small and medium hospitality enterprises and access to finance. This indicates that access to finance was able to explain about 39.7% of the changes in the growth of small and medium hospitality enterprises in Nigeria.

Testing of Hypotheses

ANOVA for Access to Finance

The researcher further analysed the variations that are inherent using ANOVA. ANOVA test for a linear relationship between access to finance and the growth of small and medium hospitality enterprises.

Table 3: ANOVA for Access to Finance

Model	Sum of Squares	df	Mean Square	Ff	Sig
Regression	309.429	1	309.429	53.350	.000[b]
Residual	29.000	5	5.800		
Total	338.429	6			

H_0: The model is not statistically significant.

H_1: The model is statistically significant

Decision

Reject H_0: if $\alpha = 0.05$ is greater than Sig. (P-value) and therefore it can be concluded that the model is statistically significant because H_0 is rejected as presented in Table 2.

Regression Coefficient for Access to Finance
The linear regression analysis which shows the relationship between innovation and the growth of small and medium hospitality enterprises is used. A table of coefficient was then generated and given in Table 4.

Table 4: Coefficients of Access to Finance

Model	Unstandardized coefficients	Standardized coefficients		t	Sig
	B	Std Error	Beta		
Constant	9.000	3.581		13.072	.002
Access to Finance	1.000	.422	.306	16.719	.000

(a) Dependent variable: SMHE's growth.

Table 4 shows a linear regression model of the form y = .9.000 + 1.000x in equation 1.

If access to finance is increased by 1 unit, it will cause an increase of 1.000x in the growth of SMHE's.
General equation $y = \alpha + \beta x$
(Coefficient) since 0.002 + 0.000 are less than $\alpha = 0.05$, it can be concluded that the model is suitable for prediction.

Conclusion and Recommendation
The importance of small and medium hospitality enterprises in the economic growth and development of the country cannot be under estimated. Finance is very essential to every business for survival and growth. Therefore, access to finance is very essential in order to facilitate growth and survival of small and medium hospitality enterprises.

The study revealed that most SME's do not have access to credit especially from banks and other financial institution due to rigid financial policies and bank practices. Therefore, there is the need to restructure and strengthen banks and other financial institutions to facilitate SMHE's access to credit at a relatively lower cost to ensure the rapid growth and development of SMHE's.

The results of the data collected from the questionnaire have assisted the researcher to reach certain conclusions on the formulated hypotheses. The result supports the hypotheses that access to credit influences the growth of small and medium hospitality enterprises. The conclusion of the study revealed that access to credit is crucial to the growth of SMHE's without which their growth may be hampered.

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