

Impact of Trade Credit, Cooperative Loans and Micro Credit Agency on Enterprise Performance in Nigeria

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Abstract

Several studies have identified the significant of Micro, Small and Medium Enterprises (MSMEs) and their contributions to economic development in terms of Gross Domestic Products (GDP), employment generation and poverty alleviation in many economies. However, they are still faced with the challenge of identifying the right financial option for their businesses. Subsequently, there are apprehensions that the accompanying funding gap is limiting business enterprise performance. The study examined financing options such as trade credits, micro credit agency and cooperative loans as means of enhancing enterprise performance in Nigeria. The study employed survey research design with population of nine million, six hundred and two thousand, two hundred and forty nine registered small businesses in the study area. A sample size of 865 was determined using Cochran's formula. Simple random sampling technique was used to proportionately select the sample size from the area of study. Data were analysed using descriptive (percentages, mean) and inferential (Partial Least Square- Structural Equation Modelling) statistics. In line with the model evaluation criteria, the overall fit of the measurement model to data was acceptable with Goodness of Fit: $\chi^2 = 3,208.66$ ($p < 0.000$); $\chi^2/df = 3.986$; RMSEA = 0.098, SRMR = 0.057; CFI = 0.841; TLI = 1.413 indicating that the model is fit for the study. The results empirically revealed that trade credit had a positive significant effect on sales turnover of the business enterprises having ($\beta = 0.730$; $R^2 = 0.592$; $t_{(803)} = 34.983$; $p < 0.000$). Micro credit agency also revealed a positive significant effect on operating performance with ($\beta = 0.800$; $R^2 = 0.697$; $t_{(803)} = 39.440$; $p < 0.000$). In addition, Cooperative loans had a positive significant effect the working capital revealing ($\beta = 0.761$; $R^2 = 0.701$; $t_{(803)} = 41.122$; $p < 0.000$). The study found that cooperative loan is the most preferred financial option being accessed by micro enterprises to stimulate performance in developing economy such as Nigeria followed by micro credit agency and trade credit respectively. This study concluded that trade credit; micro credit agencies and cooperative loans are good predictors of business enterprise performance in Nigeria apart from bank loans and other financial sources.

Keywords:

Financing, Micro enterprise, Performance, Nigeria

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Background to the Study

Subsequent to the commencement of the global economic and financial crises experienced by many economies over half a decade, there has been a major decline in the flow of finance to Micro, Small and Medium Enterprises (MSMEs) (Fraser, Bhaumik & Wright, 2015; Osano & Languitone, 2016; Ramcharran, 2017). Subsequently, there are apprehensions that the accompanying funding gap is limiting enterprise performance because of the constraining economic recovery which had made the MSMEs to continuously face the challenges of obtaining finance, a key ingredient to MSMEs' performance and development (Bhaumik, Fraser & Wright, 2015; Bruton, Khavul, Siegel & Wright, 2015; Fowowe, 2017; Organisation for Economic Co-operation and Development (OECD), 2015; Ramcharran, 2017). However, there are other factors such as government policies, infrastructures, enabling business environment among others that affect the performance of MSMEs despite that the sector contributed 54.7% to the country's GDP, employs over 31 million Nigerians and accounts for over 80% of enterprises that employ about 75% of the Nigeria's total workforce (Asikhia, 2016).

Entrepreneurial finance is a process of applying the fundamental financial principles and basic theories in the domain of new and small scale business firms (Alhabeeb, 2015). It involves adopting those principles and theories for planning and developing, starting up, operating, growing and nurturing, valuing and harvesting entrepreneurial business projects (Alhabeeb, 2015). According to Cumming (2007); Kerr, Lerner and Schoar (2014), entrepreneurial finance is referred to as the study of value and resource allocation that are applied to new ventures. It addresses certain key questions which challenge the operations of all entrepreneurs: how much money can and should be raised? When should it be raised? Where should it be raised? From whom should it be raised? How should funding contracts and exit decisions be structured? (Denis, 2004; Salamzadeh, 2015; Smith & Smith, 2000; Winton & Yerramills, 2008).

Micro, Small and Medium Enterprises (MSMEs) have various financial options vary from the initial and internal sources, such as owners-manager's personal savings and retained earnings (Wu, Song & Zang, 2008) to the informal external sources such as financial assistance from families and friends (Abouzeedan, 2003), trade credit, venture capital and business angels (Chemmanur, 2014; He & Baker, 2007; Maleki, 2015). The performance of MSMEs in developing countries has been hampered by unstable, political, economic, technological, and social business environments characterised by poor legal structures (Beck & Demirguc-Kunt, 2006; Nichter & Goldmark, 2009). The characteristics of MSMEs including size, age, ownership, location, are among the important factors influencing the performance of MSMEs (Musahara, Akorli & Rukamba, 2014; Quartey, Turkson, Ebor & Iddrisu, 2017). MSMEs in less developed countries increasingly face greater competition from large companies that undercut domestic market due to economy of scale production capacity (Etemad, 2004; Mutandwa, Taremwa & Tubanambazi, 2015). In addition, the competitive position of such MSMEs is severely impaired by other constraints, such as lack of finance (Ayedun, Asikhia & Oduyoye, 2015); higher cost of transaction (Abedian & Atonie, 2001; Coleman, 2005), lack of managerial skills (Berk & Green, 2004), shortages of raw materials and poorly developed legal system (Mutandwa, *et al.*, 2015).

Micro, Small and Medium Enterprises (MSMEs) have been receiving growing attention for their roles in economic development of many countries (SMEDAN, 2013). MSMEs play a pivotal role through several pathways that go beyond job creation and they are growth-supporting sectors that not only contribute significantly to improve living standards, but also bring substantial local capital formation that are responsible for driving innovation and competition in developing economies such as Nigeria (SMEDAN, 2013). In Nigeria, MSMEs are business enterprises employing below two hundred (200) persons. The definition of MSMEs adopts a classification based on dual criteria, employment and assets (excluding land and buildings). However, the meaning of MSMEs varies from one country to another (OECD, 2015). Thus, this study seeks to examine financial options available for entrepreneurs in enhancing their business performance in South- West Nigeria

Objectives of the Study

The general objective of this study was to investigate entrepreneurial financial options from both formal and informal financial intermediaries and their effects on performance of selected Micro, Small and Medium Enterprises in Nigeria. The specific objectives are to: examine the effect of trade credit on sales turnover of small businesses in Nigeria; investigate the effect of Micro Credit Agencies on operating performance of small businesses and analyse the effect of cooperative funds on working capital of small businesses in Nigeria.

Hypotheses

Hypothesis One: Trade credit does not have significant effect on sales turnover of MSMEs.

Hypothesis Two: Funds from Micro-Credit Agencies have no significant effect on operating performance of business enterprise.

Hypothesis Three: Cooperative funds have no significant effect on the performance of MSMEs.

Literature Review

Conceptually, Trade Credit (TC) is referred to as a type of finance that is usually incurred by a small business upon its occasional needs such as to stock up materials on good sale as to beef up seasonal inventory (Alhabeeb, 2015). According to Cunat and Garcia-Appendini (2012); Huyghebaert, Van de Gucht and Van Hulle (2006), trade credit is viewed as a tool where suppliers offer credit terms that allow the buyers to delay payment and it is regarded as one of the important sources of borrowing at an individual firm level; it is also the credit extended by one trader to another for the purchase of goods and services which facilitates the purchase of supplies without immediate payment. It normally involves short-term (thirty to sixty days) delayed payment of purchases of immediate goods and services and through delayed payment, trade credit suppliers are effectively funding their clients with short-term debt (Cunat& Garcia-Appendini, 2012).

Chin and MohdNor (2016) state that microcredit in its simplest form involves granting individuals who do not have access to capital in the form of uncollateralised small (micro) loans designed to be repaid with interest. Fairbourne (2007) described microcredit and micro franchise share the prefix 'micro', which for both constructs, is synonymous with a focus on select services for very low income individuals. Micro financing concept arose out of the need to provide for the low-income earners who were left out by formal financial institutions (Kisaka & Mwema, 2015).

Cooperatives are financial organisations that are owned and controlled by the members and they provide savings and credit services to their members in the community (Sharma, Simkhada & Shrestha, 2005). They are a form of microfinance institutions owned by groups of people who are the members and they provide small scale financial services majorly savings and loans just like any other microfinance institutions to their members. This is different from the formal microfinance institutions such as the microfinance banks (MFBs) in Nigeria which are meant to serve the general public. Ayedun and Asikhia (2018) viewed cooperatives voluntary organisations owned by the people of the same cultural background, orientation and mind-set with the aim of pooling funds together in form of savings and supporting every member of the society financially (in form of loans) in case of urgent financial needs to support the economic conditions of its members with reasonable interest rate and less cumbersome loan conditions without the interference of government.

The theories underpinning the study are Pecking Order Theory and Resource -Based-View (RBV) theories. This is premise on the fact that entrepreneur's need for finance can be analysed by adopting Pecking Order Theory (Watson & Wilson, 2002). This theory assumes that if an entrepreneur is confronted by insufficient internal funds, external debt is generally a preferred source of finance because it does not lead to the selling of the firm's equity to outsiders (Westhead, Wright & McElwee, 2011). One of the strong theoretical foundations used to explain MSMEs performance is the Resource-Based-View (RBV) theory (Asikhia, 2016). Supporting this position, Jurevicius (2013) states that the RBV is a model that sees resources as key to superior firm performance. Myers and Majluf (1984) developed the Pecking Order Theory (POT) upon information asymmetry between internal stakeholders (business owners and managers) and external providers of funds for the business enterprise (Adair & Adaskou, 2015). The Pecking Order Theory states that business enterprises have a preferred hierarchy for financing decisions (Myers & Majluf, 1984). One of the basic assumptions of POT developed by Myers and Majluf (1984) is asymmetry information or the likelihood that business managers know more about the current earnings of the business enterprise and future growth opportunities than the outside investor.

Empirically, evidences by Burkart, Ellingsen and Giannetti (2011); Garcia-Appendini and Montoriol-Garriga (2013); Fabbri, Maria and Menichini (2010); Saito and Bandeira (2010); Yano, Shiraishi and Hu (2013), on the use of trade credit, to ascertain credit worthiness of business enterprise revealed that, there is a positive significant effect on the availability of

trade credit is used by banks as a certification of the creditworthiness of a firm (Garcia-Appendini & Montoriol-Garriga, 2013), the use of trade credit is related to the nature of the transacted goods (Burkart, Ellingsen & Giannetti, 2011). Fabbri, Maria and Menichini (2010) found that firms may be using trade credit as a way to foster sales and also find some evidence of trade credit given and trade credit taken being strongly correlated. Supporting this view, Yano, Shiraishi and Hu (2013), in their studies, found that development of trade credit has a direct positive influence on private entrepreneurial investment, while development of bank finance has less impact on promotion of private investment. Saito and Bandeira (2010), also found that trade credit may be used as a sign of the firm's quality and a way of facilitating access to bank debt as trade credit seems to be a substitute for bank debt. This corroborate the findings of Alphonse, Ducret and Severin (2006) who established that listed firms do use bank debt and trade credit as two complementary sources of financing. Furthermore, in the empirical studies of Krugon, Nagaraju and Narayanan (2014); Su and Sun (2011) respectively on inventory decisions under credit period, informal finance, trade credit and private firm performance found that, it has become customary of providing trade credit by the manufacturer to the retailer as part of enhancing the sales turnover. When a manufacturer offers trade credit period to the retailer, the retailer does not need to pay the manufacturer immediately (Krugon *et al.*, 2014). They further demonstrated that the influence of the credit period and other model parameters on the optimality of cycle time, inventory levels shipment frequency and annual total relevant cost of the supply chain. The results also show that cycle time increases marginally first and then becomes higher with respect to increase in the value of the credit period and when the credit period is increased beyond certain value, variation in the cycle time remain same.

Osei-Assibey, Bokpin and Twerefou (2012), in their research on micro enterprise financing preference by testing pecking order theory and also found that new enterprises are more likely to prefer low cost and less risky or less formal financing such as internal or bootstrap finances. However, as the enterprise gets established or matures, its capacity to seek formal financing increases, thereby becoming more likely to prefer or being in a higher category of formal financing. While the study affirms the pecking order theory, it is argued that this order is a consequence of severe persistent constraints other than sheer preference. The findings further revealed that, micro entrepreneur's and SMSE's specific level socio-economic characteristics such as owner's education or financial literacy status, households tangible assets, ownership structure, enterprise size, as well as sensitivity to high interest rates in the credit market, to be important determinants of either past (start-up), present or future financing preference.

Oladejo and Oyedele (2014), in their study on cooperative financing method and Microfinance banks on credit delivery efficiency of 138 selected members of cooperatives and staff of Microfinance Banks in Nigeria. It was also confirmed that there is a positive effect of the synergy between Cooperatives and Microfinance banks on credit delivery efficiency to MSMEs' business sector. In addition, Okeet *al.* (2007) revealed that more clients of microfinance institutions in South Western Nigeria are members of cooperative

societies. Cooperative members in other microfinance organisations believe that the cooperative is a very good alternative source of finance in form of saving and loans for them (Oloyede, 2008).

Empirical studies from around the world show that the ubiquity of MSMEs has grabbed the world's attention in several areas such as, employment generation, poverty alleviation, wealth creation among others (Asikhia, 2016; Asikhia & Jansen van Rensburg, 2015; Wang, 2016). Ayyagari, Demirguc-Kunt and Maksimovic (2011) investigated the role of MSMEs play in the area of job creation and showed that MSMEs with less than 250 employees were the engine of growth in many countries. This position was corroborated by Beck, Demirguc-Kunt and Levine (2005) who found that MSMEs constituted over 60% of total employment in manufacturing sector in most developing countries. Also, an empirical proof reveals the importance of internal finance for SME growth, pointing towards a positive relationship between growth and internal finance, in different economies. Meyer, (1998) concludes that in cases of insufficient internal finance, access to external finance can be fundamental to encourage company investment and consequently, growth. However, insufficiency of internal finance can be a problem, given the greater difficulties faced by MSMEs in accessing external finance (Becchetti & Trovato, 2002).

Methodology

Survey research design was adopted for this study. The population of the study was nine million, six hundred and two thousand, two hundred and forty nine (9,602,249) registered small businesses in the study area. According to the Small and Medium Enterprises Development Agency (SMEDAN) of Nigeria report (2013), there are thirty seven million, sixty seven thousand, four hundred and sixteen (37, 067, 416) registered MSMEs as at year 2013 (SMEDAN Reports, 2013). The micro enterprises comprising of thirty six million, nine hundred and ninety thousand, five hundred and seventy eight (36, 994, 578) representing 99.8% of the total registered MSMEs; small enterprises comprising of sixty eight thousand, one hundred and sixty eight (68, 168) representing 0.18% and medium enterprises comprising of four thousand, six hundred and seventy (4, 670) representing 0.01% of the total MSMEs in Nigeria. A sample size of 865 was gotten from the population of study using Cochran's formula. Simple random sampling technique was used to proportionately select the sample size from the population. A structured questionnaire was adapted, validated and used to collect data from the respondents for the study. Some of the items on the questionnaire were adapted from past studies carried out by researchers in closely related fields and these items were found to be reliable based on reliability test, while carried out other items for measuring enterprise performance were developed from literatures. Both face and construct validity were carried out on the research instrument using confirmatory factor analysis in which items with low loading were deleted. However, none of the variables was dropped from the study. The reliability test yielded Cronbach's Alpha coefficients ranging from 0.762 to 0.939. The total valid set of questionnaire retrieved was 803 thus, representing 93.4% response rate. Data were analysed using descriptive (percentages, mean) and inferential (Multiple regression and Partial Least Square-Structural Equation Modelling) statistics.

Results of Findings

The result of the descriptive analysis in this study revealed that variable trade credit had a mean value of 4.279; Standard Deviation (SD) of 1.172 and sales turnover had a mean value of 4.0255; SD of 1.20342. The effect of micro credit agency funds on the operating performance of MSMEs in Nigeria, revealed a mean value of 3.6209 and standard deviation of 1.2998 for Micro Credit Agency (MCA) as well as a mean value of 3.3601 and standard deviation of 1.41083 for Operating Performance (OP). The result indicated that MCA has a moderate effect on OP. In addition, descriptive analysis on the effect of cooperative funds on working capital of small businesses revealed that cooperative has a partially high effect on the working capital. The mean value for cooperative was 4.1151 with standard deviation of 1.39335, while the mean value for working capital was 3.9191 with standard deviation of 1.43510.

The results of hypothesis on the effect of Trade Credit (TC) on Sales Turnover (ST) demonstrated evidence of positive significant effect with ($\beta = 0.730$; $R^2 = 0.592$; $t\text{-value} = 34.983$; $p < 0.000$; $F_{(5,803)} = 319.107$). The p-value signifies that the model using the predictor did a good job of predicting the outcome of the variables. The result also indicated that the value of $F_{(5,803)} = 319.107$ indicating the significant level of the hypothesis as presented.

Table 1: Results of Hypothesis I: Effect of Trade Credit on Sales Turnover

Hypothesis	Beta	Std. Dev.	Std. Error	R ²	T-Statistics	P-Value	F	Decision
TC -> ST	0.730	0.021	0.021	0.592	34.983	0.000	319.107	Supported

Source: Researcher's Field Survey Results, 2019

Table 2: Effect Size (F^2) of TC on ST

Hypothesis	F-Square (F^2)	Effect Size
TC -> ST	1.132	Large

Source: Researcher's Field Survey 2019

Trade credit had R^2 of 0.592 which revealed that 59.2% of the variation in Enterprise Performance (EP) of MSMEs is explained by the variation in trade credit. Therefore, 40.8% of variation in enterprise performance is explained by other factors not in the model. As the path coefficient cannot provide any information about the effect size of the dependent on independent variable. The result also had a positive standardised beta coefficient of 0.730 which revealed that the beta coefficient is statistically significant as well as the t-value. This indicated that for every one-unit increase in the use of trade credit, the sales turnover would also increase by the beta coefficient of 0.730. Since the t-value was greater than or equal to 1.96 at 5% significant level as the decision rule for this study with their p-values ($P < 0.000$), thus, we reject hypothesis H_{01} . The result indicated that the higher the volume of trade credit, the higher the sales turnover.

From the structural model, Goodness of Fit: $\chi^2 = 3,208.66$ ($p < 0.000$); $\chi^2 / df = 3.986$; RMSEA = 0.098, SRMR = 0.057; CFI = 0.841; TLI = 1.413 as indicated in the figure below.

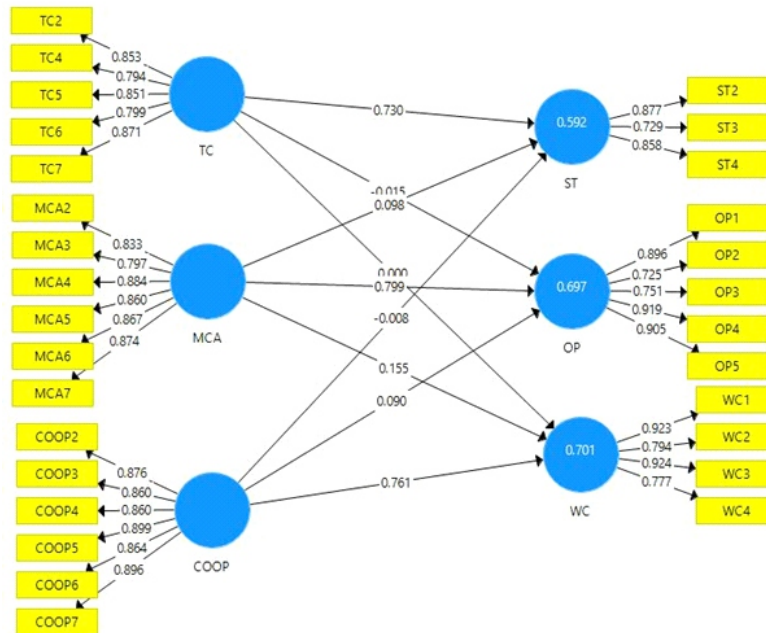


Figure 1: PLS Model for the study, 2019
Source: Researcher's Field Survey, 2019

The result further revealed that the effect of MCA on OP have ($\beta = 0.800$; $R^2 = 0.697$; $t = 39.440$; $p < 0.000$; $F_{(5, 803)} = 310.208$). It was evident that the above hypothesis met the decision criteria earlier set for this study and thus, showing evidence of significant positive effect since the p-value $p < 0.000$; $F_{(5, 803)} = 310.208$, signifies that the model using the predictor did a good job of predicting the outcome of the variables and that there is a significant effect of micro credit agency on operating performance. The R^2 value of 0.697 for micro credit agencies on operating performance showed that 69.7% of the variation in enterprise performance of MSMEs in Nigeria is explained by the variation in MCA. Hence, 30.3% of the variation in enterprise performance is explained by other factors not in the model. The result also had a positive standardised beta coefficient of 0.800 which revealed that the beta coefficient is statistically significant as well as the t-value of 39.440. This indicated that for every one-unit increase in the financial activities of micro credit agency, the operating performance would also increase by the beta coefficient of 0.800. Since the t-value was greater than or equal to 1.96 at 5% significant level as the decision rule for this study with their p-values ($P < 0.05$), thus, we reject hypothesis H_{02} . The result indicated that the higher the financial support of micro credit agencies, the higher the operating performance of the business enterprises.

Table 3: Results of Hypothesis II: MCA on OP

Hypothesis	Beta	Std. Dev	Std. Error	R ²	T-Statistics	P-Value	F	Decision
MCA-> OP	0.800	0.025	0.025	0.697	39.440	0.000	310.208	Supported

Source: Researcher's Field Survey (2019).

Table 4: Effect Size (F²) of MCA on OP

Hypothesis	F-Square (F ²)	Effect Size
MCA -> OP	1.55	large

Source: Researcher's Field Survey (2019).

The results revealed a positive significant effect of cooperative funds on working capital with ($\beta = 0.761$; $R^2 = 0.701$; $t = 41.122$; $p < 0.000$; $F_{(5, 803)} = 331.657$) which showed that the above hypothesis met the decision criteria earlier set for this study and thus, showing evidence of significant positive effect since $p < 0.000$; $F_{(5, 803)} = 331.657$ signifies that the model using cooperative did a good job of predicting the outcome of the variables and that there is a significant effect of cooperative funds on working capital of the business enterprises. The R^2 value of cooperative on working capital of MSMEs was 0.701, which revealed that 70.1% of the variation in Enterprise Performance (EP) of MSMEs is explained by the variation in cooperative loans. Therefore, 29.9% of variation in enterprise performance is explained by other factors not in the model. The result showed that for every one-unit increase in the volume of cooperative loans to MSMEs, there is a corresponding increase of 0.761, being the value of beta coefficient. Since the t-value of 41.122 was greater than 1.96 at 5% significant level as the decision rule for this study with their p-values ($P < 0.05$), thus, we reject hypothesis H_{03} , which states that cooperative funds have no significant effect on enterprise working capital.

Table 5: Results of Hypothesis III COOP on WC

Hypothesis	Beta	Std. Dev.	Std. Error	R ²	T-Statistics	P-Value	F	Decision
COOP -> WC	0.761	0.019	0.019	0.701	41.122	0.000	331.657	Supported

Source: Researcher's Field Survey (2019).

The result indicated that the higher the volume of cooperative funds available to the MSMEs, the higher the volume of the working capital of the business enterprise.

Table 6: Effect Size (F²) of COOP on WC

Hypothesis	F-Square (F ²)	Effect Size
COOP -> WC	1.605	large

Source: Researcher's Field Survey (2019).

The value of F^2 of Coop on WC is 1.67 which established that it has a large effect size on WC. Cooperative had the largest value of F^2 which revealed that it is the most reliable source of external finance among all other sources of external finance investigated in this study.

Discussions

Based on the findings of this study, it could be suggested that trade credit could be regarded as one of the entrepreneurial financial options that could be harnessed by MSMEs in South-West Nigeria. The results emphasised the position of Abdulsaleh and Worthington (2013); Fatoki and Odeyemi (2010) that trade credit is a good alternative source of financing for a business enterprise as a result of agreement for a delay in payment for goods and services. In addition, the results corroborated the findings of Nguyen (2011) who found that trade credit provision has a significant positive impact on the growth of sales turnover, and business enterprises that benefit more from trade credit realise higher growth rate and sales turnover.

The results further emphasised the position of Krugon, Nagaraju and Narayanan (2014) who found that it has become customary for manufacturers to provide Trade Credit (TC) to retailers as part of enhancing the sales turnover. With the relatively strong contribution of trade credit to sales turnover with R^2 value of 0.592 and path coefficient of 0.730, the study found that, the performance of small businesses in Nigeria could be enhanced through the use of trade credit. However, there is need for the MSMEs to consider negotiation for favourable terms of payment with their suppliers as emphasised by Lamptey, Frimpong and Morrison (2017). Suppliers of trade credit are somehow conscious about the cost of extending trade credit to MSMEs, and as a result, they tend to spread the cost on the terms of payment in order not to run at a loss. It is thus, expedient for the small businesses in Nigeria to properly understand the terms and conditions associated with the use of trade credit. From the findings of this study, it could be said that small businesses in Nigeria also have the opportunity to enhance their business performance using trade credit. The effective use of trade credit could be a supporting tool for accessing bank loans in Nigeria and as a certification of the credit worthiness of the business enterprises as established by Garcia-Appedini and Montoriol-Garriga (2013).

According to the findings of this study, fund from micro credit agency is also a good predictor of MSMEs performance in South-West, Nigeria as a result of the positive significant impact of micro credit agency on operating performance. The findings of this study corroborated the work of Chin and Mohd (2016), who found a positive relationship between micro financing and micro enterprise as a partnership in the financial service concept as well as significant impact to improve the performance of micro enterprises, especially, the operating performance of MSMEs. They also suggested that micro enterprises need strong financial backing from all financial agencies involved, particularly the government and micro finance institutions in order to ensure micro enterprise performance. The findings also emphasised the position of Mahmood and

Mohamad (2013), who also established that micro credit is positively and significantly related to performance of MSMEs across all the micro-credit programmes that were investigated. It further underscored the position of Gebru (2009); Osei-Assibey, Bopkin and Twerefou (2012), in their studies on micro enterprise financing preference by testing pecking order theory using field survey data, found that new enterprises are more likely to prefer low cost and less risky or less formal financing such as internal or bootstrap finances.

The findings from the study also established that cooperative loan is the most important entrepreneurial financial option for MSMEs in South-West, Nigeria based on its strong contribution to the performance of MSMEs. The empirical findings from this study emphasised the work of Shivakumar and Thimmaiah (2016), who established a significant relationship between the firm performance and working capital. Based on this finding, it could be noted that cooperative loans with flexible terms and conditions play a significant role in improving the level of working capital of MSMEs. The results also corroborated the work of Garcia- Teruel and Martinez-Solano (2007); Lamptey, Frimpong and Morrison (2017), who found a significant relationship between working capital management and profitability of small businesses in Nigeria. The result of the findings of this study also emphasised the work of Vallanlnathan and Joriye (2013), who found a significant positive relationship between debts from cooperative unions and profitability. Moreover, he found that 13%, 20% and 50% of MSMEs for Kenya, Malawi and Ghana respectively have obtained formalised credit from the cooperative societies. This suggests that Africa and other developing nations may not be able to do without the services of the informal finance providers and revealed how important the informal financial providers are to the economics of the micro enterprises. However, the result de-emphasised the work of Asaolu (2004), who found a negative relationship between cooperative societies and capital base, resulting in inadequate provision of funds to the poor and low income group, as well as the study of Arugu, Awheela and Alliu (2015), who established that inadequate funds constitute major challenge for cooperatives to support the performance of MSMEs sector in Nigeria. Findings from this study also revealed that cooperative loan is most important source of external financing option that stimulates the performance of business enterprises with highest values of R^2 . This corroborated the study of Oloyede (2008), who affirmed that cooperative members in other microfinance organisations believe that cooperative is a good alternative source of finance in form of savings and loans to them. Also, it corroborated the work of Oladejo and Oyedele (2014), who found that a positive effect exists between cooperatives and microfinance banks on credit delivery to small businesses in Nigeria.

Therefore, in achieving improved business enterprise performance, cooperative loan is regarded as a key entrepreneurial financial option for MSMEs financing. In this study, cooperative loan has displayed most important source of entrepreneurial financial options based on its strong contribution to the performance of business enterprise in South-West, Nigeria with R^2 value of 0.701 and large effect size on the working capital of MSMEs. This could be attributed to its popularity amongst MSMEs, flexible repayment

plans, low interest rate, and easy access to loans by the entrepreneurs, flexible policy on collateral and its design to accommodate low income earners.

Conclusion

The study has empirically revealed entrepreneurial financial options (trade credit, micro credit and cooperative loans) that could be accessed to beef up the financing gap experienced by entrepreneurs in order to boost their performances. Firstly, funds from micro credit agencies also have a positive significant effect on the operating performance of MSMEs. Moreover, the study also discovered that, low cost of funds associated with micro credit loans made this source of finance to be more attractive to the business owners. Also, cooperative loans have been found to be the easiest and most popular source of funds for small businesses in Nigeria. It revealed the highest R^2 value which could be attributed to flexibility of its operations. Finally, this study has been able to establish that cooperatives, micro credit agencies and trade credit, are good and reliable external financing sources for small businesses in Nigeria that could be accessed to enhance enterprise performance thereby, achieving sustainability of the MSMEs sector.

Recommendations

As emanated from the findings of this study, it is recommended that Nigerian government should develop a policy framework for cooperative societies such as minimum benchmark for their capital base before being registered, minimum academic qualification for the operators, staff training and others. These would help their operations in meeting the financial needs of MSMEs sector as most business enterprises in Nigeria prefer to source for external funds from cooperatives because of its low cost and easy access, to boost their working capital for the purpose of enhancing business performance. This study also recommended that most of the micro credit agencies and micro finance institutions should be properly monitored by the financial regulatory authorities to ensure that they carry out their operations in line with the policy guidelines. It is worthy to note that there are many times the Federal Government of Nigeria releases intervention funds through Central Bank of Nigeria (CBN) or Bank of the Industry (BOI) and disbursed through some of these micro credit agencies to support MSMEs operators in the country. The degrees of importance of each financial option are: cooperative funds. Therefore, cooperative is recommended as the most important financial option for MSMEs in Nigeria because of its strong ability to stimulate performance, followed by micro credit agencies and trade credit. The implication of the findings of this study is that it would be a reliable decision-making tool for policy makers, MSMEs industry, academics and practitioners. The implication is that these variables (trade credit, micro credit agency and cooperative) are good predictors of enterprise performance of small businesses in Nigeria.

As a contribution to knowledge, this study found that cooperative is the most preferred external source of finance for small businesses in Nigeria for enhancing their performances particularly in period of economic distress, where many banks are not willing to lend to MSMEs sector because of high level risks and defaults. Future studies should investigate financial constraints faced by entrepreneurs in achieving optimum performance.

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