

Bank Loan and Small Business Finance Management in Plateau State

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Abstract

The importance of small business to manage finance from bank served as one of the motivational factors for small business growth. This study investigated the outcome if small business managed finance from banks for growth in Jos, Plateau State. The study adopted the descriptive survey design with population of 550. However, 435 responses as collected from small business that enjoyed bank loan. The age bracket of the respondents ranged from twenty-seven years and above. The source of data for this research was primary with a self-administered questionnaire as the instrument for the data collection. The questionnaire used for this study was in five-point Likert-scale, validated by four senior lecturers in a closely related field. Linear regression method was adopted for data analysis employed to test the hypothesis to investigate how small business managed bank loan for growth. Finding showed that small business significantly had finance management that grew their business in Plateau State. In conclusion, bank loan and small business are mutually inclusive with appropriate finance management by small business to grow business in Jos, Plateau State. Recommendation was bank loan be made always available to small business in Jos, Plateau State since small business showed appropriate finance management to grow business.

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Background to the Study

Small business in any country has a significant part to play in all ramifications of the economy of the country. The small business genuinely grows when finance available to it. Availability of this finance comes from different sources. These sources are: Personal Savings, Borrowing from relatives, Borrowing from associates (Customers and suppliers), Savings and other "nest-eggs", Re-mortgaging, Borrowing from friends, Peer-to-peer lenders, Factoring companies, Leasing, Crowdfunding, Retained profits, Credit cards, Government funded institutions, Banks.

One of such sources is the bank loan. The management of this finance from bank by the small business determines the extent to which the small business grows. In addition, the confidence the bank has in the small business that benefit from the bank loan. The small business has its original way of finance management from inception of the business. However, when small business enjoys finance from the bank, it is expected that the management of finance from the bank by the small business changes. In the European Union and Nigeria, there are Ninety-Eight (98) per cent of small business (Anthony and Harry (2015).

Countless of researches have been conducted to investigate financing of small business. However, none of these studies has addressed the issue of small business finance management when bank loan is availed the small business. Imoughele and Ismaila (2014), conducted a study on "The impact of commercial bank credit on the growth of small and medium scale enterprises: Econometric evidence from Nigeria (1986 - 2012). The purpose of this study was to investigate how commercial bank credit affects the growth of small and medium scale enterprises leaving out finance management. The small business owner found it difficult to manage long period finance availed them by banks. Silkae (2016), found out that the longer bank approved loan for small business to do their business activities, too many things that are not in line with the activities of the business comes to play, thereby, the fund disbursed by the bank are either diverted or misused for some unnecessary purposes. Management is that aspect of business that encompasses the ability to meets targets by strategizing plans.

Finance management is one variable that the small business considers in the course of business activities. To have access to bank loan by small business sometimes depend on the level of small business finance management. Bank sometimes has great concern of how the small business manage its finance, to an extent does not. Small business finance management could either be static or at snail speedy level in Plateau State. The applicability of bank loan either enhances small business finance management or not at all. Taiwo, Onasanya, Agwu and Benson (2018) conducted a study, "The role of micro finance institutions in financing small business," The study found that small business needs access to finance to meet target. The task of this study, therefore, is to investigate the contribution of bank loan to small business finance management in Plateau State.

The statement of the problem under this research is that banks have not done enough to assist small business to manage the finance given their small business in Plateau State

hence the small business default in paying back bank loan or folds up as a result of mismanagement of bank loan. In addition, the small business has not adopted the proper way of managing finance from bank to run their business. The finance management of small business is hinge on addressing the many problems associated with bank loan.

The research question in this study is; to what extent has bank loan influenced small business finance management in Plateau State? However, the objective of the research is to examine the extent to which bank loan has influenced small business finance management in Plateau State.

The study hypothesis is in the null form:

H₀: Bank loan has no significant influence on small business finance management in Plateau State.

Review of Related Literature

Conceptual Review

In this research, the testable variable is the bank loan, which is a short-term fund made available to business found in the Money Market. It serves as that aspect of funds that banks make available for business. These loans come in the form of overdrafts and are tenured into short-term, medium-term and long-term (CBN, 2016).

Central Bank of Nigeria (2016) defined small business as “An enterprise that has asset base (excluding land) of between N5million –N500 million and labour force of between 11 and 300”. Also that part of the formation of small business were: Agricultural value chain activities, cottage Industries, artisans, services, renewable energy/energy efficient product and technologies, trade and general commerce and economic activity as may be prescribed by the CBN.

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN 2003) defined small business based on the following criteria: “Small business is business with ten to forty-nine people with an annual turnover of five to forty-nine million Naira”. On the other hand, in Nigeria, Small and Medium Industries Equity Investment Scheme (SMIEIS 2006) defined small business to be “Those enterprises that have a total capital employed not below one million five hundred thousand but not exceeding two hundred million”

United State Small Business Administration (SBA) (2016), defined small business as having the following characteristics of “organized for profit with a place of business in the nation. Small business operates primarily within a country or make a significant contribution to the nation of domicile through payment of taxes or use of the country's products, materials or labor, independently owned and operated and not dominant in its field on a national basis.” In the United States of America, to be a small business, there must be adherence to industry size standards established by the United States.

The National Council on Industrial Standards (NCIS, 1992) defined the small business as “Business with total cost including working capital but excluding cost of land above 31 million but not exceeding 50 million with a labour size of between 11 and 100 employees.” In recent years, small business has been slow to recover from a recession and credit crisis that hit them especially hard. There are different government schemes introduced at Federal, State and Local levels in Nigeria like National Directorate of Employment (NDE), National Poverty Eradication Programme (NAPEP), Nigerian Agriculture People's Bank (NAPB), and National Economic Empowerment Development Scheme (NEEDS) with the intention of boosting the performances of small business. However, this has not come into fruition in Nigeria because the relationship between banks availing loans to small business in Plateau State is not been properly addressed. The small business investor needs to develop principles with a target business in mind to manage the finance from bank. Melinda (2011), gave the principles of small business to include an Entrepreneurial Mindset; Strict Fiscal Discipline; A Kitchen Cabinet of Advisors; A Defined Brand; A Niche Market; Excellent Customer Service; and Cash Position and Good Banking Relationship.

Matteo, Rosa, Dario and Nadia (2016), posited that small businesses represent a large percentage of the corporate tissue of developed countries, but they do not have adequate attention in terms of bank loans. That access to finance by small business is vital in business start-up but these small business owners do not understand the flow of various bank loans. In furtherance to their discussions, they said the lack of equity invested in small business makes them more dependent on other external sources without proper explanations. Okwoli and Adah (1998), evaluated the small business and their consequences in the economy. Okwoli and Adah (1998), concluded that as bad as the small business failures maybe, the small business must continue to exist in the society because a healthy economy needs it.

In this research, we define small business as, whose startup and operating capitals fall between ten thousand naira and two million, five hundred thousand Naira. The importance of small business to the Nigerian economy are: Economic stability; Potential for expansion; Science and Engineering Productivity; Providing a steady source of income; Job creation; Innovation; Fostering creativity; Opportunities for Women and Minorities; and Sales agent.

There exist another concept of Small Business and Bank Loan. A mutual relationship between the small business and bank loan exist. The small business investor on the threshold of starting a new venture has to work out where and how to get access to sufficient funds. The small business need bank loan to be able to develop their business. In some of bank loan applications by small business, there are many rejected by the bank probably because of the system of finance management by small business. The tough regulations linked to bank loans are gradually undergoing a change with banks realizing the phenomenal potential of small business. This explains the special programs and additional services launched by big banks to woo small business. Bank loans are just one

of the various options available for small business to raise funds. But management of this finance calls for concern. The final decision about where to secure funds depends on the balance between the pros and cons of the source.

Theoretical Review

Markup Bank Loan Rates theory stipulates that banks, in their process of making loan available to their qualified customers charge fees on the amount disbursed. This affects the small business. The fees charged vary from amount to amount, and from country to country. Stephen propounded the mark-up bank loan rates in 1985. This theory discussed some of the fundamentals of costs of borrowing from the bank, which relates to the variable of study in terms of the cost of bank loan that bank charge on small business. Bank charge various costs: monitoring, processing, extension, management, commitment and restructure when availing small business loan. A Markup Theory of Bank Loan Rates agrees to this research hence stated in this study. Mouton (1918) supported the theory on his article: 'Commercial banking and capital formation. The basic message is that banks must arrange portfolio in a way that they have desired liquidity to meet customers demand. Most investments are made in secondary money market securities so that liquidity be achieved at a little/very insignificant amount of loss of value.

Pure Monetary Theory was proposed by Hawtrey (2010), that posited that whenever there is a change in the level of money flow in a given economy which involves business activities, it same causes fluctuations in the economy business activities, hence, business cycle is affected by the fluctuations in the monetary and credit markets like the banks. The changing situations in the supply of money and the banks behavior on loans availability are the main causal factor of the cyclical process. Small business gets to observe upswing when the banks make loan widely available for the small business. Banks expands the bank loan because they find profitable to offer the loan at a relative lower interest rate. With this, however, it gingers the small business owners to undertake activities that are more beneficial, thereby, turnover. The Pure Monetary Theory explains more reasonable and logical to discussing the small business finance management. These theories contextualized to this study going by the fact that they explain the variables of study where small business need bank loan to function effectively. These theories discuss the guiding behavior of banks in their activities with their customers, in focus, management of the finance. Without these theories, this study would not have had backing to march the bases for the research.

Methodology

The study adopts the Positivism philosophy. Reason is that it provides independency of the observer, value-free approach to science, focus on facts, causalities and fundamental laws. Babajide (2012), adopted the positivism philosophy. The circumstance surrounding the adoption of the survey design by Babajide (2012) properly gathered data with empirical views microfinance effect on micro and small enterprises (MSEs) performance in Nigeria. Inductive research approach is usually associated with a phenomenology philosophy. More so, concepts have to be operationalized and depend on quantifiable

observations that lead to statistical analysis. The study adopts the descriptive survey design with population of 550. However, 435 responded and retrieved from small business that enjoyed or enjoying bank loans. The age bracket of the respondents ranged from twenty-seven years and above. The area of coverage is Jos North and Jos South of Plateau State where small business is dominant in the state. The source of data used for this study was primary source. The instrument for the collection of data was a self-administered questionnaire and validated by four senior lecturers in related discipline. The questionnaire used for this study was a five-point Likert-scale which ranges from “strongly agree” to “strongly disagree” (1 = 'Strongly Agree', 2 = 'Agree', 3 = 'Neutral', 4 = 'Disagree' and 5 = 'Strongly Disagree').

Jones (2014) used the survey design to investigate the effect of loan on the performance of micro and small enterprises with small business having considerable challenges on loan management, which affects performance. Ndife (2013), adopted same method in determining the impact of microcredit institutions on starting up on the survival and growth of Small and Medium Enterprises (SMEs). The source of data for this research was primary with a self-administered questionnaire as the instrument for the data collection. The questionnaire used for this study was in five-point Likert-scale, validated by four senior lecturers in a closely related field. Linear regression method was adopted for data analysis employed to test the hypothesis to investigate how small business managed bank loan for growth. Furthermore, the researcher is independent from the study and there are no provisions for human interests within the study. This study adopts the Internal Consistency Testing (ICT) where each of the questions (variables) in the questionnaire conducted as the most convenient method for testing for the internal consistency. Calculating the reliability coefficient helped to understand such errors in testing and the Pearson's correlation coefficient applied. The formula is given as:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}} \quad \dots 1$$

Where:

N is the total number of pairs of test and retest scores

Y is the Independent Variable

X is the Dependent Variable

For example, the 435 respondents responded on the questionnaires test and retest, and then N is 435. Following the N is the Greek symbol sigma, which means the sum of xy means we multiply x by y, where x and y are the test and retest scores. If 435 respondents responded the test and retest, then we summed all 435 pairs of the test scores (x) and multiplied them by the sum of retest scores (y).

Decision Criterion: If the test result falls within the acceptable range of 1.0, we accept and continue the study else we change the study. Linear regression was the method of data analysis for the data employed to test the hypothesis to see the influence of bank loan on small business finance management. Justification for this adoption is that the researcher

wants to establish and predict the behavior of set of ordinal level dependent variables with an independent variable. Linear Regression Analysis applies when predicting a linear Ordinal variable. The authority for adopting this method is from McCullagh (1980).

The formular of the Linear Regression Analysis is

Small Business Finance Managment - model

$$SBFM_i = \beta_1 + \beta_2 BKL_i + u_i \quad \dots 2$$

Where:

SBFM_i = Small Business Finance Management

BKL_i = Bank Loan

β₁ = Constant term

β₂ = coefficient of Bank loans

u_i = error term

Assumptions of the Regression

1. **Linear relationship:** The outcome variable Y has a roughly linear relationship with the explanatory variable X.
2. **Homoscedasticity:** For each value of X, the distribution of residuals has the same variance. This means that the level of error in the model is roughly the same regardless of the value of the explanatory variable (homoscedasticity - another disturbingly complicated word for something less confusing than it sounds).
3. **Independent errors:** This means that residuals (errors) should be uncorrelated.
4. **Problems with outliers/influential cases:** It is important to look out for cases, which may unduly influence your regression model by differing substantially to the rest of your data.
5. **Normally distributed residuals:** The residuals (errors in prediction) should be normal distributed.

For pre-data analysis, the data collected through the administration of questionnaires coded based on the range of values from the questionnaire options. It expected that the data do not exceed the expected range. Out-of-range value test conducted. The Out of Range Value uses excel by identifying the Minimum and Maximum variables according to Excel Tips and Tricks (Pryor.com 2014).

Decision rule

Any Value within 1-5 is within range

Any Value outside 1-5 is out of range

Linear regression and normality of dependent variable: Linear Regression analysis describes and evaluates the relationships between a specified dependent variable and one or more independent variables. We then conclude that regression is an appropriate statistical method in order to confirm or disconfirm the chosen hypotheses. An important assumption for a valid regression elaborated and tested in order to ensure that the final regression model is not flawed.

One important assumption of the regression analysis is that the dependent variable be normal distributed. To describe a symmetrical, bell-shaped curve, the greatest frequency of scores around in the middle combined with smaller frequencies towards the extremes (Pallant, 2005). The regression in this study has one dependent variable Small Business Finance Management (SBFM) while Bank Loans is the independent variable. If the dependent variables are not normally distributed, there is little point in performing regression analysis because a major assumption of the model is broken. The dependent variable calculated by using the mean of their items that measured it.

Also in this study, correlation applied to test if there are excessive correlations in the variable in the model.

The formula given as:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

Where:

N is the total number of pairs of test and retest scores

Y is the Independent Variable

X is the Dependent Variable

Decision Rule

Any value between 0-0.4 is weak correlation

Any value between 0.5-0.7 strong correlations

Any value between 0.75-1 is very strong correlation

Table 1: Correlation Matrix

		SBFM	BKL
SBFM	Pearson Correlation	1	.322**
	Sig. (2-tailed)		.000
	N	434	430
BKL	Pearson Correlation	.322**	1
	Sig. (2-tailed)	.000	
	N	430	431

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation

The correlation result for dependent and independent variables in table 1 shows that the variable has a positive relationship to bank loan (BKL). The result revealed that Bank loan correlated to small business finance management by 32.2%.

Decision

The decision here is that the study should forge ahead since there is relationship of the variable.

In this study, the hypothesis tested used the Regression Analysis

H₀: Bank loan has no significant influence on small business finance management in Plateau State.

Test Statistic: Simple Linear Regression Analysis

Formula:

$$SBFM_i = \beta_1 + \beta_2 BKL_i + u_i \quad \dots 3$$

Where:

SBFM_i = Small Business Finance Management

BKL_i = Bank Loans

β₁ = Constant term

β₂ = coefficient of Bank loans

u_i = error term.

P-value = Calculated value

Decision Rule: Reject H₀ if $P < 0.05$
 Accept H₀ if $P > 0.05$

The decision rule is that if the p-value is less than the level of significance of 0.05, the null hypothesis be rejected, while the alternate hypothesis is accepted. However, if the p-value is greater than the level of 0.05, accept the null hypothesis and reject the alternate.

Data

The data for estimation presented in table 2.

Table 2: Raw Data
Small Business Finance Management

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
SBFM1	137	128	107	38	25	435
SBFM2	201	165	37	26	6	435
SBFM3	190	112	42	65	26	435
SBFM4	211	114	23	69	18	435
SBFM5	119	123	111	45	37	435

Table 3: Regression result: Bank Loans and Small Business Finance Management

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.305	.177		13.014	.000
	BKL	.333	.047	.322	7.044	.000

a. Dependent Variable: SBFM

Source: SPSS 25.0

Interpretation

As shown in Table 3, the standardized regression result for bank loans on small business finance management is 0.333. This means that bank loans (BKL) has a positive and significant influence on small business finance management (SBFM). It implies that increase in bank loans (BKL), will lead to influence in the level of Small Business Finance Management (SBFM). A 1% increase in the level of bank loans (BKL) will bring about a 33.3% increase in the influence of Small Business Finance Management (SBFM).

Decision

Given that the p-value 0.000 is less than the significance level of 0.05 as shown in Table 3, we reject the null hypothesis. This hypothesis states that Bank loan has no significant influence on small business finance management in Plateau State. While the alternate hypothesis is accepted meaning that Bank loan has a significant influence on small business finance management in Plateau State.

Discussion of Findings

Based on the findings of the analysis, we rejected the null hypothesis and did not fail to accept the alternate hypothesis that states, bank loan has significant influence on small business finance management in Plateau State. Therefore, this hypothesis holds meaning that as banks give out loan to small business, machineries on ways to manage the finance are set by the bank. This is a good omen on influencing the growth of the small business for proper accountability. The finding agrees with the finding of Festus and Dean (2019) which showed that giving out bank loan is not enough but monitoring the way this loan is managed is important. The research satisfies the hypothesis that is stated: bank loan has significant influence on small business finance management in Plateau State.

Conclusion

By way of our conclusion small business, seek loan to grow business and bank loan serves further to checkmate how the finance is managed. In consideration of the result from the finding on small business finance management, bank loan has been of significance. The more bank loan is availed small business for business activities, the more the small business finance management is properly influenced because of the transaction dynamics associated with bank loan. Small business sees bank loan as partner in progress in the course of business activities. All the strategies that the small business put in place to manage finance is subject to the bank loan terms of the loan.

Recommendation

The study recommends that banks should not ignore the request of small business when small business makes their loan application and small business should too always seek for more bank loans since there is a significant positive influence in small business finance management. In the same light, the use of bank loan should be considered in most ways since it boosts small business accountability.

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