Effect of Financing Sources on Financial Performance of Small and Medium Enterprises in Taraba State, Nigeria

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Abstract

This study examines the effect of financing sources on financial performance of Small and Medium Enterprises in Taraba State, Nigeria. The specific objectives of the study are to examine the effect of commercial bank loan, retained earnings, trade credit and leasing on financial performance of Small and Medium Enterprises in Taraba State. The study is limited to 2019 while descriptive survey research design was adopted for the study. The population comprised of small, medium and micro enterprises registered in Taraba State, Nigeria. Based on Small and Medium Enterprise Development Agency of Nigeria report of 2018, the total number of these enterprises are 514, 864. The study set a criterion that for any of the Small and Medium Enterprises to be sampled; the Small and Medium Enterprises must have an asset base (excluding land) of between N5Million – N500Million and labour force of 50 to 199. Based on the report of Small and Medium Enterprises Development Agency, it was only 69 Small and Medium Enterprises that satisfied the stated criteria. These 69 Small and Medium Enterprises formed the sample size for the study. The study used filtering sampling technique to arrive at sample size of 69. Primary data were collected from the field. Questionnaire was used to collect primary data from the field. Data was analyzed using multiple regression analysis. The study found that commercial bank loan and trade credit have significant positive effect on financial performance of Small and Medium Enterprises, while lease financing has significant negative effect on financial performance of Small and Medium Enterprises. Retained earnings was found to be insignificant on financial performance of Small and Medium Enterprises in Taraba State. The study concludes that commercial bank loan, trade credit and lease financing are determinants of financial performance of Small and Medium Enterprises in Taraba State. Based on the conclusions of the study, the study recommends that Small and Medium Enterprises in Nigeria should consider Small and Medium Enterprises sources of business financing as important determinants of financial performance. SMEs should come together to form larger groups in order to access bigger commercial loans from banks.

Keywords: *Small and medium enterprises, Financial performance, Leasing, Retained Earnings.*

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Background to the Study

Small and medium enterprises (SMEs) are increasingly seen as playing an important role in the economies of many countries. Thus, governments throughout the world focus on the development of the SME sector to promote economic growth. In Nigeria, SMEs are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic growth (Organisation for Economic Cooperation and Development, 2014). Financing is an important tool for any SME growth and it is required throughout the firm's lifecycle. The sources of funds have been highlighted as a central point in the improvement, development and accomplishment of SMEs (Ou and Haynes, 2006). However, SMEs usually face obstacles to rise the funding they required for their smooth operations; they consistently report higher financing hindrances than large enterprises (Beck, Demirgüç-Kunt, Laeven and Maksimovic, 2006).

In recent times, there is growing agreement that a better access to diverse sources of finance for SMEs can enhance their performance and in turn have private and socioeconomic benefit on the nation's economy. Hence, access to different sources of finance is one of the major factors that encourage SMEs business activities in any economy (Xavier, Kelley, Kew, Herrington and Vorderwülbecke, 2013). Commercial bank loan is the most widely recognized external source of finance for some SMEs, which are intensely dependent on conventional debt to satisfy their start-up and investment needs.

Financial performance is a sign of the financial stability for a given period of time for a firm, and can be used to compare firms in the same line of operations or to compare industries or sectors in total to enable a business plan on how they can improve the conditions at stake with an aim to achieve the business objectives (Berger, Oliver and Pua, 2007). There are different sources of finance for SMEs, such as the internal sources like retained earnings, owner's savings. Also, the external sources of finance are commercial bank loan, trade credit, leasing and venture capital. This study investigates how commercial bank loan, retained earnings, trade credit and lease financing affect financial performance of SMEs in Taraba State, Nigeria.

Over the years the performance of Nigerian SMEs has been diminishing. Most of the SMEs that contributed 40% employment in Nigeria were closed down due to inability to operate profitably National Bureau of Statistics, 2015). Finance is the life-blood of any business enterprise and no enterprise, no matter how well managed, can survive without enough funds for working capital, fixed assets investment, employment of skilled employees and development of markets and new products (Agnew, 2003). Therefore, access to different sources of finance is essential to the survival and performance of any business enterprise. Financing techniques utilized by SMEs vary from initial internal sources, for example, owner–manager's personal savings and retained earnings, to informal external sources, comprising monetary help from family and companions, trade credit and venture capital, and thus, to formal external sources represented by commercial bank loan (Abdulsaleh and Worthington, 2013).

Trade credit is dynamic and it is one of the most important alternatives to bank loans as a source of external funding in the SME sector. Moreover, several studies have demonstrated how trade credit provides a safety valve for firms facing idiosyncratic liquidity shocks (Cunat, 2007). Likewise, retained earnings are an important source of internal financing of SMEs. The savings generated internally by an SME in the form of retained earnings are ploughed back into the SME for diversification of its business. Retention of earnings by SMEs reduces their dependence on funds from external sources in order to finance their regular business needs. In order for an SME to grow, develop and expand, retained earnings have to be used for the accumulation of assets that generate income for the SMEs.

Leasing is considered as one of the vital financing tool for SMEs which allow them almost same to the investment period of leased assets. It is different than traditional loan as there is no cash given to client by a finance company, but an asset. Government support for this financing tool may assist to minimize the market weaknesses and to expand the SMEs access to finance. (Berger and Udell, 2006).

In Africa, there is limited empirical evidence on the effect of SMEs sources of financing and their subsequent financial performance. Such studies carried out in Kenya are the empirical works of Wafula, Namusonge andNambuswa(2016); Manini, Abdillahi, Wanyama and Simiyu(2016); Amsi, Ngare, Imo and Gachie (2017), Ruri (2017); Ruri and Omagwa (2018) were carried out in Kenya and Zimbabwe, this has opened a research gap in terms of the domain of the study. There are limited studies on the effect of SMEs sources of financing and their subsequent financial performance, some of these studies carried out in Nigeria are Bello, Ahmad and Aliyu(2016); Dagogo and Ohaka (2017); Oaya and Mambula (2017); Yemi and Seriki (2018); Akinbobola and Obamuyi (2018); John-Akamelu and Muogbo (2018)).These studies centered on Lagos, South-Western States of Nigeria, Delta State of Nigeria, which also created a gap in terms of the study area as no prior study in Nigeria has focused on Taraba State of Nigeria. Likewise, based on the extent of literature reviewed, no study in Nigeria has combined these four sources of financing SMEs identified in this study, this has opened up a gap in terms of variables constructs and this gap has been filled by this study. SMEs in this study is an enterprise that has an asset base (excluding land) of between N5Million – N500Million and labour force of between 11and 300. It is on the basis of the mentioned that this study is set to examine the effect of financing sources on financial performance of SMEs in Taraba State, Nigeria with focus on commercial bank loan, retained earnings, trade credit and leasing on financial performance of SMEs in Taraba State, Nigeria.

Literature Review
Concept of Financing Sources
Access to finance is of crucial importance for the ongoing and sustainable growth of SMEs. At every stage of their development, SMEs need finance for their operations. In general, there are four occasions where SMEs need to raise finance. First, SMEs need finance for start-up capital to help establishing the business. Second, finance is needed for expansion. That is for purchasing buildings or machinery or for working capital purposes. In some cases, the finance might be used to taking over another existing business. The third occasion is when the finance

is needed for innovation. This can be an independent occasion or sometimes it coincides with the first or the second occasion. Finally, SMEs might seek finance to adjust their existing financial structure by, for example, changing in the proportion of equity to debt or by substituting long-term debt with short-term debt or vice versa. SMEs have a number of options for raising finance.

According to Oncioiu (2012), funding for SMEs may be made by calling the internal sources and external funding sources. Some advantages of internal financing sources include preserving the independence and financial autonomy since it creates no additional binding (interest, guarantees), maintaining borrowing capacity, and being a reliable mean of financial support of the enterprise's needs. Nonetheless, they also bear some drawbacks because the owner-managers have fewer funds to invest in other more profitable activities than the activity which generated the financial overflowed. On the other hand, external financing is necessary if SMEs do not have sufficient internal resources to cover the investments necessary for their planned activities.

Commercial Bank Loan

Banks play an essential role in financing SMEs as these businesses have more difficulty accessing equity capital markets. Bank loans refer to specified sums under specified terms/conditions made available to individuals and entrepreneurs to start, grow or sustain their firms' activities. However, banks provide finance for SMEs can be uncertain task considering asymmetric information effects. Therefore, a successful strategy for financing SMEs is that one guarantees tailored financial products to meet the specific SMEs needs whilst, in the same time, can deal and cope with the prementioned problems and risks.

The literature categorised lending techniques adopted by banks to serve SMEs into four main distinct lending categories namely, financial statement lending, asset-based lending, credit-scoring lending, and relationship lending.

Retained Earnings

Retained earnings refer to that part of corporate net profit after tax which is not distributed to the shareholders as dividend but is reinvested in the business. Retained earnings is a technique of financial management under which all profit after tax is not distributed amongst the shareholders as dividend but a part of profits is retained or reinvested in the company. Retained earnings therefore, are the sum of a company's profits after dividend payments, since the company's inception. They are also called earned surplus, retained capital or accumulated earnings. Retained earnings are an important source of internal or self-financing by a company. The savings generated internally by a company in the form of retained earnings are ploughed back into the company for diversification of its business.

In the view of Donaldson (2006), retained earnings were the funds available with companies over which management has complete and independent control regarding their utilization. Krishnamurthy and Sastry (2001), are of the opinion that retained earnings played a crucial and important part in exerting influence and getting finances for investments when supply of funds was limited on account of poor profits.

Trade Credit
One of the most important sources of external financing for SMEs is trade credit. Berger and Udell (2006) estimated that one-third of the total debt of SMEs in the US in 1998 was represented by trade credit. According to García-Teruel and Martínez-Solano (2010), trade credit is a delay in the payment for goods or services after they have been delivered or provided as a result of an agreement between the supplier and the firm.

The rationale behind the widespread use of trade credit among SMEs has been a source of argument in the literature. This attitude can be ascribed to either a transaction motive or a financing motive. Fatoki and Odeyemi (2010) argued that trade credit is preferred by new and young SMEs when the risk of default is high during the early years of operations. The role of trade credit as a source of finance for SMEs is even more important in countries with less developed banking and financial systems where asymmetric information problems are more pronounced. In China, for example, Allen, Qian and Qian (2005) attributed the accelerating growing of the country's economy rather than formal external finance to alternative sources foremost of which is trade credit.

Leasing
Involving either borrowing or using resources without having to own them, leasing is a very common method of financing for SMEs based on hard information. Leasing involves the purchase of fixed assets by a "lender" known as a "lessor" usually a bank then simultaneously enters into a rental contract with the "lessee" "the borrower" under which the payment schedule is specified (Berger and Udell, 2006). In this contract, certain conditions are to be stated. These conditions contain, amongst others, the length of the term, amount and timing of payments, and any end-of-lease conditions or restrictions.

In the case of leasing, depending on the type of business in which SMEs are operating, a number of different options are available for SMEs. These options, in most cases, include an operational lease, financial lease, and full maintenance leasing. More specifically, the leasing contract gives the "lessee" one option between; returning the asset and signing a new lease for more updated asset, exercising a purchase option and buying the asset or renewing or extending the lease (Nakusera, Kadhikwa and Mushendami, 2008).

Concept of Financial Performance
Financial performance is the ability of the MSEs to operate efficiently, generate effective income, survive, and expand by observing environmental opportunities and threats. Financial performance gauges the proper use of enterprises' resources to maximize profit and wealth. The monetary financial tasks are performed periodically from the accounts, profit and loss statements or the balance sheets of the Enterprises to measure the extent of their business success (Srinivas, 2013).

The Financial reports are used to analyze the performance of the SMEs against the internal and external finances to ensure their proper utilization and prediction of the enterprises' capacity for future eventualities (Levasseur, 2002). It is interesting to note that other than the

characteristics of debt that affect the financial performance of MSEs, the power sharing between debt holders and business proprietors may also have an impact on how debt financing option affects financial performance. SMEs performance may be measured using objective, subjective, or operational measures (Schayek, 2011).

Concept of Small and Medium Enterprises
The definition of Micro and Small Enterprises differs from one country to another depending on their staff establishment, value of noncurrent assets (land and buildings exclusive) and rate of turnover. The essence of Micro and Small Enterprises is to create employment opportunities to minimize poverty (Onoja and Ovayioza, 2015). Business in Nigeria has been classified as small, medium and large. However, SMEs does not have a one way definition rather, its definition is best understood from its characteristic features; level of project costs, turnover, number of employees, ownership composition and capital outlay (Akinsurile, 2006).

The Federal and State Ministries of Industry and Commerce have adopted the criteria of value of fixed capital to determine what SMEs definition would be. Small and Medium Scale Industries development Act 2003 specified that SME employee rages from 10-199, Assets excluding land and building fall between (5 and 499) million Naira only. Small and Medium Scale Enterprises in Nigeria constitutes a greater percentage (75%) of all the registered companies in Nigeria. They have been in existence for quite a long time as majority of SMEs grew from Cottage Industries. The operations of SMEs' are found in all the areas of human endeavours: Manufacturing, Production, information, Services, Agriculture, Hotel and Restaurants, Financial Intermediation, Real Estate, Education, Building and Constructions, Mining and Quarrying.

Table 1: SMEs Categorization

S/N	Size Category	Employment	Assets (=N=Million) (Excluding land &buildings)
1	Micro enterprises	Less than 10	Less than 5
2	Small enterprises	10 to 49	5 to less than 50
3	Medium enterprises	50 to 199	50 to less than 500

Source: SMEDAN Report, 2018.

Micro Enterprises are those enterprises whose total assets (excluding land and buildings) are less than Five Million Naira with a workforce not exceeding ten employees. Small Enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira but not exceeding Fifty Million Naira with a total workforce of above ten, but not exceeding forty-nine employees. Medium Enterprises are those enterprises with total assets excluding land and building) are above Fifty Million Naira, but not exceeding Five Hundred Million Naira with a total workforce of between 50 and 199 employees. If there exists a conflict on classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (N7M) but employs 7 persons), the employment-based classification will take precedence and the enterprise would be regarded as micro.

Empirical Review
Commercial Bank Loan and Financial Performance
Oke and Aluko (2015) tested the impact of commercial banks in financing SMEs in Nigeria between 2002 and 2012. A sample of ten commercial banks is drawn for the study and individual bank data and macroeconomic time series annual data were collected. Using panel data regression analysis, the results revealed that commercial bank has significant impact on SMEs' financing as deduced from the results of constant effect, fixed effect and random effect models which show that commercial banks credit to SMEs, the ratio of credit to SMEs to total credit in the economy and equity of commercial banks explain a substantial proportion of changes that arise in SMEs' financing. The empirical study of Chimaleni, Muganda and Musiega (2015) examined the effect of commercial loan-financing on the financial performance of Small and medium enterprises. Descriptive survey was used. The population of interest comprised of 450 small and medium enterprises in Lurambi Sub-County, Kenya. Analysis of data was done using descriptive and inferential statistics. The study established those sources of business financing affected financial performance of small and medium enterprises significantly; commercial loan financing affected financial performance significantly.

Manini et al., (2016) studied the effect of sources of business financing on the financial performance of Small and Medium enterprises in Lurambi Sub-County. The population of interest comprised of 450 small and medium enterprises in Lurambi Sub-County. The study established that sources of business financing affected financial performance of small and medium enterprises significantly; commercial loan financing affected financial performance significantly; retained earnings financing affected financial performance significantly; trade credit financing affected financial performance of small and medium enterprises significantly. The study was carried out in Kenya, the results cannot be used in Nigeria for policy implication.

Oaya and Mambula (2017) assessed the impact of SMEs financing on business growth in Nigeria using Keffi and Mararaba Metropolis as a case study. Descriptive research designs as well t-test statistics for the test of hypotheses were utilized. Access to finance was found to be significant for successful entrepreneurial development while in respect of interest rate charged on SMEs loans and advances; the entrepreneurs' ability to borrow was not hindered. While Amsi et al., (2017) investigated the effect of microfinance credit factors on SMEs financial performance in Kenya using a sample size of 210 SMEs. The effect of interest rate, collateral requirement, and repayment period were found to have negative effect on SMES financial performance, but there was a positive effect on the entrepreneur orientation and credit amount. The study also established that microfinance credit factors affect SMEs financial performance with entrepreneur orientation contributing the most to SMEs financial performance compared to the other factors thus implying that most of the SMEs entrepreneurs are innovative, take risks by venturing into new business activities and are proactive.

John-Akamelu and Muogbo (2018) examined the role of commercial banks in financing SMEs in Nigeria. Structured questionnaire were distributed to the respondents which includes the commercial banks staff and selected SMEs staff in Anambra State, Nigeria. However, the 109 questionnaire administered to the bankers and SMEs were analyzed and presented in tables with the use of percentage and chi-square method. The study found that small and medium size businesses encounter problem in the procurement of loans from commercial banks; also commercial banks have contributed immensely to the development of SMEs through their loans and advances.

Retained Earnings and Financial Performance
Dagogo and Ohaka (2017), evaluated the application of various financial strategies in small business in Nigeria, using panel study. 400 data units were generated from a cross section of twenty small businesses spread in major cities. It was found that financial bootstrapping strategy offers the most impact on small business financing. It was concluded that the emerging pecking order appears thus: financial bootstrapping, retained equity, external equity, convertible preference capital, and finally, debt capital. This was slightly subverted in the case of ROCE where debt financing ranked second on account of the inclusion of working capital in determining ROCE.

Ruri (2017), assessed the effects of equity capital, retained earnings and debt capital on financial performance of SMEs. The study used the causal research design. All 95 registered SMEs in Embu County, Kenya as at 31st December 2016 formed the target population. The study established that equity capital has a significant effect on financial performance of SMEs. The study also found that debt capital has a significant effect on financial performance of SMEs. The study revealed that retained earning has no significant effect on financial performance. The study established that equity capital had greatest proportion in capital structure; this was enhanced by its advantages like owner enjoying profit alone and independence in management. On debt capital the study found, it is a source of capital that can enhances financial performance of a business, however it's very risky if not well managed. On retained earnings, the study found it has no significance effect on financial performance of SMEs due to difficulties of raise and maintaining it.

Ruri and Omagwa (2018) examined the effect of capital structure on financial performance of SMEs in Embu County, Kenya. The study adopted descriptive design. Descriptive analysis and multiple regression analysis were used in data analysis. Data was presented in tables graph and pie charts. The study established that equity capital and debt capital has a significant effect on financial performance of the SMEs. However, retained earnings were found not to have a significant effect on financial performance of the SMEs studied. Among the three variables, equity capital had greatest proportion in terms of contribution towards capital structure due to its advantage to the firm. The empirical study of Yemi and Seriki (2018) investigated the effect of retained earnings on market value of listed firms after controlling for earnings per share, dividend payout and financial leverage in the context of the NSE. The sample data was extracted from 75 non-financial firms listed on the NSE during the period 2003 to 2014. The results indicated a positive and significant relationship between retained earnings, earnings per share, dividend payout and value of firms while market value is positively but non-significant associated with financial leverage.

Trade Credit Financing and Financial Performance
Mungiru and Njeru (2015) assessed the effect of informal finance on the performance of SMEs in Kiambu County, Kenya. The study employed descriptive research design. The population of the study was 7384 SMEs. A sample size of 95 was selected using random sampling. The study used primary data which was collected through the use of a questionnaire. Multiple regression analysis were conducted. The study found out that self-help group finance, family and friends finance; trade credit finance and shylock finance sources influence the performance of SMEs. Self-help group finance, family and friends finance; trade credit finance has a positive influence on the performance of SMEs while shylock finance sources have a negative influence on the performance of SMEs.

Kapkiyai and Mugo (2015), examined the relationship between trade credit and SME financial performance for a sample of 50 audited Kenyan SMEs firms. Multiple regression models were used to test the hypotheses. Findings indicated that trade credit positively affected liquidity, profit margin and return on assets. The results appeared to be consistent with pecking order theory by SMEs in pattern of using trade credit instead of other external source of finance. The study was however, limited to secondary sources for its data, thus suggesting more study like the same using primary data through the use of a 4-point likert scale.

Akinbobola and Obamuyi (2018) tested the effect of trade credit dynamics on the profitability of SMEs in South-West Nigeria. Secondary data for 120 firms, from 2014 – 2016, was used for the study. Panel pooled OLS, panel fixed effect, panel random effect, hausman test and GMM were used to analyse the secondary data. The panel fixed effect analysis revealed that trade credit had negative and significant impact on the profitability of SMEs. The GMM result indicated that the dynamic changes of trade credit had not significantly improved SMEs profitability. The study concluded that the ineffective dynamic changes of trade credit contributed to the negative impact of trade credit on SMEs profitability.

Leasing and Financial Performance
Kibuu (2015), examined the effects of lease financing on the financial performance of companies listed in the Nairobi Securities Exchange. The study adopted descriptive research design. The population of the study was all the 64 listed companies in the Nairobi Securities Exchange where all the companies were not using lease financing, but data for only 33 firms which were using lease financing was available for the period under study. Secondary data was collected for the firms for the period 2010–2014 from the annual financial reports. From the regression results, lease financing and liquidity had positive effects on ROA while size had negative effects on ROA. Lease financing effects were however insignificant. The study concludes that there is a positive association between lease financing and Return on Assets. Though the relationship could be positive, it failed the significance tests at all the acceptable levels of significance.

Bello, Ahmad and Aliyu (2016) studied the impact of lease financing on the financial performance measured by ROA of Nigerian oil and gas companies. The data for the study was collected from annual reports and accounts of 6 sampled companies in the Nigerian Oil and

Gas industry, that are engaged in lease financing and were also listed on the NSE not later than January, 2005. Robust OLS regression analysis is used to analyze the impact of lease financing on ROA. The results of the study revealed that lease financing has significant impact on the ROA of oil and gas companies in Nigeria.

Wafula, Namusonge and Nambuswa (2016) analyzed the effect of finance lease on the financial performance of Trans Nzoia County Government, Kenya. A regression analysis was conducted on the data. Regression results showed that finance lease, had positive effects on ROA. Financial performance of the county government of Trans Nzoia is affected by the level of lease financing.

Alkhazaleh and Al-Dwiry (2018) examined the extent to which the financial performance of Jordanian Islamic banks was impacted by financial leasing during the financial period 2010-2016. In order to achieve the objectives, the study relied on testing the hypotheses through regression analysis. The results of the study indicated that lease financing has significant impact on the return on assets and return on equity as measures of financial performance.

Theoretical Framework
Pecking Order Theory
The pecking order theory developed by Myers (1984) and Myers and Majluf (1984) emerged as a result of asymmetric information present in financial markets wherein insiders have superior information about the firm's prospects than outsiders (investors). The theory suggests that the capital structure decisions of a firm are a function of its age. As postulated by this theory, internal sources of funding are prioritised while the use of external sources is delayed until the internal sources are exhausted. As such, when seeking funds a firm prefers internal equity to external debt, short-term debt to long-term debt, and external debt to external equity. Therefore, the order of financing preference for a firm should follows internal equity, issuing debt, and then issuing equity (Cassar and Holmes, 2003).

The literature on SMEs provides demand-side and supply-side reasons to justify the preference order suggested by this theory (Lucey and MacanBhaird, 2006). Demand side justifications are based on the well-established fact that SMEs owner-managers are usually unwilling to lose control of their business. As such, to meet the financing needs of their firm's owner-managers will try to follow a pecking order of, first, their own personal savings and retained earnings; second, short-term borrowings; third, longer term debt, and, least preferred of all, from the introduction of new equity investors. As for the supply-side explanation, it is noticeable in the restrictions that exist when SMEs cannot obtain the debt financing they require at market interest rates resulting in underinvestment problem.

The Modigliani and Miller Theory
The Modigliani–Miller theorem (1958) of capital structure states that, under a certain market price process in the absence of taxes, bankruptcy costs, agency costs, and asymmetric information, and in an efficient market, the value of a firm is unaffected by how that firm is financed, that is, it does not matter if the firm's capital is raised by issuing shares or debt

finance. It does not matter what the firm's dividend policy is. Thus, this theory by the Modigliani–Miller is often called the capital structure irrelevance principle. The Modigliani and Miller (M&M) capital structure relevant and irrelevant theorems posit that in the absence of company taxes, there are no benefits, in terms of value creation, to increasing leverage and on the other hand in the presence of taxes, such benefits, by way of interest tax shield, do accrue when leverage is introduced and/or increased. It does not matter if the firm's capital is raised by issuing stock or selling debt. It does not matter what the firm's dividend policy is. Therefore, the Modigliani–Miller theorem is also often called the capital structure irrelevance principle (Brealey and Myers, 2008).

The Theorem makes two fundamental contributions. In the context of the modern theory of finance, it represents one of the first formal uses of a no arbitrage argument. More fundamentally, it structured the debate on why irrelevance fails around the Theorem's assumptions: (i) neutral taxes; (ii) no capital market frictions (i.e., no transaction costs, asset trade restrictions or bankruptcy costs); (iii) symmetric access to credit markets (i.e., firms and investors can borrow or lend at the same rate); and (iv) firm financial policy reveals no information.

Trade-Off Theory
In the trade-off theory of capital Structure the bankruptcy cost is allowed to exist. It states that there is an advantage to financing with debt (namely, the tax benefits of debt) and that there is a cost of financing with debt (the bankruptcy costs and the financial distress costs of debt). The marginal benefit of further increases in debt declines as debt increases, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing. Empirically, this theory may explain differences in Debt to Equity ratios between industries, but it does not explain differences within the same industry (Cohen, 2003).

The standard version of the hypothesis of this theory emerged out of the debate of the well-known Modigliani and Miller theorem when income tax was added to their original proposition. The essence of this theory is that by evaluating various costs and benefits of alternative leverage plans an interior solution can be obtained when marginal costs and marginal benefits are balanced (Frank & Goyal, 2008). The trade-off theory focuses on taxes and bankruptcy costs. According to the standard trade-off theory, taxes and bankruptcy account for the firm use of debt. As such, when firms seek finance for their operations they "trading-off" the costs and benefits of debt. A number of studies investigated the applicability of the trade-off theory to SME. The study by López-Gracia and Sogorb-Mira (2008) concluded that both the pecking order theory and the trade-off theory help to explain SME financial behaviour.

Methodology
The study was based on descriptive survey research design. The target population comprised of small, medium and micro enterprises registered in Taraba State, Nigeria. Based on Small and Medium Enterprise Development Agency of Nigeria report of 2018, the total number of

these enterprises are 514, 864. The study set a criterion that for any of the SMEs to be sampled; the SMEs must have an asset base (excluding land) of between N5Million – N500Million and labour force of 50 to 199. Based on the report of SMEDAN, it was only 69 SMEs that satisfied the stated criteria. These 69 SMEs formed the sample size for the study. The study used filtering sampling technique to arrive at sample size of 69. However the major focus of using filtering sampling technique was to have access to the population. Questionnaires were used to collect primary data from the field.

Methods of administration of the instruments were self-administration and drop and collect method technique where the researcher and the research assistant left the questionnaire with an informant and went back to pick it. The owners of SMEs or their personnel (managers) filled the questionnaires under proper guidance and in most instances (face to face); the filled questionnaires were picked by the team. It took approximately two weeks to collect data from the field. To establish content validity of the questionnaires, Cronbach alpha content validity index was used; with a computed content validity index of 0.8, the research instrument was valid. An instrument with a content validity index of at least 0.5 is considered sufficient. Content validity was also achieved by discussing the construct items with research experts. Content validity scored fairly well as the measurement scales reflected the key components of commercial loan financing, retained earnings financing, trade credit financing, hire purchase and financial performance as described in the reviewed literature. It therefore follows that they are validated measures previously employed by other studies and as such they are deemed to be valid in this study.

Reliability of the Instruments
Table 2: Summary of Cronbach's Alpha Test Results

Variable	Cronbach Alpha	Number of Items
Commercial Bank Loan Financing	0.963	8
Retained earnings	0.947	8
Trade Credit Financing	0.959	8
Hire Purchase	0.972	8
Financial Performance	0.985	8

Source: Compiled from SPSS Output, 2019.

Cronbach's coefficient, Alpha (α) method of internal consistency was used; which measures the consistency within the questions and how well they measured characteristics and behaviour within the test. The measurement scales' computed Cronbach's Alpha (α) results in table 2 above indicate that for commercial bank loan had an (α) of 0.963, 0.947 for retained earnings financing, 0.959 for trade credit, hire purchase had Cronbach Alpha (α) of 0.972 and 0.985 for financial performance. The measurement scales were reliable as this is well above 0.6 threshold which is the recommended coefficient for a given research instrument. Hence the internal consistency reliability of the measures used was considered sufficiently high enough to have adequately measured the study variables. This allowed for more testing and further analysis of the linear regression model. Data was analyzed using multiple regression analysis to test the effect of sources of financing on financial performance of SMEs in Taraba State, Nigeria.

The regression model used for the estimation of a dependent variable for many independent variables is estimated as follows:

$$FPF = \beta_0 + \beta_1 CBL + \beta_2 RET + \beta_3 TCF + \beta_4 LEF + \varepsilon$$

Where

FPF= financial performance
CBL =commercial Bank loan
RET= retained earnings
TCR = trade credit
LEF= lease financing
β_0= is the intercept of the regression line
β_1- $\beta0_4$ is the intercept of the independent variables
ε = is the error term

Data Analysis and Results
Descriptive Statistics of Variables
Table 3: Descriptive Statistics

Statistics	FPF	CBL	RET	TCR	LEF
Mean	2.7120	2.4855	3.0924	2.9275	3.4040
Max	4	4	4	4	4
Min	1	1	1	1	1
Sd	0.98058	0.76382	0.65993	0.74181	0.49730
Observation	69	69	69	69	69

Source: SPSS Output, 2019.

The table shows the mean value of FPF to be 2.7120. The minimum value of FPF is 1 with maximum value of 4 and standard deviation of 0.98058. The standard deviation value is less than the mean value of 2.7120, it means that the data are not widely dispersed from the mean value as the mean value of the variable is more than the standard deviation value. Also, the table reveals that the mean value of CBL is 2.4855, the maximum value of 4, minimum value of 1, standard deviation value of 0.76382. RET has a mean value of 3.0924, maximum value of 4, minimum value of 1 and standard deviation of 0.7875. The standard deviation of 0.6599 is less than the mean value of 3.0924. The descriptive statistics exhibits the mean value of TCR to be 2.9275, maximum value of 4, the minimum value of 1, and standard deviation value of 0.7418, the standard deviation value of is less than the mean value of which indicates that the data are not widely dispersed from the mean. Lastly, the table also indicates that the mean value of LEF to be 3.4040, the minimum value of 1 with maximum value of 4 and standard deviation of 0.4973. The study has a total observation of 69, that is, 69 respondents.

Multiple Regression Results

Table 4: Multiple Regression Results

Variable	Coefficient	Standard Error	t-statistics	Prob
C	0.400	0.311	1.285	0.203
CBL	0.383	0.158	2.424	0.018
RET	0.562	0.308	1.824	0.073
TCR	1.035	0.233	4.444	0.000
LEF	-1.002	0.231	-4.334	0.000
R^2	0.949			
Adj. R^2	0.946			
F-Statistics	296.335			
Prob (F-Statistics)	0.000			

Source: SPSS Output, 2019 (Dependent variable: FPF).

The F-Statistic of 296.335 and its corresponding P-value of 0.000 indicates that the model is fit and the independent variables are properly selected, combined and used. The Coefficient of Determination (R^2) of 0.94 indicates that about 94% of financial performance is likely explained by commercial bank loan (CBL), retained earnings (RET), trade credit (TCR), and lease financing (LEF). The remaining 6% are attributed to other independent variables that are not captured in the regression.

Test of Hypotheses

H_{01}: Commercial Bank Loan has no significant effect on financial performance of SMEs in Taraba State, Nigeria.

The regression line FPF = 0.400 + 0.384CBL + 0.562RET + 1.035TCR - 1.002LEF shows that for every 1percent increase in commercial bank loan (CBL), financial performance increases by 38%. The p-value of 0.018 is less than the t-value of 0.05. This simply means that the alternative hypothesis is accepted that commercial bank loan has significant positive effect on financial performance of SMEs in Taraba State, Nigeria. It reveals that increase in commercial bank loan to SMEs in Taraba State will increase their financial performance.

H_{02}: Retained Earning has no significant effect on financial performance of SMEs in Taraba State, Nigeria.

The regression line indicates that for every 1percent increase in retained earnings (RET), financial performance increases by 56%. The p-value of 0.073 is more than t-value of 0.05. This simply means that the null hypothesis is accepted that retained earnings have no significant positive effect on financial performance of SMEs in Taraba State, Nigeria. It shows that increase in retained earnings will not affect financial performance of SMEs in Taraba State, Nigeria.

H_{03}: Trade Credit has no significant effect on financial performance of SMEs in Taraba State, Nigeria

The regression line shows that for every 1percent increase in trade credit, financial performance increases by 103%. The p-value of 0.000 is less than t-value of 0.05. This simply means that the alternative hypothesis is accepted that trade credit has significant positive effect on financial performance of SMEs in Taraba State, Nigeria. It shows that increase in trade credit to SMEs in Taraba State help them to improve on their financial performance.

H_{04}: Lease financing has no significant effect on financial performance of SMEs in Taraba State, Nigeria.

The regression line shows that for every 1percent increase lease financing, financial performance decreases by 100%. The p-value of 0.000 is less than t-value of 0.05. This simply means that the alternative hypothesis is accepted that lease financing has significant negative effect on financial performance of SMEs in Taraba State. It shows that increase in lease financing will reduce financial performance of SMEs in Taraba State, Nigeria.

Discussion of Findings
The study to accept the alternative hypotheses which states that commercial bank loan has significant positive effect on financial performance of SMEs in Taraba State. The finding is in tandem with the findings in the previous works of Oke and Aluko (2015); Chimaleni, Muganda and Musiega (2015); Manini, Abdillahi, Wanyama and Simiyui (2016); John-Akamelu and Muogbo (2018). In the case of retained earnings (RET), the coefficient value is positive which is 0.562, the probability value is 0.073, this value is more than 0.05 table value, based on this, the study accept the null hypotheses which states that retained earnings has no significant effect on financial performance of SMEs in Taraba State. This finding is consistent with the findings in previous studies such as Ruri (2017); Ruri and Omagwa (2018). But contradicts the studies Manini et al., (2016); Yemi and Seriki (2018).

Based on the regression result, trade credit (TCR) has significant positive effect on financial performance of SMEs in Taraba State. This is as a result of the fact the probability value is 0.000. The probability value is less than 0.05, this makes the study to accept the alternative hypothesis which states that trade credit has significant positive effect on financial performance of SMEs in Taraba State. This finding is in line with the studies of Mungiru and Njeru (2015); Kapkiya and Mugo (2015); Manini et al., (2016), but contradicts the study of Akinbobola and Obamuyi (2018).

The regression result on leasing financing (LEF) shows that lease financing has significant negative effect on financial performance of SMEs in Taraba State. This is because the coefficient of lease financing is -1.002 is negative, likewise, the probability value of 0.000 is less than the table value of 0.05. This allows the study to accept the alternative hypotheses which states that lease financing has a significant negative effect on financial performance in Taraba State. The reason for this is that financially sound organizations use lease financing as one of their financing sources. The finding disagrees with the studies of Kibuu (2015); Bello, Ahmad and Aliyu (2016); Wafula et al., (2016); Alkhazaleh and Al-Dwiry (2018).

Conclusion and Recommendations

This study concludes on a general note that sources of financing have significant effect on financial performance of SMEs in Taraba State, Nigeria. The study concludes that commercial bank loan is a determinant of SMEs financial performance, an increase in commercial bank loan to SMEs, translates to increase financial performance of SMEs. The study also concludes that fringe retained earnings is not a determinant of financial performance of SMEs. Increase in retained earnings does not translate to improvement in financial performance of SMEs in Taraba State. The study likewise concludes that trade credit is a determinant of financial of SMEs in Taraba State, an increase in trade credit to SMEs enhance their financial performance. SMEs with more trade credit tend to improve their financial performance. The study equally concludes that lease financing decreases financial performance of SMEs in Taraba State, an improvement in lease financing retards SMEs financial performance in Taraba State.

Based on the conclusion of this study, the study recommends that SMEs in Nigeria should consider SMEs sources of business financing as important determinants of financial performance. SMEs should come together to form larger groups in order to access bigger commercial loans from banks, microfinance institutions and other lenders which are cheaper to source as they carry lower transaction costs and such costs are shared by SMEs in the group reducing its impact on individual SME's financial performance.

This study recommends that Management of SMEs in Nigeria should improve on its retained earnings so as to boost their financial performance. The study recommends that SMEs should consider finding a way of retaining parts of their profit as retained earnings to meet future financial needs and likely expansion of their business. Management of SMEs in Taraba State should actively make use of trade credit as a veritable source of financing to stimulate their financial performance, this will enhance profitability.

Finally, the study recommends that Small and Medium Enterprises in Nigeria should embrace venture capital and equity financiers since they provide the start-up capital to the SMEs. This is as a result of the fact that lease financing has not improved the financial performance of SMEs in Taraba State. Venture investors also provide managerial and accounting skills to the entrepreneurs thus enhancing the accountability and efficient use of the financial resources at hand.

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