

**EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON THE FINANCIAL
PERFORMANCE OF CEMENT MANUFACTURING FIRMS IN NIGERIA**

BY

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CERTIFICATION

This Project, "Innovation Strategy and Organizational Performance In Selected Deposit Money Banks In Lagos State, Nigeria" meets the regulation governing the award of Master of Business administration (MBA) Degree in Management of the School of Postgraduate Studies Nasarawa State University, Keffi, and its Contribution to Knowledge.

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ABSTRACT

In a highly competitive environment, innovation is the essential key to a firm obtaining a dominant position as the understanding of strategic innovation management practices leads to an improved organizational performance signifying its importance. In the present era of economic instability, the banking industry has emerged as one of the major and vital service industries, which affects lives of several people all over the world which leads to the need to study the effect of innovation strategy on organizational performance of selected deposit money banks in Lagos state, Nigeria. The study in achieving this purpose explored the effect of variables of innovation strategy which include product innovation, process innovation, marketing innovation, organizational innovation on variables of organizational performance which consists of product performance, return on equity, market orientation and return on investment. Descriptive survey research design was adopted for the study. The population of the study consists of management staffs at the strategic and operational management level from five selected deposit money banks in Lagos State giving a population of 665 which was chosen as our sample size. A structured questionnaire was administered which gave a response rate of 85.4%. The instrument was validated and the Cronbach's Alpha reliability for the major constructs. The data gathered was analyzed through descriptive, linear and multiple regression analysis. Findings revealed there is a positive and significant relationship between innovation strategies and organizational performance ($R = 0.793$, at $p < 0.05$). The model R^2 (coefficient of determination) was 0.629, constant value (alpha) of 4.212, the coefficient of independent variable (beta = 0.764) and F-Value yielded 626.633. Product innovation had significant effect on product performance and this effect was statistically significant at ($R = 0.768$, $R^2 = 0.589$, $p < 0.05$). There is also a significant and positive relationship between market innovation and market orientation ($R = 0.634$, $R^2 = 0.402$, $p < 0.05$). The effect of process innovation and return on equity shows a positive and significant relationship at ($R^2 = 0.751$, $R = 0.563$, $p < 0.05$). A positive and significant effect was established between organizational innovation and return on investment with $R^2 = 0.725$, $R = 0.525$, $p < 0.05$. In conclusion, innovation strategies have a strong positive relationship on organizational performance of deposit money banks in Lagos State, Nigeria. Innovation strategies have been shown to be vital to boost the output of organizations and the study has recommended that deposit money banks should adopt innovation strategies to increase their returns on investment, product performance, market orientation and return on equity which together will lead to their increased organizational performance.

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ABBREVIATIONS

ROI- Return on Investment

ROA- Return on Assets

ROE- Return On Equity

PDI- Product Innovation

OS- Organizational Structure

RBT- Resource Based Theory

MI- Market Innovation

PCI- Process Innovation

OGI- Organizational Innovation

GDP- Gross Domestic Product

CBN- Central Bank of Nigeria

ABC- African Banking Corporation

NDIC- Nigerian Deposit Insurance Corporation

SAP- Structural Adjustment Programme

DMB- Deposit Money Banks

OECD- Organization For Economic Co-Operation and Development

NSE- Nigerian Stock Exchange

IPO- Initial Public Offering

LSE- London Stock Exchange

FCT- Federal Capital Territory

FSA- Financial Services Authority

ETI- Eco-bank Transnational Incorporated

ECOWAS- Economic Community of West African States

AMCON-Assets Management Corporation of Nigeria

ATM- Automated Teller Machine

POS- Point of Sales

GTB- Guarantee Trust Bank

UBA- United Bank for Africa

BFB- British and French Bank Limited

BNCI-Banque Nationale De Credit

PBT- Profit before Tax

SD- Strongly Disagree

D-Disagree

PD- Partially Disagree

PA- Partially Agree

A --Agree

SA- Strongly Agree

AVE- Average Variance Extracted

SSFL- Sum of Squared Factor Loadings

NOI- Number of Variables Indicators

SPSS- Statistical Package for Social Sciences

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Finance is one of the major areas enterprise usually give attention to as an essential part working tools of an organizational growth. It even becomes an important when the case of small and medium scale enterprises (SMEs) is considered as veritable instrument of development in the society. This is because the need money to finance their activities, the source of getting this fund are extremely limited, unlike the large scale enterprises that get their monetary needs from various sources, many are which reliable (especially equity and debt sources). The banking industry lays a unique role in financing of small and medium scale enterprises in most countries of the world, both developed and developing nations. This existence of effective financing is essential for small and medium scale enterprises (SMEs) because it create the necessary environmental growth through its roles in intermediating fund from the surplus limits to the deficits units. The small and medium enterprises (SMES) are considered to be one of the principals driving forces in economics development of countries in the world. This is basically due to their great potential in ensuring diversification and

expansion of industrial production as well as the attainment of the basic objectives of development. SMEs utilize local raw materials and technology thereby aiding the realization of the goal of self-reliance, self-sufficient, self-employed and employer of labour. Also government at various levels (Local, State and Federal levels) have in one way or the other focused on the performance of small and medium scale enterprise for economic gains while some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs to grow through soft loans and other fiscal incentives in order to enhance the socio-economic development of the economy in alleviating poverty, employment generation, enhance human development, and improve social welfare of the people.

Nigeria is among the developing countries which has given serious attention to the development of small and medium scale enterprise (SMEs), as a means of invigorating the industrial sector through enhanced linkages and value addition to the society (Ameako, 1990).

The significance of small and medium scale enterprises is becoming increasingly recognized as many organizations of both local and international levels have given much concern to it development, especially in the third world countries in which Nigeria is not an exception Odonye,

(1998). However, the role of banks in financing SMEs in Nigeria has brought about the small and medium enterprise equity investment schemes (SMEEIS) which is a voluntary imitative of the banks in Nigeria approved at its 246th meeting held on 21st December, 1990. The initiative was in response to the federal government concerned policy measure for the promotion of small and medium enterprises (SMEs) as vehicle for rapid industrialization and sustainable economic development, poverty alleviation and employment generation. The schemes requires all banks in Nigeria to set aside 10% of the earning before tax (PBT) annually for equity investment in small and medium scale enterprises and the scheme commenced on June 19th 2001. Every legal business activities are covered by the scheme with the exception of trading or merchandizing and financial services across the country. Ten percent of the funds is set aside have been embared for lending to micro finance.

1.2 Statement of the Problem

One of the main obligations of commercial banks in Nigeria and the world in general is to make maximum contribution to the economic development of the nation.

Others are maximum profitability owned to the share holders and maximum liquidity owned to the depositors. This research work will concentrate on the maximum contribution to the economic development of the nation, i.e. through financing SMEs by commercial banks. The analyze of the research problem will thus pose some questions like

Do commercial banks finance small and medium scale enterprise adequately, if not what are the limitations.

1.3 Research Questions

- i. What are the different sources of finance available to small and medium scale industries in Nigeria?
- ii. How does commercial banks satisfying the financial needs of small and medium scale enterprise in Nigeria taking diamond banks of Nigeria plc as a case study?
- iii. To what extent do commercial banks assist small and medium scale enterprise in Nigeria?

1.4 Objectives of the Study

Since the importance of SMEs forwards the development of any country's economy, as already discussed in chapter one cannot be over emphasized this work aimed at achieving the following objectives:

- i. To examine the role and contribution of commercial banks in financing Small and Medium Scale enterprises in Nasarawa State, Nigeria.
- ii. To evaluate the role of commercial banks in satisfying the financial needs and Medium Scale enterprises' owners in Nasarawa State, Nigeria.
- iii. To assess further means of supporting the financing of Small and Medium Scale enterprises in Nasarawa State, Nigeria.
- iv. To ascertain the major obstacle militating against commercial banks in financing Small and Medium Scale enterprises in Nasarawa State, Nigeria.

1.5 Statement of Hypotheses

HO: there is no significant role of commercial banks in financing SMEs in Nigeria;

H1: there is a significant role of commercial banks in financing SMEs in Nigeria.

H2: that obtaining financing assistance by small and medium scale enterprise from commercial banks is very difficult and that most of

the assistance is obtained through saving and borrowing from other assistance.

1.6 Significance of the Study

The study will highlight problems associated with the role of commercial banks in financial small scale industry in Nigeria. It will give information on the possible areas for improvement. Further more, the study will help commercial banks to assess their role in financing small scale industry in Nigeria. Moreover, suggestions and recommendations made in this paper will help policy makers formulate new economic policies to maintain or modify the existing one. It will equally serve as a guideline to researchers who may wish to research this study in the future. It will also help small scale entrepreneurs to make sufficient preparation in their request for credit assistance. It will guide the entrepreneurs in making credit demands that are in compliance with government policy. Lastly it will help the entrepreneurs to display competency in preparing justification for their project. It is rare to see most of them coming up with cash projections, projected balance sheets.

1.7 Scope of the Study

The study will focus mainly on the role of commercial banks in the development of small scale enterprises in Nigeria with emphasis on

Commercial banks in Nasarawa State. Since the banking sector is one of the major institutions in the process of economic growth, it is important to study the role of a major unit of the banks in the promotion of small scale enterprises and the focus would be in Nasarawa State for the period one financial year, precisely 2019.

1.8 Definition of Term

1. **Commercial Banks:** Generally refer to as those banking institutions that make money in the form of demand deposits. Simply, commercial banks are institutions engaged in an aspect of the commerce of its own country and its business relation with a view of making profit.
2. **Small and medium scale industries (enterprises) SMEs:** Small and medium scale enterprise with fixed assets other than loan but including the cost of new investments not exceeding ₦ 36 million.
3. **Entrepreneur:** This can be defined as a person who set and start his own new and small business enterprise.
4. **Economic Growth:** this is defined as a sustained increase in a nation gross national income per capital over a long time period.
5. **Economic Development:** this is defined as the structural transformation of all the economic indexes from a low to the high strata.

6. **Financing:** this is the process of sourcing for fund or acquisition of funds for financial purpose.
7. **Purpose:** this can be defined as wealth or property in form of money or property, sometimes the basic sum in an investment enterprise.
8. **Collateral Security:** Property or something available which is used as guarantee that someone will repay such a landed property, insurance policy e.t.c. which the banks is authorized to take in the event of a customer defaulting in the loan agreement.
9. **Loan:** the sum of money borrowed at any agreed rate of interest. It can be of long term or short term from financial institutions, individuals, group or association.
10. **Overdraft:** this is a financial assistance granted by way of allowing customers withdraw in excess of the balance in their bank accounts.
11. **Assets:** resources or thing of value owned by an economic unit, such as a firm, individual or household as cash property and rights to property.

CHAPTER TWO

LITERATURE REVIEW

2.1.1 Historical Background and Development of Commercial Banks

The end of the barter system due to his attendant problems led to the introduction of medium of exchange called money to facilitate trade. The use of many different commodity or coin money did not help the early establishment of banking companies. Grimsely (2003) defined a commercial bank as a financial institution that is authorized by law to receive money from businesses and individuals and lend money to them. Commercial bank are open to the public and serve individuals, institutions, and business. A commercial bank is certainly the type of bank that most people regularly use. Banks are regulated by federal and state laws depending on how they are organized and the service they provide. Commercial banks are also monitored through the federal reserve system. Financial times lexicon (2011) defined a commercial bank as a bank whose main business is deposit taking and make loans. World Bank dictionary in 2003, defined commercial bank as “anything having to do with a business, made to be sold for a profit. Investor words in 2016 defined commercial bank as an institution which accept deposits, makes business loans, and offers related services.

Commercial banks also allow for a variety of deposit accounts, such as checking, savings and time deposits. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the federal reserve system. While commercial banks offer service to individuals, they are primarily concerned with receiving deposits and lending to business. These are financial institutions in which they serve as financial intermediaries (middle men) they obtain funds from the surplus unit (that is by accepting deposits) and allocate these funds to the deficit units (that is advanced) of loans in order to help promote efficient and dynamic economy.

2.1.2 Functions of Commercial Banks.

Generally commercial banks are to collect deposits from surplus units and lend them to deficit units. According to Ukwuagu (2002) the principal functions of commercial banks are as follows:

- i. Acceptance of deposits in fixed, current and savings accounts. They concentrate on short-term deposits and operate accounts through the use of cheques.
- ii. Advancing loans by ways of loans, overdraft and discounting bills of exchange. Commercial banks give short-term loans.

- iii. They act as agent to their customers by buying and selling of shares and stocks on behalf of their customers, issuing travelers cheque and draft, remittance of funds and buying foreign exchange.
- iv. They act as trusts, executors and also refers to firms and individuals.
- v. They provide facilities for safe keeping of wills and other documents and also jewelries.
- vi. They also render services to customers and the public by selling of jamb, GCE, and NECOforms.
- vii. They also sell mobile cards and collect PHCN bills from the public on behalf of the principal.

2.1.3 Challenges Facing Banking Industry in Nigeria

According to Martin (2001) the current banking sector reform in Nigeria was designed to promote the viability, soundness, and stability of the system to enable it adequately meet the aspiration of the economic in times of accelerated economic growth development. The reform agenda was motivated by the need to proactively put the Nigeria banking industry on the path of global competitiveness to enable it to effectively respond to the challenge of globalization. The overall objectives is to guarantee that the

economy and Nigerians do not remain fringes player in the context of the globalizing world.

2.1.4 The Major Challenge That The Reform Was Targeted Include The

Following:

- **Weak Capital Base:** most bank in Nigeria had a capital base that was less than S10 million while the largest bank in the country had a capital base of about S240 million. This compared unfavorably with the situation in Malaysia where the smallest bank had a capital base of S526million. The small size of most local banks, coupled with their high overheads and operating expenses, has negative implications for the cost of intermediation. It also meant that they could not effectively participate in big-ticket deals, especially within framework of the single obligor limits.
- **Insolvency:** the magnitude of non-performing risk assets was such that it had eroded the shareholder' funds of a number of banks for instance, according to the 2004 NNC annual report, the ration on non-performing credit to shareholders' funds deteriorated from 90% in 2013 to 105% in 2014. This meant that the shareholders funds had been completely wiped out industry-wide by the non-performing credits portfolio.

- **Poor Corporate Government Practices:** there were several instances where board members and management staff failed to uphold and promote the basic pillars of sound corporate government because they were preoccupied with the attainment of narrowly defined interests. The symptoms of this included high turnover in the board and management staff, in accurate reporting and non-compliance with regulatory requirements.
- **The Challenge of Ethnics and Professionalism:** in a bid to survive the stiff competition in the market, a number of operators has resorted to unethical and unprofessional practices. Strictly speaking, some even went into some business that could not be classified as banking. In appreciation of the enormity of the problems caused by the failure of adhere to professional and ethical standard, the bankers committee set up a sub-committee on ethics and professionalism” to handle complaints and disputes arising from unwholesome and sharp practices.

2.1.5 Concept of Small and Medium Enterprises

The extract definitions of small and medium scale enterprises depend from country to country as well as which economic scheme is involved. In Nigeria, the definitions of small and medium size enterprises are taken from

the meeting of the Nigeria council of industry held on July, 2001 in Markudi Benue State (Ositayo2001). Adigwe (2012) defined SME as any industry with a labour size of 11-100 workers or a total cost of not more than ₦50 million,including working capital and excluding cost of land. Small and medium size enterprise (SMES) as defined by the national council of industries (2009) refers to business enterprise whose total cost excluding land is not more than two hundred million naira (₦200,000,000) only.

The central Bank of Nigeria (CBN) defined SME as an enterprise with a maximum asset base of NGN 200 million, without land and working capital, also the number of employees is less than 10 and is not more than 300.

The concepts of SMES are somewhat divergent but the Central Bank of Nigeria agree with the small and medium industries and equity investment scheme (SMIEIS) their definitions of SME as any enterprise with a maximum asset base less than ₦200 million (equivalent of about \$1.43 million) excluding land and working capital and with the number of staff employed not less than ten (otherwise will be a cottage or microenterprise)

and not more than 300 (Sanusi 2003 Udechukwu 2003 Akubueze2002 SMIEIS 2002 and Sanusi 2004).

The industrial research and development unit of life in 1973 defines a small scale industry as one whose total assets in capital equipment, plant and working capital are not less than ₦ 50,000 and more than ₦ 500,000 employing no fewer than 50 and not more than 250 employees. According to (Utomi in CBN: 1999) and (Kwanashie in CBN: 1998: 345) recommended that emphasis should be given to the small and medium scale enterprises (SMES) sub-sector. They observed that if the subsector is treated well it will generate employment, contribute considerably to the GDP than the bigger companies and play a critical support role for a big enterprise as components and services suppliers. There is the need at this point for Nigeria in this globalization era to face challenges of its economic realities through obvious financing schemes on its SMES. This is so because, with low investment potentials low technological base, weak capacity to transform abundant materials into tradable goods lacking basic infrastructure thus making cost of running productive venture non-competitive.

2.1.6 Small and Medium Enterprise In Nigeria

Agbaje, Osho and Abiodun (2015) observed that SME has a long history like every other part of the world. Historically, small and medium enterprise has its origin in the eastern and Mediterranean”, small and medium enterprise, all over the world is divergent arrays of business concerns involve in economic activities ranging from micro and rural enterprises, to contemporary industrial organizations that uses sophisticated technologies. As a result of their relevance and contribution i.e. small and medium enterprise to national economics, policy planners, academic and national government have shown interest in issues pertaining to small and medium scale enterprises (SMES) all over the world. It was the means of innovation to survival for the people since ages; it has managed to serve many poor homes that have the innovations to start a unique business but with different problems with establishment or survival. In Nigeria there is no generally acceptable definitions of SMES but it varies overtime from organization to organization.

The NCI [national council of industry] in 2001 include the capital investment band of SMEs at between NGN 150 to 200 million, excluding land but including working capital and also the working force band between 11 and 300 exclusive. But on the other hand, the (NASME) national association of small and medium scale enterprise also defined

small scale enterprise as a business with less than 50 employed people by the enterprise with an annual turnover of NGN 100 million. NASME came up with another definition, which state that small and medium scale enterprise is a business with less than 100 employees and an annual turnover of NGN 500 million.

The central bank of Nigeria (CBN) define SME as an enterprise with a maximum asset based of NGN 200 million, without land and working capital, also the number of employees is not less than 10 and not more than 300. Due to the flexible nature, SMEs are quite able to withstand economically diverse situation. SMEs in Nigeria can be categories into Urban and Rural enterprises, but in a more former way they can be called organized and unorganized enterprises. The organized enterprises have paid employees with a registered office while the unorganized enterprises rely mostly on apprentice or family members and mostly low rate or low salary paid workers. Rural enterprises are made up of family groups, who women that engaged in food production from local farm crops and individual artisans. The major activities are leather, local Blacksmith, tinsmith, Ceramic, clothing and tailoring, timber and wining, bricks and cement, food processing, good furniture, beverages, bakeries, electronic assembly, Agro Processing, chemical base product and mechanics. According to history,

SME in Nigeria have exist since Nigeria Independence in 1960, probably before independent but since independent, Nigeria had a series of Seminars, Studies and workshop, each of which appraise the excellence, importance and needs to facilitate the establishment and sustainability of SME in Nigeria.

2.1.7 Characteristics of Small Medium Scale Enterprise

Small scale business display a distinct set of identifying characteristics that set them apart from their large competitors.

- a. **Revenue and Profitability:** small business revenue is generally lower than companies that operate on a large scale. The small business administration classifies small businesses as companies that bring in less than a specific amount of revenue, depending on the business type the maximum revenue allowance for the small business designation is set as S21.5 million per year for services businesses.
- b. **Employees:** small businesses employ smaller teams of employees than companies that operate on larger scale. The smallest business can often get away with employing fewer than one hundred employees, depending on the business type.

- c. **Market Area:** small and medium business serve as much smaller area than corporations or larger private businesses the smallest business serve single communities, such as a convenient store in a rural township. The very definitions of small scale prevents these companies from serving areas much larger than a local area, since growing beyond that would increase the scale of a small business operations and push it into a new classification.
- d. **Ownership and Taxes:** the corporate form of business organization is not well suited to small-scale operations instead, SMES prefer to organize as sole proprietorships. Partnerships or limited liability companies. These forms of organization provide the greatest degree of managerial control for company owners, while minimizing the hassle and expenses of business registration. These generally do not file own taxes; instead, company owners report business income and expenses on their tax returns.
- e. **Locations:** a small size business, by definition, can be found only in a limited area, these companies are not likely to have sales outlets in multiple states or countries. For example, a large number of small scale business operate from a single office, retail store or services outlets. It is even possible to run a small business directly out of your home, without any company facilities.

2.1.8 Contribution of SMES in Nigeria Economic Development

Agbaje and Abiodun et al (2015) state that it is important to note that the development of entrepreneurs cannot be overemphasized and the role they play in economic development and how they are financed through both formal and informal sources. The development experience of many countries indicates that SMES can meaningfully contribute to the attainment of many development objectives. These include output expansion, employment generation, even locations of industries among regions of the countries. Income redistribution, and promotion of indigenous entrepreneurship and technology as well as production of intermediate goods to strength inter and intra industrial leakage (Nnanna 2000).

Although the recognition of the economic importance of SMES to the Nigerian economy is only a recent development, today the contributions of the sector to the economy are no longer constable. The contributions of SMES to manufacturing output and Gross Domestic Product (GDP) is appreciable, in the area of employment generation SMES accounted for about 70% percent of the industrial employment 1987 and the situation has remained largely the same.

2.1.9 Nigeria Banks And The Problem Of Financing SMEs

Countries all over the world, no matter the stage of their development recognize the importance of promoting small and medium scale firms as the engine of growth and industrialization. Past studies of SME development and their problems have concluded that they suffer from identical weakness in developing countries. There are three major problems affecting the growth of SME in Nigeria:

- i. Inadequate access to finance, unfavorably macroeconomic environment and lastly poor infrastructure facilities. Banks in Nigeria are known to be highly liquid and report that they would like to make loans available to SMES but they are put off by the very risky nature of SMES in Nigeria. Because banks do not provide the required credit to SMES, they rely on personal assets for working capital thus making it difficult to operate at fully capacity and increase output and sales. The major sources of risk according to banks in Nigeria are lack of information on the SMES financial conditions and performance, the judicial system is reported by inefficient, banks cannot easily enforce contracts, the business environment is generally risk and uncertain firms are not able to services debts, as a result of the foregoing resort to heavily assets-based lending rules.

2.2 Empirical Review

Charles (2002) investigated the factors that influence the growth, performance and development of SMEs in Nigeria and other implication on policy. He found that accessibility to finance and good management are central to SMEs in Nigeria. Haruna, Suleiman and Isa (2017) examine the role of financial institutions in financing small and medium enterprise in Nigeria. The study specifically intent to examine the role financial institutions play in financing small and medium enterprise in Nigeria and it was found that small and medium enterprise equity investment scheme (SMEIS) if properly managed considering the volume of funds dedicated, could provide the necessary impetus for growth in the economy.

Obasan and Arikewuyo (2012) examine the effects of pre-post bank consolidation on the accessibility of finance to SMES in Nigeria. Using the ordinary least square, and it was found that banks consolidation has failed to foster a vibrant and competitive SMEs sector that could enhance job creation and economic growth in Nigeria.

Ismael (2012) study based on a survey Neolithic literacy and dissemination of questionnaires on a sample size of 50 SMEs within Ikeja local government area of Lagos state using random sampling techniques and it

was found that SMEs do not have better access to finance through banks, do not have absolute rapport with the financial institutions due to their financial background and are financially handicapped which limits their size and capacity to embark on bank loans with high interest rate arising from the neo-reorganization in banks occasioned by consolidation.

Olatunla and Obamuyi (2008) in their study using fixed effects regression model based on a balanced panel data on 115 SMEs randomly selected in onalo state, Nigeria examined the relationship between profitability bank loans, age of business and the size of SMEs, and it was found that there is interdependence between bank loans and profitability of SMEs and a significant relationship between profitability and size of the business.

Ahiawodzi and Adade (2012) examined the effect of access to credit on the growth of SMEs in the Ho municipality of Volta region of Ghana by using both survey and econometric methods the survey involved a sample of 78SMES in the manufacturing sector. Both the survey and econometric result showed that access to credit exerts a significant positive effect on the growth of SMEs in the Ho Municipality.

Obamuyi (2011) compared the performance of loans granted to SMEs by banks with that of micro-credits institutions in Nigeria descriptive statistics

was adopted for this study and it revealed that the average repayment rate for banks, was 92.93% and 34.06% for micro-credit schemes;

Mamman and Aminu (2013) assessed the effect of 2004 banking reforms on loan financing of SMEs in Nigeria. A sample size of 500 was randomly chosen an chi-square test provided analysis on the survey data and it found that there is no significant effect of 2004 banking reform on loan financing of SMEs in Nigeria.

2.3 Theoretical Framework

The theoretical framework of this work is based on some related theories such as information asymmetry. These theories investigate factors that influence the application of SMEs for external former financing.

Abdesamed and Wahab (2014) propounded a theory known as information asymmetry. This theory identifies the relationship between variables and SMEs in the application of bank loans. The theory adopts the information asymmetry theory to understand how firms apply for bank loan. Because bank are the main formal financing sources for SMEs. According to the European central Bank (2011) 40% of respondent firms use their overdraft

facilities or credit lines, and more than one third of firms have used bank Loans. Longenecker (2012) stated that commercial banks are the primary providers of debt capital to firms. Commercial banks prefer firms with proven track records and sufficient collateral in the form of hard assets. Proven track records and collaterals are difficult to obtain for small business. The lack of access to bank loans by SMEs is attributed to information asymmetry. Finance gap hypothesis suggest that SMEs suffer from a shortage of financing, which is caused by information asymmetry (Ed vos 2007) and Behr (2011) mentioned that lending in developing economics, specifically lending to micro and small enterprises is particularly affected by information asymmetries between borrowers and lenders. Although, startups and expansion potentials cause difficulties in obtaining intermediate external financing, which depend mainly on internal financing such as friends and family.

Pissarides (2003) considerable progress has been attained in a last two decades in advancing theoretical knowledge on the influence of information asymmetry on optional loans. (peltoniemi and vieru, 2013: not singer and Weichang, 2011 Vos et al, 2007 Bester 1985, and Stigitz and Weiss, 1981). Information asymmetry refers to a situation where owner-managers possess more knowledge about the prospects and risks facing their business than

lenders. Verrecchia (2001) defined information asymmetry as the difference in the cost of capital in the presence/absence of an adverse selection problem that arises from information asymmetry". Banks usually require certain information on firm performance before approving loans to ensure that the project is commercially viable. This information is not readily available from SMEs and owners of small businesses possess more and better information about the performance of their businesses than banks. Thus, banks do high cost of resolving information asymmetry can increase the difficulty of small firms to obtain loans. (2010) this phenomenon results in small firms being altered with less capital or capital at higher rates compared with large firms. Inadequate information affects the willingness of banks to supply debt financing to small firms because of uncertainty. This problem leads to the existence of a debt "gap" wherein commercially viable projects do not obtain funding.

2.3.1 Relevance of The Theory

The above theory adopted for this research work shows the relevance of information in the relationship between the banks require adequate information from the firms in order to be able to render assistance in terms of loans. But there are challenges in the way. This information is usually not

readily available by the firms and also small business do not possess adequate collateral to offer the banks in exchange for loan. Voordeckers and Steijvers (2006), Degryse and Laysele (2000) opine the collateral requirements decrease with increasing bank-borrower relationships borrower with more concentrated and long-lasting bank relationship has less challenge in collateral requirements. Therefore, a strong firm-bank relationship will increase the willingness of owner. Manager to apply for bank loans. Bonfirm and Daniels (2012) revealed that firms with previous relationship with banks can regain o such banks.

2.4 Summary

This chapter reviews extensively the studies done by some eminent scholars. The chapter started with the presentation of conceptual analysis of the study and then followed by related literatures. The chapter ended with the discussions of the theoretical framework where we extensively discuss asymmetric information theory. We present the theory's implication for market behavior and the market institutions that are created to mitigate the adverse effect implied by the theory. Furthermore, we present some applications of the theory found in the literatures and the relevance of the asymmetric information theory to the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study will use a descriptive survey design. The purpose of this design is to collect detailed and factual information that describes an existing phenomenon. Data will be collected base on the concept defined in the research model (survey model) and hypothesis will be tested from the responses on likert-type questionnaire which will be distributes among the selected sample for the study

3.1.1 Area of The Study

The area of the study covers Diamond/Access Bank of Nigeria and some selected small and medium size enterprise in keffi and Karu, Nasarawa State. Keffi and Karu was chosen because is commercial cities, educational and also one of the main cities in Nasarawa State.

3.2 Population, Sample and Sampling Techniques

3.2.1 Population:

A population is made up of all conceivable elements or observations relating to a particular phenomenon of interest to the researcher. The

population for this research study was the staff of small and medium size enterprise and the banks staff in Keffi and Karu Local Government area of Nasarawa State. Although a lot of commercial banks in Nigeria today are involved in financing small and scale industries, in this research only Diamond/access bank plc has been considered to serve as a representative of the entire population.

3.2.2 Sample and Sampling Techniques

This study settle for a sample size since it was unable to study the whole population. The sample size for this study was determined using Taro Yamani formula (1967). However, the sample size for the research work is 100 comprising of 80SME staff and 20 bank staff under study in Keffi and Karu, Nasarawa State.

Hence the sample size determination is stated below:

$$N= \frac{N}{4N (e)^2}$$

Where N= population of the study

N= sample size

E= Level of Significance

1= Constant

3.3 Method of Data Collection

Information will be gathered for this research work through primary and secondary sources. The primary sources will be mainly through the questionnaire, observations and personal interviews. While the secondary data will be from the available related literature, textbooks, journals, magazines, newspapers. A likert-type questionnaire will be used. A Likert scale measures the extent to which a person agrees or disagrees with the question (information technology services, 2010). The scale ranges from (4) Strong Agree (SA), (3) Agree (A), (2) Disagree (D) (1) Strongly Disagree (SD) the questionnaire will be given to respective bank staff and SME owners. Also, interviews and personal observations will be conducted in order to gather information.

3.3.1 The Questionnaire

The questionnaire is a sequence of questions designed to collect data on a specified subject, usually from respondents. In this case, the respondents fill the questionnaire which covers many areas especially the protocol observed before loan is granted to small and medium scale industries, duration of

such loans, recovery of such loans in case of defaulters and problem encountered during this loan processing.

3.3.2 Personal Interview

This technique involves one to one interview of respondents or persons considered particularly relevant to the topic of research interest. Personal interview will be conducted at Diamond/ Access bank plc where discussions concerning the activities of the bank regarding loan granting to small and medium scale industries with the staff and the management of the two organizations. The major difference between the personal interview and questionnaire is that in addition to the gains of the use of questionnaire, the interview schedule allows the research to probe further specific areas where original questions as designed failed to bring out the desired information. This was done by asking the respondents to expatiate, give opinions.

3.4 Techniques for Data Analysis

The collected data will be sorted out and represented in a tabular form. This will make all collected data easy to understand and analyzed in the next chapter.

The statistical tools, frequency and percentage of the solution will be used for analysis and interpretation. After analysis, all relevant information obtained will be compared with that from other sources of information to ensure a good research. The hypothesis formulated in this work will be tested with the use of chi-square method, which shows the magnitude of the discrepancy between the variables, expectation and observation. The test will be carry out at 5% level of significance.

Chi-square is represented as follows:

$$X^2 = \sum \frac{E(O-E)^2}{E}$$

Where S= summation

O= observed frequency

X²= calculated- chi square calculated

E= expected frequency

3.5 Justification of Methods Used

Considering the large population size involved in this study, the employment of questionnaires, personal interviews and study of existing literature is justified.

The questionnaire was drawn up purposeful with the objectives of finding out the underlying problems associated with obtaining funds or financial

assistance for setting up or improving small and medium scale enterprises from commercial Banks. The personal interviews covers the lapses of the questionnaire because it provides one on one contact with the individuals concerned. The researcher will gets a chance to talk to some of the banks staff and entrepreneurs, opinions of professionals and analysts in the field is also sought.

The interviews give first hand information regarding the subject under study.

Study of documents from literature is important because the sources used can provide very useful data on which the research can be hinged. Those three methods of collecting data are used because of their efficiency in providing relevant information in a short period of time.

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