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EDITORIAL

The Ilorin Journal of Management Sciences is a bi-annual publication of the Faculty of Management Sciences, University of Ilorin, Ilorin, Nigeria. In this Volume 5, Number 1, all the thirteen articles published covered issues in management and social sciences.

The topics covered in this edition includes Work Stress and Employees Performance among Staff of Delta State University, Abraka; Examination of Viral Diseases in IDP Camps; Talent Management, Employee Engagement Gender as an Antecedent of Organisational Effectiveness; Executive Compensation and Organization Performance; Impact of Environmental Factors on Business Performance; Foreign Borrowing and Nigerian Economic Growth; Influence of Learning and Development on Employee Efficiency; Effect of Monetary Compensation on Employee Performance; Effect of Corporate Risk on Financial Performance; Strategic Management Accounting and Information for Managerial Decision Making; Moderation Effect Per Capital Income on Gross Premium Writing and Performance of Industrial Accumulation in Nigeria.

I wish to commend the efforts of our various anonymous reviewers for doing excellent job and proffering constructive advice on the development of the original manuscripts for this edition. I hope our review will continue to improve in order to rank our journal among the best in the world. I also appreciate the unflinching support from all the Editorial members, Ilorin Journal of Management Sciences. I thank the Dean of the Faculty of Management Sciences, University of Ilorin, Prof S.L. Adeyemi for being a tremendous motivator and a pillar of success in producing this edition. I look forward to receive useful comments and suggestions from our audiences that will further add value to this Journal. Thank you and happy reading.

Dr. I.B. Kadiri Editor-in-Chief
Ilorin Journal of Management Sciences

ABOUT THE JOURNAL

Ilorin Journal of Management Sciences is published bi-annually (June and December) by the Faculty of Management Sciences, University of Ilorin, Ilorin, Nigeria. The journal publishes well researched and well-articulated papers/articles on all issues in management, social sciences and other related disciplines. It also considers the conduct of research and inquiry in theoretical, empirical and experimental studies. The editors invite submission of manuscripts from contributors for publication. Manuscripts are subjected to rigorous blind peers review, and those that are accepted are published in the following issue of the journal.

Guidelines to Authors

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EDITORIAL POLICY

The objective of the Ilorin Journal of Management Sciences published by the Faculty of Management Sciences, University of Ilorin, Nigeria is to publish original, high quality theoretical and empirical research papers in different aspects of management, social sciences and other related discipline that are relevant to both academics and practitioners. Thus, the journal seeks manuscripts that employs *qualitative, quantitative* of mixed research methodology pertaining to the management, social sciences and other relevant fields.

Table of CONTENTS

Editorial	iii
About the Journal	iv
Editorial Advisory Board	v
Editorial Policy	vi
Table of Contents	vii-viii
Impact Of Locus Control On Job Satisfaction And Job Stress Among Teachers In Osogbo, South West, Nigeria OLONADE, Zaccheaus Olufunminiyi (Ph.D.), OLUSESI, Lateef Damilare, OMOTOYE, Oluwatobi Oyewumi & BAMIDELE, Damola Esther	1-15
Assessment Of The Effect Of Small And Medium Scale Enterprises' Patronage On Financial Performance Of Microfinance Banks In Ilorin, Kwara State SALMAN, Abdulrasaq (Ph.D.), OLAWALE, Yinusa Alabi (Ph.D.) & SAKA Taofiq Alao	16-28
Determinants of Mobile Banking Adoption of Selected Deposit Money Banks in Ilorin, Kwara State. BABATUNDE, Abdullahi Adio	29-41
From Transactional Marketing to Relationship Marketing: A Paradigm shift in Business Thinking and Practices. RAHIM, Ajao Ganiyu (Ph.D.) And OMOERA, Charles Ighedoise (Ph.D.)	42-60
The Risk-Return Relationship in the Nigerian Stock Market in the Presence of Structural Break ALUKO, Olufemi Adewale And ABOGUN, Segun (Ph.D.)	61-74
Trade Exhibition And Small And Medium Scale Enterprises Development: Study Of Selected Smesin, Kwara State. OLAWALE, Yinusa Alabi (Ph.D.), SALMAN, Abdulrasaq (Ph.D.) And ABDULRAHEEM, Mulikat (Ph.D.)	75-89
Effect Of Emotional Labour On Employees' Worklife Balance In Selected Catering Companies In Lagos State, Nigeria JIMOH, Adams Lukman, ALAKOSO, Ibrahim And ADENIGBA, Ademola James	90-100

Effects Of Board Diversity On Corporate Environmental Disclosures In Quoted Non- Financial Firms Of Nigeria ILESANMI, Raphael Kolajo, MUSA, InuwaFodio (Ph. D.) & UCHE, Uwaleke (Ph. D.)	101-123
Relevance of Packaging to Purchasing Decision among Consumers in Benin City ODIA, Edith O. (Ph. D.)' OSHODIN, Efosa Abiodun	124-140
Effect Of Talent Management On Employee Engagement In Pipeline & Products Marketing Company, Oke-oyi, Kwara State, Nigeria AWOSUSI, Omowumi Omojola (Ph.D.) And AREMU, Nuha Salihu	141-155
Effect of Corporate Entrepreneurship Environment on the Performance of Food and Beverage Company in Nigeria: The Case of Cadbury Nigeria Plc Asabi, Mathew Oludele (Ph.D)	156-169
Relationship Between Entrepreneurial Succession And Family Business Survival: The Theoretical Arguments And Empirical Evidence AKPOR-ROBARO, Masoje Mamuzo (Ph. D.)	170-183
A Critical Appraisal of Staffing Process in Work Organisation Dr. OGUNDELE, Johnson Iyiola, ATTAH, Alexander Enebi & MAJEKODUNMI, S.A	184-203
Knowledge Management And Innovation: Organizational Learning Perspective OLOTA, Oluwayomi Omotayo, AUN, Isaac Iortimbir (Ph.D.) And OMOLEKAN, Olushola Joshua (Ph. D.)	204-223

ASSESSMENT OF THE EFFECT OF SMALL AND MEDIUM SCALE ENTERPRISES' PATRONAGE ON FINANCIAL PERFORMANCE OF MICROFINANCE BANKS IN ILORIN, KWARA STATE

SALMAN, Abdulrasaq (Ph.D.)

Department of Business Administration,
Faculty of Management Sciences,
University of Ilorin, Ilorin, Nigeria.

Salman.az@unilorin.edu.ngsalrasaq@yahoo.com
+2348039504925

OLAWALE, Yinusa Alabi (Ph.D.)

Department of Business Administration,
Faculty of Management Sciences,
University of Ilorin, Ilorin, Nigeria.

olayinus4sure@yahoo.com
+2348035929883

And

SAKA Taofiq Alao

Department of Business Administration,
Institute of Finance and management Studies,
Kwara State Polytechnic, Ilorin.

Teekay904@gmail.com
+2348035211211

Abstract

Small and Medium Scale Enterprises (SMEs) are the entire variety of money-making activity within all sectors such as banking sectors and share amount of general harms that deter effective performance in many nations. However, effect of SMEs in the economy generally on microfinance banks have not been observed due to low effect of microfinance banks service products as expected to meet the required needs of entrepreneurs and to enhance the business relation of SMEs. Therefore it becomes imperative to examine the effect of SMEs patronage on the performance of Microfinance Banks (MFBs) in Ilorin, Kwara State. The study used a well-structured questionnaire to collect data from 104 employees of five (5) selected Microfinance Banks (MFBs) in Ilorin Metropolis. Pearson correlation at 5% level of significant was used to test the formulated hypothesis of the study.

Findings of the study shows that there is a significant correlation between small and medium scale enterprise (SMEs) and product services of microfinance banks which include loan service ($R=0.950$), e-transacts ($R=0.939$), financial advisory ($R=0.964$) and group collection services ($R=0.926$) is high at 5% level of significant. The study concludes that when SMEs properly harnessed and supported by microfinance financial product services it will contribute significantly to the performance of MFBs. The study recommend that SMEs as a sub-sector of the economy improve the performance of MFBs but the growth of Micro financing industry required further improvement for better financial performance in the industry.

Keywords: Financial, MicrofinanceBank, Patronage, Performance, SMEs.
Introduction

Small and medium scale enterprises (SMEs) are regarded as the indices of economic growth. This is because small and medium scales enterprises employ 22% of the independent population in developing innovations, and employment generation (Aremu & Adeyemi, 2011). In Nigeria, the term small scale is usually applied to very small trade such as buying and selling. It very common for most entrepreneur to use the address small scale business for local hawkers, kiosk traders, retailing, and other small business. Since jobs that people crave are no longer there for most people in the society, and the little ones that succeeded in getting the jobs are thrown out as a result of irregular power supply, insecurity and persistent increase in interest rate which has lead to high cost of production and undermines profit making potentials of companies operating in Nigeria.

The justification for the government and the entrepreneurs to have a change on the way-out of this chaos became crucial. Hence, it is imperative for Small and Medium Scale Enterprises (SMEs) as a means of providing job creation, self-independent, and utilization of local raw materials in Nigeria. This however, are benefiting factors of Small and Medium Enterprises.

Microfinance is an expansion tool that grants financial services and products such as small loans, savings, micro leasing, micro-insurance and money transfer to help the extremely poor people in growing or establishing their businesses in developing countries especially where SMEs do not have way to other sources of financial support. The term microfinance can also be viewed as the provision of financial services to low income clients, including the self-employed. In addition to financial intermediation, many MFIs supply social intermediation services such as group formation, development of self-confidence and training in financial literacy and management capabilities among members of

a group. These financial services according to Ledgerwood (1999) usually embrace savings and credit with other financial services such as insurance and payment services. However, microfinance provide financial assistance in the areas of loans, savings, insurance etc to less privilege people living in both urban and rural areas.

Statement of the Problem

In developing countries such as Nigeria, SMEs have not been able to be of help to microfinance banks for several years due to some difficulties of microfinance banks in Nigeria such as absence of basic infrastructure compounded with operational difficulties, which ordinarily occur due to the high operational cost in the nature of business. Also in SMEs, with infrastructural problems such as electricity, water, the absence of good roads especially in rural areas also distort their outreach, all these difficulties make the impact of SMEs on the performance of microfinance banks to turn down. The growth of the small and medium scale enterprises is viewed as a major means towards the improvement in the standard of living of the population as well as small businesses. Despite this, the small scale and medium scale entrepreneurs are usually alleged to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs). Microfinance banks offer financial services to poor people living in both rural and urban areas who are unable to access such financial aids from the formal financial institutions. Although, the interest on loan placed on small and medium scale enterprises by microfinance banks is lesser than commercial banks which enable them to grant more loans and acquire more interest that increases their profitability that leads to increase in their performance, but decrease in the profitability of small and medium scale enterprises, SMEs complain of inadequate capital and outrageous interest imposed on the loan given to them. It is on this note that this study intends to examine the effect of SMEs patronage on the financial performance of microfinance banks.

Research Question

Based on the above statement of research problem, the following research question is generated;

- i. What is the relationship between small and medium enterprises (SMEs) patronage and product services of microfinance banks?

The Study Objective

The general objective of this study is to assess the effect of small and medium scales enterprises patronage on the financial performance of microfinance banks while the specific objective is to assess the relationship between small and medium scale enterprises (SMEs) and product services of microfinance banks.

The Study Hypothesis

The null hypothesis was tested to achieve the objective of this study:

H0: small and medium scale enterprise (SMEs) patronage has no relationship with product services of microfinance banks.

Literature Review

Concept of SMEs

Small and Medium Enterprises are essential to every country or state due to their significant roles in the development and growth of various economies. Despite these contributions to economic development of many nations, SMEs have no universally accepted definition. According to Eniola, Entebang, and Sakariyau (2015), SMEs are important to distinguish between the different categories of the production units in terms of factors like; number of employees, the value of fixed assets, production capacity, basic characteristics of the inputs, level of technology used, capital employed, management characteristics, etc. But arriving at a definition of small and medium scale enterprises that will attract a common global acceptance has till date eluded stakeholders, researchers and practitioners in that area.

Oboire and Ayozie, (2013) attribute lack of a globally accepted definition of SMEs to the fact that economies of countries differ and people take on particular standards for special uses.

In Nigeria, like everywhere in the world, there is no clear cut definition of SMEs. Nevertheless, a good number of definitional efforts of the concept exist. Various organizations or institutions and even individuals in Nigeria have at specific times defined SMEs in different ways. Though the definitions of the concept are varied, almost all of them prove to have common dealings including; fixed assets, gross output, and the number of employees. It is clear therefore that the definition of the concept is qualified, slippery, and elastic and depends mainly on both the geographical location and the nature of economic activity being performed.

In 2012, SMEDAN came up with a different and a current definition of

SMEs in Nigeria. Cottage/micro firms are those with a labor size of not more ten workers, and the total cost of not more than five million Naira, excluding land but including working capital; Small scale firms are those enterprises with a labor size of between ten to forty nine workers, with a total cost of five million Naira (but not exceeding fifty million Naira) excluding cost of land but including working capital; Medium- scale are those enterprises with a labor size between fifty and one hundred and ninety nine, with a total cost of above fifty million Naira, but not exceeding five hundred million Naira, excluding cost of land but including working capital.

The classification of SMEs by SMEDAN is captured in the below table

S/N	Size Category	Employment	Asset (#)(Excluding land and buildings)
1.	Micro Enterprise	Less than 10	Less than 5
2	Small Enterprise	10 to 49	5 to less than 50
3.	Medium Enterprise	50 to 199	50 to less than 500

Source: SMEDAN (2012)

From the above table therefore, it is obvious that there is no commonly established definition of what represent small and medium scale enterprise. Instead, countries use different definitions for classifying their SME sector. The definitions in use at any point in time depend on the purposes those definitions are required to serve and the policies which govern the SME sector at that time (Ediri, 2014).

Challenges of SMEs

Small and Medium Enterprises (SMEs) in Nigeria have contributed just a small proportion of the Gross Domestic Products unlike the other emerging nations in the world. The problems faced by our own SMEs are very many. These problems have been accountable for the dawdling growth of SMEs in Nigeria. A review of some problems according to Chukwuemeka, (2004) comprises:

- **Inadequate infrastructural facilities:** Poor state of infrastructure in the country is an impediment to the growth of SMEs. Few entrepreneurs can survive without power supply for instance. The irregularity in power supply has contributed immensely to the high cost of doing businesses in

the country. Apart from inadequacy in power supply, lack of good roads and other social amenities have also affected the growth of SMEs.(Chukwuemeka, 2004)

- **Lack of capital:** Most SMEs find it difficult to access funds. Nigerian banks do not aid newly and even existing businesses without required collateral. For SMEs to visit conventional banks, the high interest rate is always a problem. The issue of finance, therefore, is a challenge for growth of SMEs in Nigeria. Governments have helped a lot in addressing some of the measures include various grants by Federal Government, low interest loan from BOI and Bank of Agriculture, CBN SMEs Initiatives through the banks. Chukwuemeka, (2004)
- **Low Demand for indigenous goods:** Nigerian most time still prefer imported goods over locally made goods. This creates marketing problems for SMEs in Nigeria. No doubt many of them stopped within the first few years of operation.
- **Taxes and Levies:** SMEs are subjected to so many taxes and levies from local government to federal government. Many agents government are involved in the collection of taxes and levies. This has given advantage for illegal levies and taxes. The effect of this attitude affected operational costs of SMEs. Chukwuemeka, (2004)

Concept of Micro-Finance

The Central Bank of Nigeria (2008), asserted that Micro finance is to provide financial services to the poor who could not serve the conventional Banks. Over the years, the government had carried out series of programmed aimed at improving the flow of finance from the banking system to small and medium scale industries (SMIs) as well as those engaged in the petty trading business. Banks perceive micro activities as bad risk, hence the very low finance to the sector together with issues of high costs and short tenor. Microfinance is an idea that is assisting the poor to gain and create opportunities for economic

growth. It has fueled the effort of rural development, women empowerment and wealth generation by providing small and medium scale segment, credit, insurance and other financial services to poor and low income households. Microfinance thus is a means to empower the poor and give a powerful device to help the economic development process.

Microfinance is an economic realm that can enrich the economic situation of the poor through many approaches that ensures active contribution and involvement of the beneficiaries in effective implementation of business activities. Microfinance therefore means the provision of small loans with no collateral security to the poor and low-income households, whose access to the commercial banks is limited. The idea of micro financing and self-employment actions in rural areas has developed significantly over the last two to three decades. It is basically revolving investment done to inspire the poor to allow themselves and practice dictum the save for the future and use those reserve during the time of demand. Microcredit is defined as the expansion of small loan to be given in manifold doses based on the ability of the poor beneficiaries, who are too underprivileged to be eligible for formal bank loans.

Microfinance has appeared as a needful strategy to cater to the wants of the most under-privileged people. The major worry today is ever growing poverty and there is imperative need of empowering the most abandoned sections of the society through planned support to all poverty alleviation programs. Microfinance is expected to play a key role in poverty suppression and employment generation through their benefits generated from small and medium scale enterprises (SMEs). (Niskanen, and Niskanen, 2007)

Linkage between SMEs and Microfinance

Inadequate access to credit facility is readily understandable in terms of the absence of collateral that the poor cannot offer conventional banks in addition to the various difficulty and high costs engaged in dealing with large numbers of small and illiterate borrowers (Niskanen and Niskanen, 2007). The poor thus have to rely on loans from either moneylenders, at high interest rates, or friends and family, who serves as provider of funds which may be limited. Microfinance institutions try to surmount these obstacles through novel procedures such as group lending and regular savings schemes, as well as the devising close links between poor clients and staff of the banks concerned. Therefore by providing very poor families with small loans to finance their small business, they will rescue themselves from poverty.

Theoretical Review

This study adopted the growth theory propounded by Harold (1939) and Dolmar

(1946), known as the Harold Dolmar growth model. The assumption of the theory is that, for steady state of growth, aggregate demand must grow at the same rate as an economy's output capacity grows. Therefore if an MFB has to grow, and this idea corresponds to the loans and savings given to SME to enable more investment by small entrepreneurs. The effect of this effort is that Banks' prosperity is limited by the economic performance grows of the SMEs. The theory believes that the activities of the microfinance banks in form of credit provision, savings mobilization, insurance, training etc serves as a useful tool for increasing the productive capacity of the SMEs and as such increases the performance of the MFBs.

Empirical Evidence

The findings of Olowe, Moradeyo and Babalola (2013), findings from their study indicated that financial services derived from MFBs have significant impact on MSEs growth in Nigeria. According to Ashamu S. (2014) the operations of MFIs have grown inexplicably in few years, driven largely by increasing informal sector activities and the unwillingness of banks to finance the promising micro and small scale businesses. The financial service provided by the study also shows that the sub-sector faces a number of difficulties such as urgent need to support and apply a policy framework that would control and standardize MFI operations; accessing, medium to long term sustainable commercial sources of fund. Commercial banks traditionally provide loans to medium and large enterprises, which are judged to be creditworthy. They evade doing business with the small and medium scale enterprises because the associated cost and risks are measured to be comparatively high. Microfinance institutions (MFIs) have therefore become the only sources of funding small and medium scale enterprises in Nigeria and other developing Nations.

Niskanen and Niskanen (2007) investigated the relationship between firm growth and relationship lending variables and show increasing the number of lending financial institutions decreases growth rates in the larger firms and that increase in the number of financial institutions operating in the county where the firm is situated improve growth of the larger firms and decreases growth rates of the smaller firms. It could, therefore, be argued that close lending relationships, enhance growth for all firms, but that only the larger firms in the sample benefit from more competitive banking markets. The study employed panel data technique to analyze a survey of 297 new small enterprises. They found strong evidence that access to external credit increases the growth of both employment and sales, while taxes appears as a constraint to growth.

Methodology

The descriptive survey research design was employed for this study. The population of this study comprise 141 staff which include Executive Officers and Managers of the registered Microfinance Banks in Ilorin, Kwara State which include; Apeks Microfinance Bank Limited, First Heritage Microfinance Bank Limited, KCMB, Balogun Fulani Microfinance Bank, Ilorin Microfinance bank, Unilorin Microfinance bank, and Gaa-Akanbi Microfinance Bank.

However, Taro Yamane (1964) formular was used to *select the study sample* as shown below;

$$n = \frac{N}{1+N(e)^2}$$

Where;

n= sample size required

N= number of people in the population = 141

e= allowable error (%) = 5%

$$n = \frac{N}{1+N(e)^2} = \frac{141}{1+141(0.05)^2} = 104$$

Therefore, the sample size for this study was 104.

Questionnaire administration was used to solicit information from the respondents in the selected banks. Questionnaire was used to collect data was a five point Likert scale closed ended structured questionnaire in which option 1= Strongly Disagree, 2= Disagree, 3= Undecided, 4= Agree and 5= Strongly Agree.

The collected data were analyzed and processed using simple descriptive tables and percentages. Pearson Moment Correlation (r) were used with the aid of Statistical Processing for Social Sciences, (SPSS) to test the formulated hypotheses.

Hypothesis Testing and Interpretation of Results

H0: small and medium scale enterprise (SMEs) patronage has no relationship with product services of microfinance banks.

		SMEs	Loan service	e-transact	Financial advisory	Group collection
SMEs	Pearson's Correlation	1	.953**	.929**	.954**	.916**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	104	104	104	104	104
Loan service	Pearson's Correlation	.953**	1	.926**	.955**	.936**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	104	104	104	104	104
e-transact	Pearson's Correlation	.929**	.926**	1	.922**	.937**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	104	104	104	104	104
Financial advisory	Pearson's Correlation	.954**	.955**	.922**	1	.933**
	Sig. (2-tailed)	.000	.000			.000
	N	104	104	104	104	104
Group collection	Pearson's Correlation	.916**	.936**	.937**	.933**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	104	104	104	104	104

** . Correlation significant at 0.05 level (2-tailed).

Source: SPSS Output, 2019.

The table revealed the significant relationship exists between small and medium scale enterprise patronage and product services of microfinance banks. which include loan service ($R=0.953$), e-transacts ($R=0.929$), financial advisory ($R=0.954$) and group collection services ($R=0.916$). All correlation coefficients are very close to 1 which indicates the strong relationship of all product services of microfinance bank with small and medium enterprises in the selected area. Also, financial advisory was notably the most significant support services rendered by the MFBs to small and medium enterprises (SMEs) and was followed by loan services, e-transacts and group collection services in that orders. The significance of the relationship is shown in the increase in each of these product services as a result of increase in small and medium enterprises in the selected area at 5% level of significant. This implies increase in small and medium enterprises will cause a significant increase in financial advisory service, loan services, e-transacts and group collection service of microfinance variables. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted at 95% confidence level.

Discussion of Findings

The study revealed that small and medium scale enterprise (SMEs) and product services of microfinance banks which include loan service ($R=0.950$), e-transacts ($R=0.939$), financial advisory ($R=0.964$) and group collection services ($R=0.926$)

have significant relationship. All correlation coefficients are very close to 1 which indicates strong positive relationship of all product services of microfinance bank with small and medium enterprises (SMEs) in the selected area. However, financial advisory service is the most highly significant support services rendered by the MFBs to small and medium enterprises and was followed by loan services, e-transacts and group collection services in antecedent orders. The significance of the relationship were shown in the increase in all of the product services of MFBs as a result of increase in small and medium enterprises in the selected area at 5% level of significant. This implies increase in small and medium enterprises will cause a significant increase in financial advisory service, loan services, e-transacts and group collection service of MFBs.

Conclusion

The study revealed that SMEs sector contributes significantly to the national economy by increasing the financial capacity and performance of MFBs through their patronage in service products like loan, savings, e-transacts, financial advisory and group collection services. The sector has so far not been given due recognition in commensuration with level of the contribution to the performance of MFBs although the business relation of SMEs with MFBs are important to improve the performance of financial industry that cater for the business survival and expansion of SMEs in Nigeria.

Findings of the study confirm that both financial and non-financial services obtained from MFBs have strong relationship to the growth of SMEs in Ilorin Kwara State and have assisted the distribution of business skills and innovative concept, as well as improved the deficiency of finance.

Recommendations

The following are the recommendations as a result of the study's findings;

- i. Microfinance banks should decrease the gap between their savings deposit rate and the lending rate by activating more savings which is an integral part of their operating environment for better performance.
- ii. MFBs need toutilize collective group-based loan disbursement and staggered payout strategy; this will decrease the default rate and improve the performance of MFBs.
- iii. MFBsService products should be connected with larger financing strategies like the Strategic Partners for better performance of MFBs in

the financial industry. This shall assist MFBs to initiate loan products and strategies targeted at financing technology acquisition by SMEs.

- iv. In terms of policy on support services, MFBs should help their customers through the provision of training and financial counsel on credit and provide useful information on government supports to SMEs participants in the country. Such SMEs support through training and financial advisory should be reinforced and appropriately financed while the services must be properly delivered.

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