# EFFECT OF ENTREPRENEURIAL FINANCING OPTIONS ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KEBBI STATE, NIGERIA

**By**

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## Abstract

*This study examined the effect of entrepreneurial financing options on the performance of SMEs in Kebbi State, Nigeria. Utilizing a survey research design, with population of 1,927 out of which sample size of 331 registered SMEs determined using Taro Yamane formular and convenience sampling technique was used to select respondents. Data were collected through adapted questionnaire and analyzed using Partial least square structural equation modeling was employed to analyze the data collected. The study found that co-operative societies have positive and significant effect on SMEs performance in Kebbi State. While, commercial bank loans and government grants have positive but insignificant effect on SMEs performance Kebbi State. The study concludes that entrepreneurial financing options influence SMEs performance. The study recommends among others that SMEs operators in Kebbi State should improve on their financial management skills, including record-keeping, budgeting, and financial planning, to demonstrate their creditworthiness and effectively utilize commercial bank loans.*

**Key words:** Co-operative Societies, Commercial Banks Loan, Entrepreneurial Financing Option, Government Grant, Performance, SMEs

## Introduction

The performance of Small and Medium Enterprises (SMEs) has been a subject of great interest globally due to their significant contribution to economic growth and development. SMEs are recognized as key drivers of economic development, job creation, and poverty alleviation worldwide. Performance of SMEs has to do with how well the business manage or utilize her resources. Performance of a business entails attributes that show changes in the degree of activities in physical size, such attributes can be financial or non-financial and may

include among others sales volume, profits, number of employees and general satisfaction with the way their businesses are progressing. High levels of performance can facilitate firm growth and subsequent profit performance, which in turn can yield employment gains and contribute to the general economic health of a state, region or nation.

Globally, SMEs account for over 90% of businesses and contribute significantly to the Gross Domestic Product (GDP) and employment generation (OECD, 2019). In Africa, SMEs make up over 90% of all businesses and contribute about 50% to the continent's GDP and over 60% of employment (World Bank, 2019). In Nigeria, SMEs account for about 96% of businesses, contribute 48% to the GDP, and employ over 80% of the labor force (National Bureau of Statistics, 2020). However, the performance of SMEs in Nigeria has been suboptimal, with many facing challenges such as limited access to financing options, inadequate infrastructure, and unfavorable regulatory environments (Owolabi et al., 2021). Within Nigeria, the Kebbi State economy is predominantly agrarian, with SMEs playing a crucial role in the state's economic development. However, the performance of these SMEs has been hampered by various factors, including limited access to financing options (Jega & Yakubu, 2019).

Therefore, entrepreneurial financing options play a crucial role in the performance and growth of Small and Medium Enterprises (SMEs) (Quartey et al., 2017). These financing options include both formal and informal sources of funding, and their availability and accessibility can help SMEs to invest in their operations, expand their businesses, and ultimately improve their performance. Entrepreneurial financing options is the various sources in which can get funds for their business operations (Quartey et al., 2017). Entrepreneurial financing options include personal savings, commercial banks loan, microfinance banks, venture capital, cooperative societies, family and friends, government grants and money lenders sources of financing (Nyangau et al., 2020).

More so, commercial banks loan is one of the most common sources of formal entrepreneurial financing for Small and Medium Enterprises (SMEs). The availability and accessibility of commercial bank loans can influence performance of SMEs. Access to commercial bank financing enables SMEs to invest in their operations, expand their businesses, and improve their financial and operational outcomes. However, SMEs in developing countries like Nigeria often face significant challenges in accessing commercial bank loans, which can limit their ability to achieve their full potential (Emenike, 2021).

Furthermore, cooperative societies are member-owned and member-controlled organizations that provide a range of financial and non-financial services to their members, including access to credit, savings mobilization, and business development support. By providing access to credit, savings, and other financial and non-financial services, cooperative societies can enable SMEs to make productive investments, improve their financial and operational performance, and enhance their competitiveness in the market (Adeyemi & Olorunfemi, 2021).

In addition, Government grants can play a significant role in supporting the performance and growth of Small and Medium Enterprises (SMEs) by providing access to much-needed financial resources. These grants, which are typically awarded to SMEs based on specific criteria and objectives, can help alleviate the financial constraints that often impede the development of the SME sector (Anyanwu et al., 2020).

Therefore, Entrepreneurial financing, which encompasses various financing options available to SMEs, has been identified as a critical factor in influencing the performance of these enterprises (Quartey et al., 2017). The effect of entrepreneurial financing options on the performance of SMEs in Kebbi State, Nigeria, is the focus of this study.

It is in the light of the above that this paper investigates the effect of entrepreneurial financing options on the performance of small and medium enterprises in Kebbi State, Nigeria. The specific objectives of the study are to:

i. examine the effect co-operative societies on performance of small and medium enterprises in Kebbi State, Nigeria;
ii. assess the effect of commercial bank loans on performance of small and medium enterprises in Kebbi State, Nigeria; and
iii. determined the effect of government grants on performance of small and medium enterprises in Kebbi State, Nigeria.

The study therefore hypothesized in line with the objectives as follows:

**$H_{O1}$**: Co-operative societies have no significant effect on performance of small and medium enterprises in Kebbi State, Nigeria

**$H_{O2}$:** Commercial bank loans have no significant effect on performance of small and medium enterprises in Kebbi State, Nigeria.

**$H_{O3}$:** Government grants have no significant effect on performance of small and medium enterprises in Kebbi State, Nigeria.

## Literature Review

### Performance of SMEs

The term performance is broad and looks ambiguous, it lacks agreement on basic terminology and there is no simple definition and measurement to evaluate the performance of a business. Moullin (2017) defines performance as how well the organization is managed and the value the organization delivers for customers and other stakeholders. Performance can be defined as the accomplishment of specified business objectives measured against known standards completeness and costs (Sabanci, 2012). Kakhki and Palvia (2016) define performance as the set of metrics used to quantify both the efficiency and effectiveness of actions. According to Shahbandi and Farrokhshad (2019) performance is taken to be the function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. Mulani et al. (2015) defined SMEs The performance of SMEs is a multifaceted concept, often measured in terms of financial success, market share, growth rates, and innovation output. Recent research emphasizes the importance of both internal and external factors in determining SME performance (Beck & Demirguc-Kunt, 2022). Internal factors include managerial competence, organizational culture, and resource availability, while external factors encompass market conditions, regulatory frameworks, and access to finance (Beck & Demirguc-Kunt, 2022).

According to Kihara, et al. (2016), performance measurement includes: total profits (total sales – costs), increase in volume of sales, increase in number of employees, expansion of geographical market size, satisfaction on the returns on assets invested, satisfaction on the returns on equity, increase of customers, expansion of size of the firm, improve in quality of product/productivity and improvement on internal work processes. Similarly, according to Usama and Yusoff (2020) performance measurement includes; increase in sales, increase in profit, retention of experience workers, increase in market share/business size and increase in productivity. However, this study will adopt the performance measurement offered by Kihara, et al. (2016) because it is more comprehensive performance as a consistent dimension of consequences and results, which produces reliable data on the success and effectiveness of a planned effort.

**Small and Medium Enterprises**

Small and Medium Enterprises (SMEs) are critical components of the global economy, contributing significantly to employment, innovation, and economic growth. Generally, SMEs are defined by the number of employees, annual revenue, or balance sheet totals, though these criteria vary across countries. For instance, in the European Union, SMEs are defined as enterprises with fewer than 250 employees and an annual turnover not exceeding €50 million, whereas in the United States, SMEs typically have fewer than 500 employees (Ayyagari et al., 2021). Small and Medium Enterprises (SMEs) are enterprises with a total asset base (excluding land and buildings) of between ₦5 million and ₦500 million, and with a total workforce of between 11 and 199 employees (SMEDAN, 2021).

**Entrepreneurial Financing Options**

Entrepreneurial financing sources refer to where a business gets money from to fund their business activities (Siano et al. 2010). According to Cumming and Groh (2018), entrepreneurial financing options refer to the various sources of capital and funding available to entrepreneurs and small businesses. These financing options play a crucial role in supporting the growth and development of entrepreneurial ventures. Similarly, Landström (2017) defined entrepreneurial financing is the process by which individuals, businesses, or organizations raise funds to start, run, and grow a new venture or to fund the operations and expansion of an existing business.

Entrepreneurial financing has remained one of the key managerial problems decisions that keep confronting business enterprises in Nigeria today. For the SMEs, the accessibility to funds and the cost of raising them have remained issues limiting the in-capitalization requirements leading to premature collapse of the enterprises (Siano et al. 2010). According to Al-Najjar and Al-Najjar (2017) a business can gain finance from either internal or external sources. Internal sources of finance refer to money that comes from within a business.

External sources of finance refer to money that comes from outside a business. There are several external methods a business can use, including family and friends, bank loans (microfinance and commercial banks loans) and overdrafts, venture capitalists and business angels, new partners, share issue, trade credit, leasing, hire purchase, co-operative society and government grants (Yogo, 2016). Financial sources play an important role at every level in

business. It is used for the start-up of the new venture and for expansion and growth of existing businesses. It also serves as a cushion against sudden difficulty arising from environmental changes, poor management and other problems that may arise. It improves firms' ability to react to changing the situation and increase the willingness and readiness of firms to be innovative and they include personal savings and microfinance sources of financing (Schwab et al., 2019).

Ubiomoh (2017) affirmed that the entrepreneurial financing options to businesses includes; personal savings source of financing, commercial banks loan, microfinance banks source of financing, cooperative societies source of financing, family and friends' source of financing, government grants and money lenders source of financing. This study adapts the entrepreneurial financing option components as suggested by Ubiomoh (2017). However, this study used commercial bank loans, co-operative societies and government grants.

This study defined entrepreneurial financing options as the various channels through which entrepreneurs or businesses can obtain funds to finance, expand business, or support their business activities or established new business.

**Commercial Bank Loans**

Commercial bank loans are a common form of entrepreneurial financing, where entrepreneurs and small businesses obtain loans from commercial banks to fund their operations and growth. Commercial bank loans are defined as the provision of funds by a commercial bank to a business or individual, typically in exchange for the borrower's promise to repay the loan with interest (Cole & Sokolyk, 2016). One of the key advantages of commercial bank loans is that they provide a stable source of financing for entrepreneurs and small businesses, particularly during periods of economic uncertainty or when other financing options may be limited (Cole & Sokolyk, 2016). However, commercial bank loans may also come with strict requirements and covenants, and the application process can be more complex compared to other financing options (Berger & Udell, 2016).

Owolabi and Nasiru (2017) defined a commercial bank loan as a term loan which is credit prolonged to a commercial enterprise problem within the context of a direct relationship between a borrower and lender where some section of the primary is repayable after the passage of one year. Ubesie, et al. (2017) also defines a commercial bank loan as a written or

oral agreement for a temporary transfer of a property or equipment and/or money in cash form, from lender (commercial bank) to a borrower who promises to return it or repay according to the agreed terms. According to Ullah (2020), commercial bank loan is any type of loan issued out to any type of borrower by using a registered commercial financial institution.

**Co-Operative Societies**

According to Yogo (2016), cooperative societies are made up of voluntary groups of people that work together to establish a jointly owned and democratically run business in order to accomplish a shared social, cultural, or economic goal. A cooperative society, according to Birchall (2004), is an independent group of people who have come together freely to address their shared needs and goals in the areas of economics, society, and culture through a cooperatively owned and democratically run business. Cooperative societies are defined by Karami and Sarkar (2020) as organizations that are owned and governed by their members and are established to serve their common needs and goals. They are usually founded to offer their members who are frequently small-scale farmers, producers, or consumers—financial services, market access, or other advantages. Likewise, a cooperative is described as "an autonomous organization" by the International Co-operative Alliance (ICA, 2022).

Ebonyi and Jimo (2012) described cooperative societies as associations of persons who have voluntarily come together to reap frequent goals via the formation of the democratically controlled organization; making equitable contributions to the capital required, and accepting a truthful share of the risks and benefits of the business. Also, Ezekiel (2014), summarily described cooperative society as a commercial enterprise or group corporation that is voluntarily owned and managed via its members, patron, and operated for them on a non-profit or price basis. While, Dogarawa (2015) described Cooperative Society as a self-reliant affiliation of men and women united voluntarily to meet their frequent economic, social, and cultural wishes and aspirations through a jointly-owned and democratically managed enterprise.

**Government Grants**

Government grants are financial resources provided by government agencies to individuals, organizations, or businesses to enable them to carry out specific projects or activities that contribute to the public good (Salamon, 2020). Additionally, Barley and Tolbert (2018), see

government grants as funding mechanisms used by governments to promote economic development, support social welfare programs, or encourage the implementation of specific policies. Johansen and Zak (2020) define government grants as non-repayable funds disbursed by government entities to eligible recipients, such as nonprofit organizations, educational institutions and businesses.

Government grants provide the necessary funds to support a variety of programs and activities that meet societal requirements and forward the goals of public policy (Ryu, 2021). According to Johansen and Zak (2020), grants are non-repayable cash prizes given to qualified beneficiaries, such as nonprofit organizations, educational institutions, small businesses, and individual researchers, by government bodies such as federal, state, or local authorities. All things considered, the idea of government grants symbolizes the government's assistance and facilitation of the accomplishment of public policy objectives by giving money to qualified institutions and individuals (Johansen & Zak, 2020). These grants support the delivery of vital services, the promotion of public policy, and play a critical role in the larger ecosystem of public financing.

**Empirical Review**

Winifred and Nwankwo (2023) examined the influence of cooperative societies on the performance of small and medium enterprises in Oyo state, Nigeria. The study used descriptive survey research design with population of 3,986 registered and functional cooperative societies in selected towns in Oyo State out of which sample size of 397 was determined using Taro Yamane formula. Questionnaire was used as the instrument for data collection. The data collected was analyzed using descriptive statistics, percentages, pearson correlation analysis was used to test association between the independent variables and the numeric dependent variable. Binary logistic regression model and multiple regression was used to test the effect of the independent variables on the dependent variable via Statistical Package for Social Sciences (SPSS 20). The study found that cooperative positively significantly enhanced the survival of small and medium scale businesses in Oyo State.

Ogunsanwo and Kazeem (2022) examined the impact effect of government grant availability, the effect of grant accessibility, and the sufficiency of grant on the expansion of small and medium-sized enterprises. The research design used in the study was a descriptive survey. The research instrument was a structured questionnaire. Three hundred and sixteen (316)

SME owners made up the study's population, and a sample size of one hundred and seventy seven (177) was chosen. Statistical Package for Social Sciences' (SPSS) multiple regression analysis was used to assess the hypotheses developed for this study). The study found that there is a favorable association between government grant availability, accessibility, and sufficiency and the expansion of SMEs in Nigeria. This is clear from the fact that the p-value of the t statistic for the three independent variables is less than 5% (P=00.0000.05).

Oladipo et al. (2021) examined the extent to which cooperative societies empower SMEs financially in Oyo State, Nigeria. A convenience sampling technique was used to select one hundred and sixteen (116) SME operators that are members of cooperatives societies in the selected three cities (Ibadan, Oyo Town, and Ogbomoso) from Oyo State. Data were collected via open and closed questionnaires. Data analysis was performed with the aid of frequencies, percentages, Bar chart, Pie chart, Histogram, and Pearson chisquare. The study revealed that there are a positive and significant relationship between cooperative societies and financial inclusion of SMEs. The study also established that cooperative societies benefit their members by having access to loans without string conditions as applicable in conventional banks. Subsequently. The study could have also considered using additional statistical techniques, such as regression analysis, to examine the strength and direction of the relationship between cooperative societies and financial inclusion of SMEs.

Ikechi and Anthony (2021) examined the impact of commercial bank loans on the performance of small and medium scale enterprises in Nigeria. While an ex-post facto research design was adopted in the investigation; a least square regression analysis was carried out on a time-series data to ascertain relationships, and to avert the emergence of spurious results, unit root tests were conducted. The study found that, there exists an inverse relationship (though not statistically significant) between the amount of commercial bank loans (CBL) made available to SMEs and the output of SMEs (OPSME) in Nigeria. This implies that as CBLSME increases, OPSME decreases. The negative sign exhibited by OPSME is not in line with our apriori expectation because an increase in CBLSME is supposed to cause an increase in investment which is expected to boost the output of SMEs. This trend has shown the poor attitude of commercial banks towards the granting of loans to SMEs in Nigeria. The study used. The use of a time-series data set and the conduct of unit root tests to avert the emergence of spurious results is a sound methodological approach, however, the current study used primary data.

Dvouletý et al. (2020) investigated the effects of public grants on firm performance in the European Union's 28 member countries that were published from 2000 on. The study provides a structured overview of 30 studies covering 13 countries. The review offers information on the methodological approaches, variables and findings of the previous studies. The summarized findings show mostly the positive outcomes of the grants on firm-survival, employment, tangible/fixed assets, sales/turnover, with mixed findings for labour productivity and total factor productivity (TFP). However, the study point out that there are significant differences concerning the time period of analysis (investigating short-term vs long-term outcomes), and importantly, the heterogeneity of effects concerning firm size and age, region, industry and intensity of support. The study did not conduct any statistical analysis.

**Theoretical Framework**

This study is anchored on Pecking order theory. Pecking order theory was first suggested by Donaldson in 1961 and it was modified by Steward C. Myers and Nicolas Majlntin 1984. Myers et al. (1984). This theory is very familiar with the operations of the small business. The pecking order suggests that firms have a particular preference order for capital used to finance their businesses Myers and Majluf (1984). The theory states that, businesses prioritize their sources of financing from internal financing to debt before equity, preferring to raise equity as a financing means of last resort. Hence internal finds are used first, and when depleted, debt is issued and when it is not sensible to issue any more debt, equity is issued. This theory has been found to be relevant to the financing of small businesses (Babajide, 2011). And most small businesses start with internal financing before looking for external sources. Holmes and Kint (1991) found that small businesses experience a more intense version of pecking order in their decisions because access to appropriate external sources of capital is limited. It has been noted that small businesses differ in their capital structure but their intense reliance on pecking order, is only one of the variables that make small businesses financing decision unique.

**Methodology**

The study adopted a survey research design. The study covered registered SMEs in three (3) Local Government Areas (LGAs) in Kebbi state, namely: Argungu, Bagudo and Birnin Kebbi LGAs. The registered SMEs in Argungu LGA is 586, registered SMEs Bagudo LGA is 623 and Birnin Kebbi LGA has 718 registered SMEs (SMEDAN, 2021). Therefore, the

population of this study comprised of 1,927 registered SMEs in the selected three LGAs, Kebbi State. The sample size of 331 was determined using Taro Yamane (1967) sample size determination formular, and convenience sample technique was used to select the respondents. The target respondents of the study were owner/managers of registered SMEs from the three selected LGAs in Kebbi State, Nigeria. The questionnaire was used as the instrument for data collection. The questionnaire used was adapted from the works of Ubiomoh, (2017), Kihara, et al. (2016); Shahbandi and Farrokhshad (2019), Imoughele and Ismaila (2014); Ubesie et al. (2017). The questionnaire was administered based on the population of SMEs in selected LGAs. Therefore, 101 copies of questionnaire were administered in Argungu LGA, 107 copies of questionnaire were administered in Bagudo LGA, and 123 copies of questionnaire were administered in Birnin Kebbi LGA. The reliability of the instrument used was accessed using Cronbach alpha. Cronbach alpha value of greater than 0.7 is appropriate (Hair, et al., 2022). Out of 331 copies of questionnaire administered, 278 copies which constitute 84% of total questionnaire administered were properly filled and useful for the analysis. The data was analyzed using Partial Least Square Structural Equation Modeling (PLS-SEM) in determining the measurement, structural models and hypotheses testing through SmartPLS 3.0 software (Hair, et al., 2019). Validity and reliability of the measures were first of all ascertained before testing the hypothesized relationships using algorism and bootstrapping techniques (Hair, et al., 2019). The model for the PLS-SEM is depicted pictorially below:

**Model Specification**

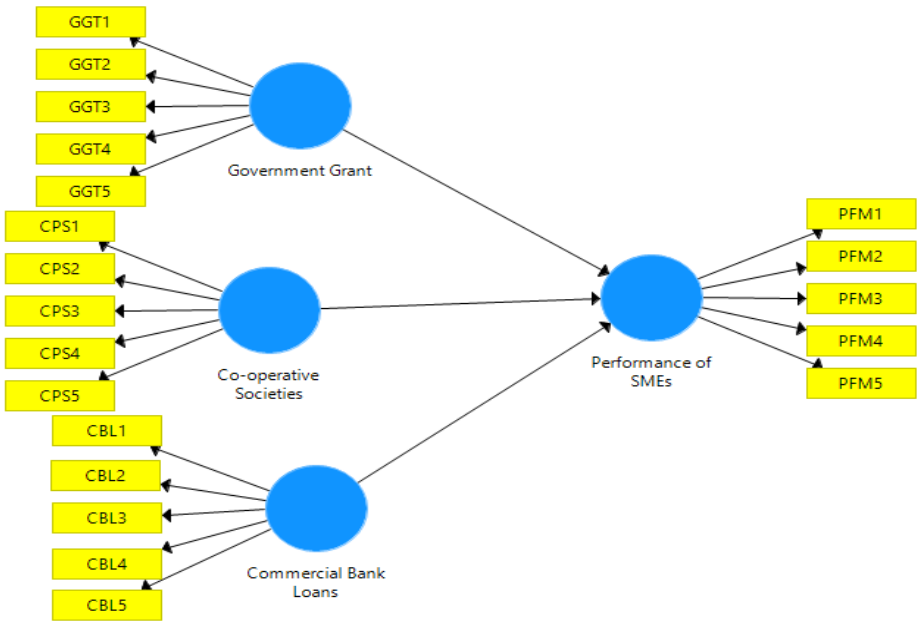


**Fig. 1: Model Specification**

Source: Author's computation SmartPLS Output, 2024

**Result and Discussion**

**Table 1: Descriptive Statistics of Dependent and Independent Variables**

| Variables | Min. | Max. | Mean | Standard Deviation | Kurtosis | Skewness |
|---|---|---|---|---|---|---|
| Performance of SMEs | 1 | 5 | 2.673 | 1.342 | -1.231 | 0.208 |
| Commercial Bank Loans | 1 | 5 | 2.789 | 1.658 | -1.274 | 0.033 |
| Co-Operative societies | 1 | 5 | 2.813 | 1.407 | -1.112 | 0.021 |
| Government Grants | 1 | 5 | 2.210 | 1.021 | 0.022 | 0.011 |

**Source: author's computation SmartPLS Output, 2024**

Table 1 above shows the behavior of the variables under study and provided the statistical description of the variables as expressed in the data collected in terms of the mean value and standard deviation value from the descriptive table. The minimum and maximum values in all the respective cases is 1 and 5 respectively. The mean scores of 2.673 for performance of SMEs, 2.789 for commercial bank loans, 2.813 for Co-operative societies and 2.210 for government grants. And their standard deviation value of 1.342, 1.658, 1.407 and 1.021 for performance of SMEs, commercial bank loans, cooperative society government grants

respectively. The mean values of the variables with their respective standard deviation values for each of the variables under study are less than 1, also the gap between the mean values and the standard deviation values in all the respective cases is small and this indicates that the data for the variables are normally and evenly distributed. This was seen in the Kurtosis and Skewness values in all respective cases are less then1. Although the normality of data is the issue of concern when applying the ordinary least square (OLS) regression, however, while applying the PLS-SEM, this assumption is overridden and not an issue that could prevent any further analysis or produce a form of bias in the result, (Hair, et al., 2019).

**Measurement Model Evaluation**

The measurement model was evaluated using convergent validity. Convergent validity is determined by examining the factor loadings, composite reliability, and average variance extracted (AVE) (Gholami, et al, 2013; Hair, et al., 2022). All the constructs used in this study has achieved the acceptable factor loadings of above 0.7; composite reliability (CR) of all the constructs were all above 0.7 and Average variance extracted (AVE) are also above 0.5, this indicates the validity of the instrument as recommended by Hair et al. (2019). This is shown in the figure 2 and Table 2.

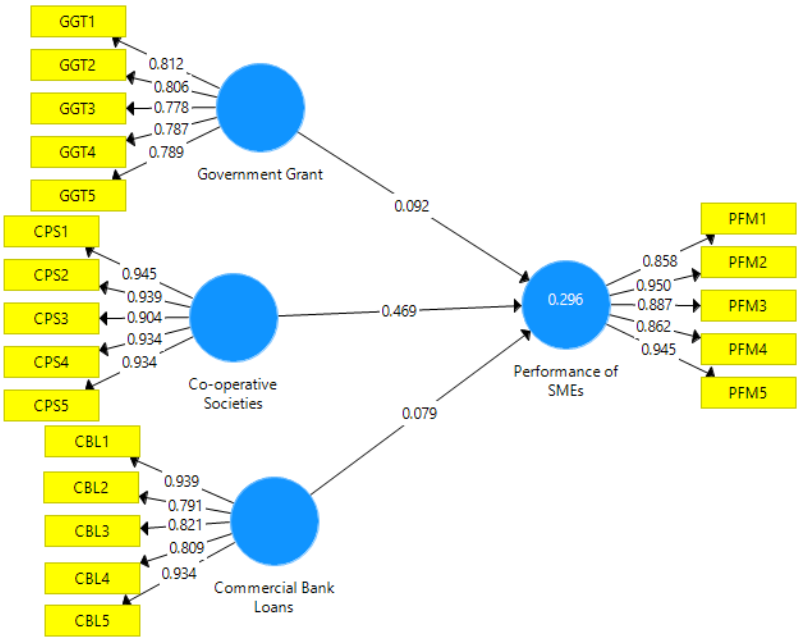


**Fig. 2: Measurement model of the study constructs and indicators.**

**Source:** SmartPLS Output, 2024

**Table 2: Convergent validity**

| Variables | Indicators | Loadings | Cronbach's alpha | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|---|---|
| Performance of SMEs | PFM1 | 0.858 | 0.942 | 0.956 | 0.812 |
| | PFM2 | 0.950 | | | |
| | PFM3 | 0.887 | | | |
| | PFM4 | 0.862 | | | |
| | PFM5 | 0.945 | | | |
| Commercial Bank Loans | CBL1 | 0.939 | 0.915 | 0.935 | 0.742 |
| | CBL2 | 0.791 | | | |
| | CBL3 | 0.821 | | | |
| | CBL4 | 0.809 | | | |
| | CBL5 | 0.934 | | | |
| Co-operative Societies | CPS1 | 0.945 | 0.962 | 0.970 | 0.867 |
| | CPS2 | 0.939 | | | |
| | CPS3 | 0.904 | | | |
| | CPS4 | 0.934 | | | |
| | CPS5 | 0.934 | | | |
| Government Grants | GGT1 | 0.812 | 0.857 | 0.895 | 0.631 |
| | GGT2 | 0.806 | | | |
| | GGT3 | 0.778 | | | |
| | GGT4 | 0.787 | | | |
| | GGT5 | 0.789 | | | |

**Source: SmartPLS Output, 2024**

**Discriminant Validity**

**Table 3: Heterotrait-Monotrait Ratio (HTMT)**

| | Performance of SMEs | Commercial Bank Loans | Cooperative Societies | Government Grants |
|---|---|---|---|---|
| Performance of SMEs | | | | |
| Commercial Bank Loans | 0.531 | | | |
| Cooperative Societies | 0.521 | 0.430 | | |
| Government Grants | 0.326 | 0.288 | 0.287 | |

**Source: author's computation via SmartPLS Output, 2024**

Table 2 above shows the results of Heterotrait-Monotrait (HTMT) ratio for the variables used in this research. From the table, the result in all the respective cases indicated that there is absent of discriminate validity problems. Since discriminate validity problems are present only when HTMT values are high than 0.90 for structural models (Henseler, et al., 2015). In this case all the HTMT values for the variables used are less than 0.90 therefore proved the absent of discriminate validity problems.

**Assessment of Structural Model**

Prior to assessing the structural relationships, collinearity must be examined to make sure it does not birth biasness in the regression results. If collinearity assumptions are satisfied, the next step is to examine the coefficient of determination (R2) value of the endogenous construct(s).

**Collinearity Test**

A collinearity test was conducted to ensure the absence of multicollinearity which could lead to bias in the results. This was assessed through the variance inflation factors (VIF). As a rule, VIF values should not be more or higher or greeter the 5 to indicate the absence of multicollinearity, (Hair, et al., 2019). The result of the collinearity test for this study is shown in table 4:

Table 4: Collinearity Statistics (Variance Inflation Factor (VIF)

| Variables | VIF |
|---|---|
| Commercial Bank Loans | 1.168 |
| Cooperative Society | 1.488 |
| Government Grants | 1.473 |

**Source: SmartPLS Output, 2024**

The Table 4 shows variance inflation factor (VIF) values for the independent variables used this study. From the table the variance inflation factor (VIF) values for all the independent variables used are 1.168, 1.488 and 1.473. The variance inflation factor (VIF) values for all the respective cases indicated that the explanatory variables are not highly correlated. This shows the absence of multicollinearity among the independent variables since multicollinearity exists only when the VIF Value is greater than 5. The Variance Inflation Factor (VIF) was used to evaluate the collinearity of the formative indicators. All the VIF

values in table 4 above were less than 5 indicating the absence of critical collinearity issues among the indicators of formatively measured constructs, (Hair, et al., 2019).

**Model Goodness of Fit**

**Table 5: Model Goodness of Fit (GOF)**

| | Saturated Model | Estimated Model |
|---|---|---|
| SRMR | 0.077 | 0.077 |
| d_ULS | 1.240 | 1.240 |
| d_G | 4.853 | 4.853 |
| Chi-Square | 4,512.369 | 4,512.369 |
| NFI | 0.532 | 0.532 |

**Source: author's computation SmartPLS Output, 2024**

Table 5 above shows the result of model goodness of fit. Sequel to the need to validate the PLS model, there is a need to assess the goodness of fit of the model as suggested by Hair, et al., (2017). This study used the standardised root mean square residual's (SRMR). The choice of this index was based on the fact that the SRMR provides the absolute fit measure where a value of zero indicates a perfect fit. The study adopted Hu and Bentler (1998) suggestion which stated that a value of less than 0.08 represents a good fit while applying SRMR for model goodness of fit. The study result indicates an SRMR value of 0.077 which is less than 0.08, therefore, indicating the fitness of the model of this study as suggested by Hu and Bentler (1998); Ringle, et al. (2019).

**Structural Model and Hypotheses Testing**

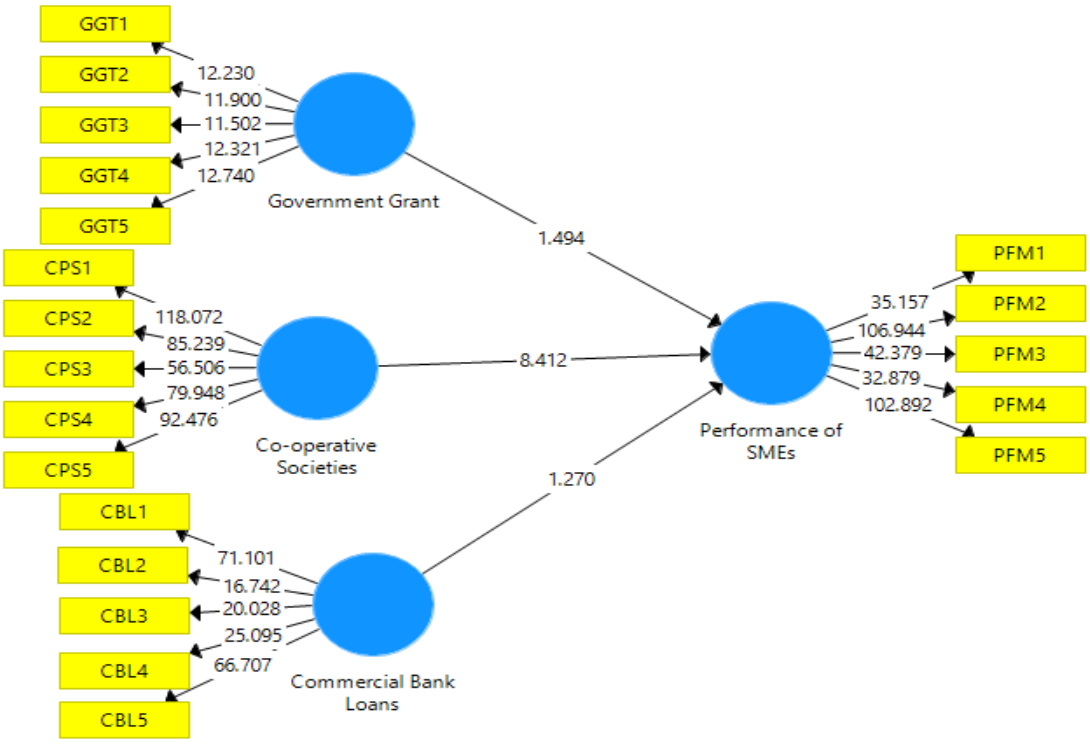


**Fig. 3: Structural Model and Hypotheses Testing**

**Source: Author's computation via SmartPLS, 2024**

**Table 6: Results of the Structural Model Analysis (Hypotheses Testing)**

| Hypotheses | Relationship | Path Coefficient Beta (β) | Standard Error | T Statistics | P value | Decision | $R^2$ | Adj. $R^2$ |
|---|---|---|---|---|---|---|---|---|
| $H_{O1}$ | CPS-> PFM | 0.469 | 0.056 | 8.412 | 0.000 | Rejected | 0.496 | 0.489 |
| $H_{02}$ | CBL-> PFM | 0.080 | 0.062 | 1.270 | 0.205 | Accepted | | |
| $H_{03}$ | GGT-> PFM | 0.098 | 0.067 | 1.494 | 0.136 | Accepted | | |

**Source: SmartPLS Output, 2024**

The fig. 3 and Table 6 above show the structural model and hypotheses testing result for this study. The table shows the values for Beta, standard Error, T-statistics, P Value, $R^2$ and Adj.

$R^2$. The beta value, t-values and the corresponding p-value were used in assessing the structural model in this study. This was done through the bootstrapping procedure.

The bootstrapping result from the Smart PLS shows that path coefficient co-operative societies and performance of SMEs (CPS->PFM) is positive and statistically significant. The result from this analysis shows that co-operative societies have positive and significant effect on performance of SMEs in Kebbi State at 5% level of significant. This decision was based on the positive beta (β) value of 0.469 (47%), t-value of 8.412 which is greater than 1.96 and its corresponding p-value of 0.000 (β value = 0.469, T-value = 8.412 and P-value = 0.000). This result has provided the sufficient ground for rejection of the hypothesis which states that co-operative societies have no significant effect on performance of SMEs in Kebbi State. Therefore, this null hypothesis is rejected. This could be because of the little or no interest associated to the loans from the cooperative societies. This result is shown in figure 3 and table 6 respectively above.

The result of the test of the hypothesis with respect to commercial bank loans and performance of SMEs (CBL->PFM), the bootstrapping result from the output of Smart PLS above reveals that path coefficient of commercial bank loans has positive but insignificant effect on performance of SMEs in Kebbi State at 5% level of significant. This decision was based on the beta (β) value of 0.080 (8%), t-value of 1.270 which is below 1.96 and its corresponding p-value of 0.205 (β value: 0.080, t-value: 1.270 and p-value = 0.205). This result has not provided sufficient ground for the rejection of the null hypothesis which states that commercial bank loans have no significant effect on performance of SMEs in Kebbi State. Therefore, this null hypothesis is hereby accepted. This could be because of the little access to bank loans by SMEs and the high interest charged on the loans issued

The result of the test of the hypothesis with respect to government grants and performance of SMEs (GGT->PFM), the bootstrapping result from the output of Smart PLS above reveals that path coefficient of government grants have positive but insignificant effect on performance of SMEs in Kebbi State at 5% level of significant. This decision was based on the beta (β) value of 0.098 (10%), t-value of 1.494 which is below 1.96 and its corresponding p-value of 0.136 (β value: 0.098, t-value: 1.494 and p-value = 0.136). This result has not provided sufficient ground for the rejection of the null hypothesis which states that government grants have no significant effect on performance of SMEs in Kebbi State.

Therefore, this null hypothesis is hereby accepted. This could be because the effort of government to support SMEs operators has not fully gotten to the right people. This result is shown in figure 3 and table 6.

For the predictive relevance of the model, $R^2$ value was used to explain the predictive relevance. The $R^2$ value from table 6 shows the variance in the dependent variable (performance of SMEs) as explained by the independent variables (co-operative societies commercial bank loans and government grants). The result shows a fair $R^2$ value of 0.496 (50%) accounted by the predictive variables on the criterion variable of the model. That is, the coefficient of determination ($R^2$) of 0.496 indicates that about 50% of the variation in performance of SMEs in Kebbi State can be explained by the combined effects of co-operative societies commercial bank loans and government grants. While the remaining 50% variation in performance of SMEs in Kebbi State can be explained by other variables or factors not captured in this study.

The study found that co-operative societies have a positive and statistically significant effect on the performance of SMEs in Kebbi State. This suggests that loans obtained from co-operatives, which often have low or no interest, significantly improve SMEs' performance. The result aligns with the findings of Winifred and Nwankwo (2023), who reported that co-operatives significantly enhanced SME survival in Oyo State.

The study also revealed that commercial bank loans have a positive but insignificant effect on SME performance in Kebbi State. Limited access and high interest rates likely contribute to the ineffectiveness of these loans. This finding supports Ikechi and Anthony's (2021) conclusion that commercial bank loans have an inverse, though insignificant, relationship with SME performance in Nigeria.

Finally, the study found that government grants have a positive but insignificant effect on SME performance. The limited reach of grants may explain why they do not significantly boost SME growth. This finding contradicts the results of Ogunsanwo and Kazeem (2022), who found a positive association between government grants and SME expansion in Nigeria.

**Conclusion and Recommendations**

Based on the above findings from this study, it is concluded that co-operative societies positively and significantly influence the performance of SMEs in Kebbi state, Nigeria. This implies that co-operative societies are an important mechanism for enhancing SMEs access to

finance, building their capabilities, mitigating risks, and fostering entrepreneurial development in Kebbi state, Nigeria.

Also, the study concludes that commercial bank loans positively but insignificantly influence the performance of SMEs in Kebbi state, Nigeria. This implies that loan offered by commercial banks to SMEs for business activities, although is positive but not significant to influences their businesses startup.

Finally, the study equally concludes that government grants positively but insignificantly influence the performance of SMEs in Kebbi state, Nigeria. This implies that government grants provided may not be reaching or benefiting a significant proportion of SMEs in Kebbi state. This could indicate that the government grant programs may have limited coverage, complex application procedures, or insufficient funding to meet the needs of the SME sector.

In line with the findings and the conclusions drawn by this study, the following recommendations are made:

i. SMEs operators in Kebbi State, Nigeria should continue strengthening and promoting their cooperative movement in order to continuing improving the performance of their businesses. This could be achieved through providing more awareness, training and capacity-building programs for SMEs operators in the state.

ii. SMEs operators in Kebbi State should improve on their financial management skills, including record-keeping, budgeting, and financial planning, to demonstrate their creditworthiness and effectively utilize commercial bank loans.

iii. While grants showed positive but statistically insignificant effects, SMEs operators in Kebbi State should actively seek information and stay updated on available government grant programs to maximize their access to these opportunities.

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